The Transformation of South Africa's Monetary Architecture, 1983–2024
A Report for the National Planning Commission

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In collaboration with the authors of the background papers and the National Planning Commission's Finance Task Team

Abbreviations

ABSA	Amalgamated Banks of South Africa
ACSA	Airports Company of South Africa
AfCFTA	African Continental Free Trade Agreement
AFD	Agence Française de Développement
ANC	African National Congress
ASISA	Association for Savings and Investment in South Africa
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BEE	Black Economic Empowerment
BRIC	Brazil, Russia, India, China
BRICS	Brazil, Russia, India, China, South Africa
BWP	Berg Water Project
CEO	Chief Executive Officer
CGV	Credit Guarantee Vehicle
CIS	Collective Investment Schemes
COSATU	Congress of South African Trade Unions
CRISA	Code for Responsible Investing in South Africa
DBSA	Development Bank of Southern Africa
DFIs	Development Finance Institutions
DTI	Department of Trade and Industry
ECA	Export Credit Agency
EIB	European Investment Bank
Escom	Electricity Supply Commission (later Eskom)
ESG	Environmental, Social and Governance
Eskom	Electricity Supply Commission
EU	European Union
FIF	Fixed Income Funds
FoF	Fund-of-Funds
FSB	Financial Services Board (later FSCA)
FSC	Financial Sector Charter
FSCA	Financial Sector Conduct Authority (formally the Financial Services Board)
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GEPF	Government Employees Pension Fund
GFC	Global Financial Crisis
GFCF	Gross Fixed Capital Formation
GFECRA	Gold and Foreign Exchange Contingency Reserve Account
GIZ	Gesellschaft für Internationale Zusammenarbeit
GVA	Gross Value Added
HF	Hedge Fund
ICOR	Incremental capital-output ratio
IDC	Industrial Development Corporation
IMF	International Monetary Fund
InfraCo	Part of the Private Infrastructure Development Group
Iscor	Iron and Steel Corporation
ISI	Import-substitution industrialisation
ITP	Independent Transmission Project
JSE	Johannesburg Stock Exchange
LBK	Land and Agriculture Development of South Africa Bank
LHDP	Lesotho Highlands Development Project
LHWP	Lesotho Highland Water Project
LSM	Living Standard Measure
MAF	Multi Asset Fund
MERG	Macroeconomic Research Group
MMF	Money Market Fund
NASASA	National Stokvel Association of South Africa
NBFI	Non-Bank Financial Institution
NCR	National Credit Regulator
NDP	National Development Plan
NEF	National Empowerment Fund

NERSA	National Energy Regulator of South Africa
NGO	Non-Governmental Organisation
NGP	New Growth Path
NHFC	National Housing Finance Corporation
NIDS	National Income Dynamics Study
NPC	National Planning Commission
NRF	National Revenue Fund
NT	National Treasury
NTCSA	National Transmission Company of South Africa
OBFA	Off-balance sheet fiscal agency
OFIs	Other Financial Institutions
PA	Prudential Authority
PAPSS	Pan-African Payment and Settlement System
PBS	Personal Banking Services
PFMA	Public Finance Management Act
PIC	Public Investment Corporation
PPP	public-private partnership
PRASA	Passenger Rail Agency of South Africa
PV	Photovoltaic
QE	Quantitative Easing
R	South African Rand
RDP	Reconstruction and Development Programme
RET	Radical Economic Transformation
REITs	Real-Estate Investment Trusts
RoW	Rest of the World
RMB	Rand Merchant Bank
SAA	South African Airways
SADC	Southern African Development Community
SALDRU	Southern Africa Labour and Development Research Unit
Sanlam	Suid-Afrikaanse Nasionale Lewens Assuransie Maatskappy Beperk (South African National Life Assurance Company)
SANRAL	South African National Roads Agency
SAPO	South African Post Office
SARB	South African Reserve Bank
SARCC	South African Rail Commuter Corporation (later PRASA)
SASOL	Suid-Afrikaanse Steenkool-, Olie- en Gasmaatskappy (South African Coal, Oil and Gas Company)
SATS	South African Transport Services (later Transnet)
SETA	Sector Education and Training Authorities
SIRESS	SADC Integrated Regional Electronic Settlement System
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises
SOEs	State-owned enterprises
TCTA	Trans-Caledon Tunnel Authority
TIPS	Trade and Industry Policy Studies
UK	United Kingdom
UN	United Nations
US	United States
USD	US dollar
VAT	Value Added Tax
VBS	Venda Building Society
VRESAP	Vaal River Eastern Sub-System Augmentation Project
WACC	Weighted average cost of capital
Wiphold	Women Investment Portfolio Holdings
ZAL	South African Financial Rand
ZAR	South African Rand

Abstract

This report, prepared for the National Planning Commission (NPC), provides a comprehensive assessment of South Africa's monetary architecture, defined as the interconnected web of public, private, and hybrid balance sheets that channel credit, allocate capital, and govern investment. Drawing on original empirical mapping, historical analysis, expert background papers, and a novel conceptual framework, the report argues that South Africa's post-apartheid growth model has failed to reconfigure the deep structural inequalities embedded in the inherited monetary architecture. Instead, the current system continues to produce patterns of financial exclusion, underinvestment in fixed capital, and economic extractivism, while rewarding short-term profit-taking over long-term productive investment in Gross Fixed Capital Formation (GFCF).

The report argues that since 1994, South Africa has not benefitted from a system of macro-financial governance of the financial ecosystem. The latter is understood, in turn, as a complex adaptive system. The concept of 'monetary architecture' is introduced as a means for understanding the architecture of this complex financial ecosystem to provide the basis for recommendations for establishing the macro-financial governance that is required to address the key obstacles. It challenges the conventional policy division between public and private sector financing, arguing instead for a systemic approach that places macro-financial governance at the centre of structural transformation. Using this approach, the architecture of the South African financial ecosystem is understood as a web of interlocking balance sheets, in which the assets and liabilities of banks, development finance institutions (DFIs), pension funds, shadow banks, households, and state-owned enterprises (SOEs) interact in ways that either support or constrain fixed investment and inclusive growth. Monetary policy, public spending and debt, household finance, savings, intermediation and corporate investment behaviour must, therefore, be viewed as interconnected components of a single complex adaptive system.

The report undertakes an extensive empirical mapping of the South African monetary architecture at four key historical inflexion points: 1983, 1996, 2014, and 2024. Each phase is analysed in terms of the evolution of balance sheet reconfigurations, institutional reforms, and macro-financial trends. This mapping shows that the monetary architecture has remained racially structured, both spatially and institutionally, despite the end of formal apartheid. In particular, the report finds that:

- **In 1983**, the apartheid state began liberalising financial markets while expanding SOE debt to finance large-scale infrastructure and defence. This laid the groundwork for financial dualism, where elite households and large firms accessed

sophisticated credit markets, while black households remained excluded from formal finance.

- **In 1996**, with the adoption of the Growth, Employment and Redistribution (GEAR) strategy, macroeconomic policy shifted toward fiscal consolidation and inflation targeting. The liberalisation of capital markets and pension funds led to increased financial deepening and financialisation but did not result in significant new fixed investment in GFCF. Public investment continued the long-term decline that had started in the late 1980s, and household debt grew without corresponding asset accumulation among poor and working-class households.
- **By 2014**, the erosion of public sector investment had deepened. A series of banking crises had resulted in the consolidation of a highly concentrated banking sector dominated by a handful of large banks. SOEs had moved toward commercial models, often relying on expensive corporate borrowing or infrastructure concessions. However, by 2014, state capture had already started hollowing out the capacity of SOEs, while private fixed investment lagged, with listed corporations accumulating cash reserves and expanding abroad. DFIs remained undercapitalised and fragmented, with limited systemic coordination. The expanding shadow banking sector became the enabler of accelerating velocities of financial flows within the financial sector rather than into the 'real economy'.
- **By 2024**, the post-Covid-19 and Just Transition context created new demands for strategic infrastructure finance, renewable energy investment, and inclusive industrialisation. The monetary architecture, however, remained disjointed. While profitability in the banking and non-bank financial sector recovered, GFCF remained well below the target levels set by the National Development Plan (NDP). Public sector balance sheets, including those of municipalities and SOEs, remained highly constrained, while large corporate balance sheets continued to reflect significant offshore asset shifts. Small businesses, however, recovered well from the pandemic and, by 2024, were the largest employers and biggest contributors to gross value-add. The legacy of state capture meant that SOEs remained highly dependent on fiscal allocations and debt.

The central thesis of the report is that the post-apartheid state has not established a framework for governing the monetary architecture as a complex adaptive system. Instead, it has attempted to drive transformation through isolated levers, such as fiscal stimulus, regulation, subsidies, Black Economic Empowerment (BEE) or monetary targeting, without addressing the structural configuration of financial power. This has produced three systemic failures:

1. **The failure to integrate poor households into the financial architecture**. Despite the expansion of financial inclusion (e.g. basic bank accounts and credit access),

low-income households remain structurally excluded from asset accumulation. This perpetuates inequality and undermines economic resilience.

2. **The failure to coordinate investment across public, private and hybrid balance sheets**. DFIs, SOEs, municipalities, and government departments often operate with misaligned mandates, fragmented project pipelines, and conflicting accountability frameworks. As a result, blended finance remains underutilised, and catalytic investment opportunities available to the private sector go unrealised. In parallel, as growth levels remain low, bank lending to the government has increased while bank lending to the private sector flatlines.
3. **The failure to discipline or direct private capital toward domestic reinvestment**. The corporate sector's shift to global asset markets and the weak regulatory framework around pension fund investment mandates have created an extractive model of capital allocation that prioritises short-term returns and offshore flows over long-term developmental investments in GFCF within South Africa.

The report develops the concept of ***balance sheet reconfiguration*** as a strategic policy response. This approach draws from international examples and proposes a new paradigm of financial governance that sees macroeconomic strategy as the dynamic management of public and private balance sheets across the system. Rather than limiting policy to fiscal ratios or inflation bands, the state should act as a strategic orchestrator of financial flows, identifying, negotiating, and unlocking *elasticity spaces* where capital and credit can be redirected toward inclusive and sustainable investments in GFCF, in general, but in the Just Transition, in particular.

This summary distils the key recommendations that appear at the end of the report. They are focused on macro-financial governance and balance sheet reconfigurations to facilitate a Just Transition and boost GFCF in South Africa, addressing inequality and underinvestment. The primary recommendation is the establishment of a system-wide macro-financial governance mechanism to track, model, and coordinate interlocking public and private balance sheets. This would facilitate mission-oriented blended finance that prioritises public value creation rather than filling in financing gaps with private sector investments. To this end, the following specific recommendations are submitted for consideration:

1. **DFI–SARB Alignment:** It is recommended that the South African Reserve Bank's (SARB) Prudential Authority (PA) take over supervision of DFIs such as the Land and Agricultural Development Bank of South Africa (LBK), Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA). The resultant collective balance sheet expansion could reach R1.4 trillion, directly addressing underinvestment in GFCF.

2. **Pension Fund Reallocation:** Consideration should be given to reforming Regulation 28 to reduce the 45 per cent external investment limit in tandem with increased investment in GFCF within South Africa. As infrastructures are unlisted assets, the constraints on investments in unlisted assets imposed by Regulation 28 may need to be relaxed. A key reform might be to require pension funds to draft 'annual infrastructure investment plans' and to include reporting against these plans in their quarterly reports to the regulator. Redirecting 20 per cent of pension fund assets could unlock a R1 trillion project pipeline, especially if supported with sovereign guarantees and stock exchange-listed instruments.

3. **New Guarantee Company:** A South African Rand-denominated guarantee company is recommended, co-funded by National Treasury (NT) and DFIs, aiming to unlock R50 billion in infrastructure investment without increasing sovereign debt, which will essentially be a public-private capital mobilisation vehicle. This initiative, the Credit Guarantee Vehicle, is already underway.

4. **Infrastructure Fund Expansion:** It is recommended that the DBSA-led Infrastructure Fund be reinforced and expanded. It currently aims to leverage R100 billion in public finance to secure R900 billion in private investment. As of 2025, R340 billion worth of projects had been approved, but it should be accelerated to meet the R1 trillion target.

5. **SOE Balance Sheet Reform:** There is an urgent need for clarity on SOE governance over the medium- to long-term. The proposed 'holding company' to hold the shares of the SOEs will not be well-regarded by investors. It might be appropriate to consider diversified shareholder models to leverage SOE balance sheets worth R1.3 trillion in order to attract R650 billion in capital without diluting overall public ownership beyond 60 per cent.

6. **Bank Sector Risk-Reward Shifts:** Regulatory reforms are recommended to encourage bank lending to productive sectors and small and medium enterprises (SMEs). A 1 per cent reallocation of annual bank lending (~R55 billion) could significantly raise GFCF and support entrepreneurial activity. Banking systems, however, are inappropriately configured to interface productively with SMEs. The alternative would be for banks to invest in the intermediaries that have the relevant expertise.

7. **Non-Financial Corporations (NFCs):** Corporate governance reforms are needed to mandate much higher levels of domestic reinvestment in fixed assets. It is suggested that Environmental, Social and Governance (ESG)-related reforms are aligned with mandated reinvestment targets, including offering tax incentives for corporates that support domestic fixed asset expansion.

8. **SME Financing:** Targeted support for small and women-led businesses is required, leveraging household-business linkages. This can be achieved by promoting green finance, cooperative credit models, and public-private schemes such as the Transformation Fund, to address gender and income inequality.

9. **Shadow Banks[1]:** It is proposed that shadow banks are mobilised in a way that takes advantage of their skills and agility in order to increase funding of GFCF through blended structures (e.g., Real-Estate Investment Trusts (REITs), Credit Guarantee Vehicle-backed vehicles, listed notes, etc). This will require policy certainty, a stable regulatory framework and competitive returns compared to government bonds.

10. **Project-Level Blended Finance:** The various 'build-own-operate-transfer' or 'build-operate-transfer' models currently being used (e.g. toll roads) and being considered could raise R80 billion, ensuring fiscal neutrality while expanding infrastructure capacity. An example under consideration is for energy projects in the National Transmission Company of South Africa's (NTCSA) Independent Transmission Projects (ITP) Programme to implement part of the R400 billion transmission investment plan backed by guarantees.

11. **Building a Stable Middle Class:** A range of ideas are proposed, including matched savings, cooperative finance, and support for small formal businesses to rebuild household wealth, particularly for women-led households. This aligns small business support with spatial and gender equity.

12. **Gender Equality Measures:** Recommendations include credit access and targeted social services for poor women-led households, expansion of grants, and support for women entrepreneurs to close the economic gender gap and mitigate associated social harms.

13. **SARB Climate Role:** The SARB's ambitions to integrate climate risks into monetary policy and banking supervision are supported. Proposed balance sheet interventions to manage transition risks (e.g., stranded assets), estimated at R1.8 trillion between 2013–2035, should be considered. More importantly, the SARB can reform prudential controls of the banks in ways that allow banks to enter the riskier credit-hungry SME space.

14. **GEPF Alignment with GFCF Target:** The Government Employees Pension Fund (GEPF) needs to realign its mandate with the NDP's target to increase investment to 30 per cent of GFCF by funding SOEs, BEE contractors, and domestic productive companies. Rebalancing away from dual-listed, offshore-oriented firms should be encouraged.

[1] Defined as non-bank financial institutions that are not pension and insurance funds.

These coordinated balance sheet reconfigurations aim to unlock at least R5 trillion in new investment in GFCF and the Just Transition. This could result in reduced inequality, an accelerated Just Transition, and foster inclusive economic growth without requiring fundamental changes to monetary or fiscal policy. It can achieve scale through strategic macro-financial governance of the web of interlocking balance sheets that is at the core of the wider financial ecosystem. However, it would be unwise to ignore the constrained institutional capacity to absorb additional investments, including weak accountability and procurement mechanisms. If not attended to, increased capital mobilisation will result in strong upward pressures on inflation.

The main report aligns this vision with South Africa's commitments to the Sustainable Development Goals, Just Transition Framework, and the NDP. It concludes that a reconfigured monetary architecture is not only desirable, but necessary to break the cycles of low growth, unemployment, widening inequalities and financial exclusion. Unlocking financial flows for the public purpose defined by the Just Transition Framework requires a new institutional imagination, one that sees money not as a constraint, but as a tool for structural transformation.

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1 Introduction

There is complete consensus that to realise its economic growth targets, South Africa needs to substantially increase the levels of investment in GFCF.[2] This refers to investing in public infrastructures (especially energy, water, transport and digital infrastructures) as well as the fixed assets that businesses require to expand. The NDP has set the target for investment in GFCF at 30 per cent of GDP. On average, investment in GFCF has averaged around 15 per cent since 1994. However, it has declined dramatically since 2014. (see Figure 1).

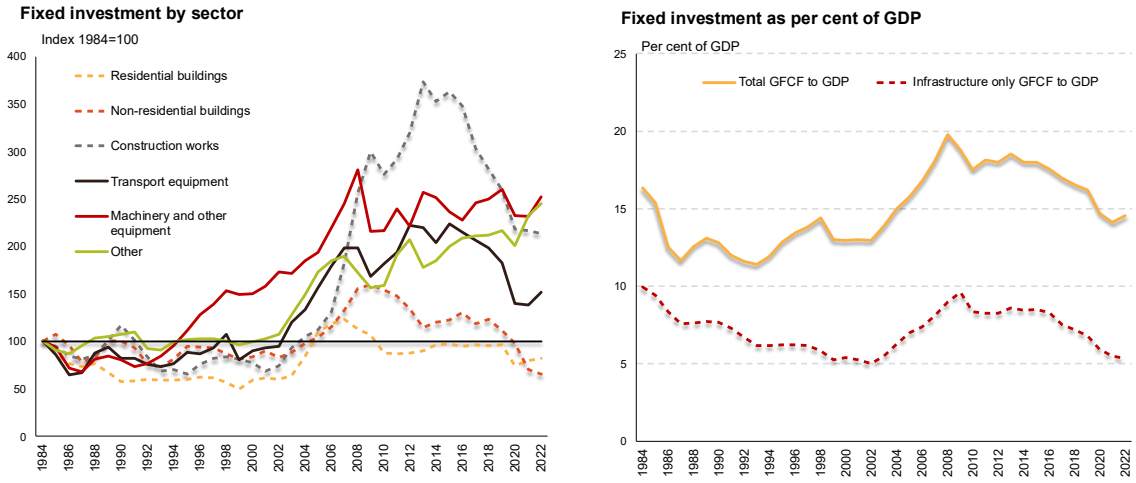


Figure 1: Gross Fixed Capital Formation, 1984-2022
Source: Stats SA, SARB

Low levels of investment in GFCF and, therefore, constrained economic growth will mean that South Africa will not have the resources to address the challenge of extreme wealth inequalities and the just energy transition. When the wealth of 0.1 per cent of the population equals twice the wealth of the bottom 90 per cent of the population,[3] there is very little chance that South Africa can realise the infrastructure and climate goals of the NDP. Raising the levels of investment in GFCF is a necessary condition for successfully catalysing economic growth and the just energy transition. This, in turn, needs to be achieved in a way that redistributes wealth so that domestic markets expand, labour productivity improves, social cohesion deepens, greater gender equality is achieved, and the skills base for advancing the technological capacity of South Africa is significantly expanded.

[2] Hobongwana, Kapingura & Makhetha-Kosi (2023)
[3] Chatterjee, Czajka & Gethin (2020)

However, the most significant challenge facing South Africa is where the funding will come from to significantly raise the levels of investment in GFCF. If, as argued in the NT's 'Macro-Economic Trends Report',[4] fiscal and monetary policies are expected to remain the same; major increases in funding from the fiscus will not be forthcoming, nor can we expect the equivalent of Quantitative Easing (QE) by the SARB. If public funding for infrastructure does not increase, how can the private sector be expected to increase investments in fixed assets to expand South African businesses? The latter often follows the former, but only if the appropriate investment institutional vehicles and mechanisms are in place.

One response is to mobilise society and use knowledge, information and data to change fiscal and monetary policies. This may well be desirable. The point of departure of this report is that this is unlikely to succeed in the short term. The focus, therefore, is on alternatives that, if implemented, may result in the re-evaluation of the current tight fiscal and monetary policies.

The well-intentioned succession of economic and planning frameworks since 1994 (including the NDP) has not been underpinned by a coherent macro-financial governance framework for managing South Africa's monetary architecture. This report concludes that such a framework needs to be instituted as a matter of urgency if the twin challenges of under-investment in sustainability-oriented GFCF and persistent inequality are to be addressed. This has become even more urgent in light of the impacts of new geopolitical dynamics, climate change and the energy transition.

This report provides an overview of the evolution of South Africa's monetary architecture by analysing four historical snapshots in time: 1983-5, 1996, 2014 and 2024. Each snapshot is represented as a distinct visualisation of the web of interlocking balance sheets that existed at each moment in time. These visualisations are accompanied by narratives that describe each turning point in the shifting dynamics of South Africa's financial ecosystem, understood here as a complex adaptive system.

Following the monetary architecture approach (see below), this complex adaptive system comprises a web of interlocking balance sheets held together by an ever-changing set of balance sheet configurations. The report aims to reveal how and why the most important balance sheet reconfigurations occurred at specific historical moments over the 1983-2024 period and how they, in turn, resulted in the redirection of the flow of finance. They were not the product of abstract market dynamics but a function of decisions by people located within key intersecting nodes of the web of interlocking public and private balance sheets. If balance sheet reconfigurations have happened before, they can happen again, but with the aim of achieving the goals of the NDP and the Cabinet-approved Just Transition Framework this time.

[4] National Treasury (2024)

The analysis in this report suggests that it is futile to believe that it could be possible to overcome the path dependencies in the web of interlocking balance sheets via the classical Keynesian tools of monetary and fiscal policies. These imply using the central bank and NT balance sheets to redirect capital flows, essentially by expanding these balance sheets through open market operations or government debt issuance, respectively. However, given the scale of the challenge, these interventions on their own would most likely not address the 'real' fundamental underlying financial structures within the monetary architecture that have reproduced inequality and reinforced underinvestment in GFCF since 1994.

If these challenges are to be properly addressed, it will be necessary to focus on the web of interlocking balance sheets to imagine and identify the elasticity spaces where alternative balance sheet reconfigurations may exist. The logic of the Just Transition has provided a way of thinking about how this can be achieved. However, it is important to point out that this alternative approach cannot be equated with the current fashionable 'blended finance' approach, which triumphantly claimed 'billions to trillions' would be unleashed if the state stepped back in favour of private sector and multilateral development bank investments. Instead, as Mazzucato has argued, blended finance cannot simply be about derisking whatever the private wants to do; it must be directional and aimed at achieving structural transformation.[5]

The Cabinet approved the National Infrastructure Plan 2050 in 2022, which was South Africa's first long-term strategic investment framework for the country's energy, water, digital and transport infrastructures. The Infrastructure Task Team of the NPC was mandated to investigate the investment requirements to achieve its goals. The result was a set of reports on South Africa's water, energy and digital infrastructures within the wider context of climate change. As the Just Transition Framework approved by the Cabinet in August 2022 explained:

> Tackling climate change will require urgent, significant, and *transformational changes across all sectors of the South African economy*. It will require innovations in urban and infrastructure planning; a massive shift to clean energy sources; and changes to how we use our land, water, and obtain our food.
>
> (PCC, 2022:3 – emphasis added)

Reports by a research consortium comprising the NPC, PCC, NT and DBSA confirm these propositions:

- To achieve water security by 2035: R214 billion per annum is required to fund the lowest cost option, which is also the most ecologically sustainable option (R2.1 trillion through to 2035);[6]

[5] Mazzucato (2025)
[6] DBSA, National Treasury, National Planning Commission & Presidential Climate Commission. 2025. South Africa's water sector investment requirements to achieve water security by 2050.

- To achieve energy security and net zero by 2050: at least R120-R150 billion per annum is required;[7]
- To enable digital transformation so that South Africa can take advantage of the global digital transition: R40 – R50 billion per annum through to 2035 or R500 billion in total by 2035 is required.[8]

The total investment required for these three sectors alone, therefore, is R3.5 to R4 trillion by 2035 or about R400 billion per annum. If current investment levels remain constant, approximately R250 billion per annum will be spent on water, energy and digital infrastructure over the next 10 years (R2.5 trillion). The gap, therefore, is approximately R150 billion per annum, or R1.5 trillion over ten years, if all else remains equal. The World Bank (2023) recently estimated a funding gap of R4.8–6.2 trillion for *all* infrastructure.

Based on the analysis of South Africa's balance sheets in 2024 (see Section 6), it is possible to summarise the estimated value of the assets on South Africa's balance sheets as follows in Table 1:

Table 1: Estimated Asset Values on South Africa's Balance Sheets

Asset	Value
SARB	R1.2 trillion
National Revenue Fund (managed by NT)	R2.1 trillion (2024)
Commercial Banks	R6.7 trillion
Non-financial corporations (listed)	R12.7 trillion
Formal small businesses (unlisted)	R2.5 trillion
Shadow Banks	R3.2 trillion
Pension & Insurance Funds (Asisa members)	R6.7 trillion
Stokvels	R50 billion (11 million members)
GEPF	R1.6 trillion
SOEs	R1.3 trillion
DFIs	R345 billion (14 largest out of 45 = 97 percent of assets)
Households	R11 trillion, including offshore wealth

Source: Authors' calculations

[7] DBSA, National Treasury, National Planning Commission & Presidential Climate Commission. 2025. South Africa's energy sector investment requirements to achieve energy security and net-zero by 2050.
[8] DBSA, National Treasury, National Planning Commission & Presidential Climate Commission. 2025. South Africa's digital sector investment requirements to achieve digital transformation by 2030.

The total of these separate amounts would provide an inaccurate picture because there is a degree of overlap, e.g. GEPF is part of the pension fund amount, small business is part of NFCs, etc. However, a report compiled for the NT's SA-TIED initiative, based almost entirely on the SARB's 2010-2021 Quarterly Bulletins, estimated that the total assets in the South African economy increased from R20.6 trillion in 2010 to R49.9 trillion in 2021. This represents an increase from 6.7 times the GDP in 2010 to 8,0 times in 2021.[9]

The Just Transition Framework, formulated by the PCC[10] and approved by the Cabinet in 2022 and the NPC's Call for Action in 2023,[11] argued that a new, more collaborative approach to financing the transition is required. This opens the door for a new negotiated macro-financial governance approach for financing the GFCF in a way that furthers the goals of the Just Transition by reducing inequalities through innovative financial arrangements. The monetary architecture approach is fit-for-purpose because it provides a systems perspective on the dynamics and workings of the web of interlocking public, private and hybrid balance sheets that comprise the financial ecosystem.

To study poverty and inequality, we define different household categories that broadly match the socio-economic structure of South African society at different points in time. The obvious limitation of this methodology is that the data does not reveal the intra-household gender dynamics. According to Statistics South Africa (Stats SA), 42.3 per cent of all households were headed by females in 2023.[12] In the sections that follow, we show how poorer (mainly women-headed) households were unequally integrated into the wider monetary architecture and how this has not changed much with the shift to democracy in 1994.[13]

Investments in GFCF refer to two key flows of capital: Investments in public infrastructure (particularly energy, water/sanitation, waste, transport/mobility and digital infrastructure), and investments by the private sector in fixed assets (machinery, equipment, premises, intellectual property, operational facilities and systems). The former tends to crowd in the latter, but only if the appropriate balance sheet configurations are in place that provide a degree of longer-term certainty.

The post-state capture period has been marked by various strategies to mobilise public and private sector investments in infrastructure. The most significant contemporary strategy is the South African government's commitment to the just and sustainable transition. This will require a massive infrastructure build programme that underpins economic growth, effective redistribution and sustainable resource use.[14] Assuming that conservative fiscal and monetary policies remain into the foreseeable future, the current

[9] Hadji-Lazaro et al. (2025: 20)
[10] Presidential Climate Commission (PCC)
[11] National Planning Commission (NPC)
[12] Statistics South Africa (2024)
[13] Chatterjee, Czajka & Gethin (2020)
[14] Krutham (2021)

priority should be to secure massive increases in infrastructure funding via a new set of balance sheet reconfigurations that effectively integrate private sector investments more than ever before without compromising development goals, the public interest and the need for inclusive growth. Without this, it will not be possible to achieve the economic, social and environmental goals clearly articulated in the NDP in 2012. Chapter 5 of the NDP refers specifically to the need for a just transition.

From the monetary architecture perspective, a key policy failure since 1994 has been the absence of a macro-financial governance strategy for configuring the most significant balance sheets in ways that would have made it possible to achieve the policy goals of the new government. There was no negotiated balance sheet configuration to create a more inclusive monetary architecture aimed explicitly at reducing inequalities and increasing investment in GFCF, more generally, to drive up economic growth rates. A political settlement to give effect to such a policy framework could have, for example, involved incentives for companies to invest their surpluses in fixed assets and to retain them within South Africa rather than shifting them offshore. It would have allowed the poorest households to become financially integrated and given them a chance to benefit from the financial expansion of the monetary architecture after 1994. This, in turn, would have contributed significantly to addressing gender-based inequalities. It could have incentivised the investment of the expanding pool of savings in the pension and insurance funds in infrastructures and fixed assets. It could also have involved taking the balance sheets of small and medium enterprises more seriously, in particular those led by women.

By mapping the evolution of South Africa's ever-changing interlocking balance sheets, this report aims to implement a methodology for tackling South Africa's numerous 'wicked problems.' If these 'wicked problems' are defined as the outcome of an inappropriate configuration of balance sheets, it follows that the solution lies in imagining and then implementing an alternative balance sheet configuration. These opportunities for reconfiguring balance sheets are the 'elasticity spaces' that require identification through negotiation and implementation by the affected stakeholders. Good examples include the tax incentives that unlocked bank funding for the rooftop solar revolution, or the soon-to-be-implemented ITPs that will enable private sector participation in the transmission build programme.

The report is organised as follows: Section 2 explains the methodology that was used. Sections 3 – 6 analyse South Africa's monetary architecture at four moments in history: 1983, 1996, 2014, and 2024. We systematically scrutinise the different parts of the monetary architecture at respective times before responding to the research questions. Section 7 concludes with fourteen recommendations.

2 Methodology

2.1 The Monetary Architecture Framework

Methodologically, this report draws on the monetary architecture framework,[15] which, in line with the Money View[16] and critical macro-finance,[17] conceptualises the monetary and financial system as a web of balance sheets that interlock via credit instruments.

Adopting an institutionalist approach, the monetary architecture framework perceives monetary and financial systems as historically specific and subject to permanent transformation processes with substantive path dependencies. It is then possible to map empirical 'monetary architectures' of different countries as an arrangement of public and private balance sheets at a given moment in time. The objective is to depict the way different balance sheets are interconnected via their credit instruments (e.g. Gold, foreign reserves, deposits, debt securities, loans, equity and investment fund shares, insurance, pension and standardised guarantee schemes, and financial derivatives) in an idealised manner. These interconnections via this range of instruments form different 'balance sheet configurations' that shape and influence context-specific political-economic outcomes that play out on a day-to-day basis.

Any empirical monetary architecture, i.e., the web of interlocking balance sheets, once it has been mapped for a specific moment in time, is a snapshot of a complex, adaptive system[18] that is subject to idiosyncratic evolutionary processes, eludes the control of any single actor, and can at best be steered, imperfectly and at arm's length.[19] Public and private actors can exercise some influence on parts of the monetary architecture, in various ways and always in reaction to the general system's behaviour.

The monetary architecture framework allows mapping the arrangement of the historically contingent monetary and financial system at different points in time to grasp the transformation the system has been subject to and to provide a common ground for discussing entry points to influence the monetary architecture's future transformation. Due to the logic of double-entry bookkeeping, which informs the system's behaviour, no single actor or balance sheet can exercise influence on the system and change system behaviour. It always requires the collaboration and coordination of at least two balance sheets. If conscious steering is absent, the most likely evolutionary trajectory of a monetary architecture is to continue on 'auto-pilot,' perpetuating path dependencies inherited from the past. There is little reason to believe that the existing monetary architecture can generate the desired political outcomes. A new set of balance sheet configurations that are more conducive to these desired political outcomes is required.

[15] Murau (2020); Murau, Haas & Guter-Sandu (2024)
[16] Mehrling (2011)
[17] Dutta, Kremers, Pape & Petry (2023); Gabor (2020)
[18] Arthur (2015)
[19] Schwartz (2013)

The methodology to generate empirical maps of a monetary architecture begins with *monetary jurisdiction* as a legal category subdivided into four financial *segment*s: central banks, commercial banks, non-bank financial institutions, and a fiscal ecosystem comprised of treasuries and off-balance-sheet fiscal agencies. In addition, we need to consider the non-financial segments, which comprise households and firms (non-financial corporations). Each of the four segments, plus the non-financial corporations and households, comprises *institutions* represented as balance sheets and that have a hierarchical relationship with each other. Households are represented as clusters along a spectrum of richer and poorer balance sheets. All these balance sheets interlock through the *instruments* they hold as assets and liabilities. This adds up to a completely self-referential credit system in which each asset is another institution's liability. When the financial system is conceptualised this way, the definition of money is relative rather than absolute.[20] What counts as money depends on a balance sheet's position in the hierarchy and can change over time.[21] Each balance sheet configuration between two or more balance sheets has its own *elasticity space* for balance sheet expansion within the constraints of the other balance sheets that it is dependent on within the hierarchical structure. The degree of elasticity in these spaces depends on the 'contingent' assets and liabilities at its disposal. These are backstops provided by hierarchically higher to hierarchically lower institutions. When reconfigured, they lead to the creation of new 'actual' assets and liabilities in a crisis and allow for the relaxation of the 'survival constraint,' payments coming due, in case of a credit crunch (cf. the template balance sheet in Figure 2-1).

Assets	Template balance sheet (explains the categories of financial instruments)	Liabilities
€	**Actual assets** Held on-balance-sheet over time; commitments for future cash inflows; typically financial claims but also physical assets can be seen as bonds as they generate future cash inflows	€ **Actual liabilities** Held on-balance-sheet over time commitments for future cash outflows ***Equity capital*** Residual category, difference of actual assets and actual liabilities
€	**Contingent assets** Potentiality for balance sheet expansion & cash inflow in a crisis; then they become actual assets; can be explicit or implicit; as counterfactual instruments it is often not clear if they exist or not	€ **Contingent liabilities** Potentiality for balance sheet expansion & cash outflows in a crisis; then they become actual assets; can be explicit or implicit; as counterfactual instruments it is often not clear if they exist or not

Figure 2-1:Template balance sheet
Source: Murau (2020)

[20] Murau & Pforr (2023)
[21] Mehrling (2012)

In principle, the modern credit money system is global in scope. Nation-states like South Africa are not the constitutive building blocks of the international monetary system but are embedded within global credit relations, over which South Africa's sovereign state has little control.[22] Monetary architectures are, therefore, situated in a monetary jurisdiction as a legal space, not one that is primarily defined by territory.[23] This requires understanding South Africa's monetary architecture as part of a global monetary architecture dominated by the USD, with each segment of the South African system incorporated into this global system in a different way and to a different degree. The balance sheets that are part of a monetary architecture have multiple international entanglements with balance sheets located in other jurisdictions. The assets and liabilities involved must be denominated in a currency or unit of account, represented in the template balance sheet in a column to the left of each instrument. While the unit of account is conventionally associated with a nation-state, i.e., the South African Rand (ZAR) or the US dollar (USD), it is by no means necessary that instruments denominated in one such unit of account are held or even created in the monetary jurisdiction of this nation-state. For instance, the USD functions as the global key currency, used to create large volumes of credit instruments offshore, outside of the United States.[24] The vast majority of cross-border financial flows, including in South Africa, are denominated in USD. The monetary architecture framework allows depicting the usage of different units of account onshore and offshore, which helps conceptualise the international entanglements of different balance sheets.

It is important to note that the way balance sheets are represented in the monetary architecture framework deviates from international accounting standards or the traditional system of national accounts. This is deliberate. Both accounting standards and the system of national accounts are in our view, legitimate ways of representing what happens in the underlying web of interlocking balance sheets in an idealised way. Accounting standards provide norms for regulated entities, stating how they should report to their regulators on their micro-level activities. The system of national accounts seeks to quantify the *ex post* dynamics of the system on an aggregated level. Since it is impossible to generate a full and 'true' representation of the complex, adaptive credit system, both are established and certainly legitimate ways of rationalising the system's dynamics.

For the monetary architecture framework, it is primarily of interest to map out the different types of institutions that actually exist in the web of balance sheets and understand how they interlock via different credit instruments. This is a much more *qualitative* approach to interrelationships of institutions than for international accounting standards or the system of national accounts. In addition, the Monetary

[22] Murau & van 't Klooster (2023)
[23] Avdjiev, McCauley & Shin (2016)
[24] Murau, Pape & Pforr (2023)

Architecture framework is interested in how the structure of institutions and instruments changes over time. It focuses on institutional instability and transformational dynamics. The established accounting frameworks must necessarily abstract from that: They need to assume institutional stability and continuation to measure quantitative volumes within that setting.

Due to its focus on qualitative relationships and institutional transformation of financial power, the Monetary Architecture framework is a political-economic approach and, as such, is appropriate as a methodology to study questions of inequality, underinvestment in infrastructure, and the governance of the financial ecosystem. The empirical monetary architecture at a given moment in time is the real-world institutional setting on which the economy operates. Credit (money) creation, investment financing, and the making of payments take place within this historically specific monetary architecture.

On the one hand, the monetary architecture framework helps with the study of questions of inequality because any given balance sheet configuration determines who has access to which forms of credit and which types of backstops. Historically inherited positions in a balance sheet configuration can keep some balance sheets trapped in a situation where an increase of wealth is impossible, while macro-financial dynamics increase the wealth on other balance sheets without them doing anything. Past dependencies perpetuate inequalities, and it becomes difficult, despite the best of intentions, to influence such processes and turn them around.

On the other hand, the monetary architecture framework helps us generate insights into underinvestment in GFCF, in general, and infrastructure, in particular. The historically specific web of interlocking balance sheets is the setting within which public and private entities issue different types of debt and find counterparties to expand their balance sheets. This is what determines the ability to finance investments, which, in this framework, refers to nothing else but the capacity to expand balance sheets to create new monetary instruments that can be subsequently used for directing activity in the 'real economy.'

The web of interlocking balance sheets visualised in a monetary architecture map is sometimes referred to as the 'financial plumbing' of a country. It determines the possible outcome of countless political and economic processes but can normally not be directly observed. Like real-world plumbing systems, it eludes the eye of the beholder. Many people have an understanding of some parts of the plumbing, but hardly anyone can see the 'big picture.' Different actors, for instance, policymakers, businesspeople or technocrats, who all have limited possibilities of influence, are tinkering with the financial plumbing and are frustrated when they realise, time and again, that the system is still not responding to their influence in the way they had imagined.

This is precisely the situation that South Africa finds itself in. Despite various honest efforts to overcome its history of apartheid, entrenched path dependencies within the financial plumbing show up in balance sheet configurations that perpetuate South Africa's status as the most unequal country in the world. Although the just and sustainable transition is currently the policy focus of the South African government, everything depends on how this will be financed in a way that does not result in an unjust transition that leaves the current extreme inequalities intact.

2.2 Adapting the Monetary Architecture Framework for the South African context

Adapting the monetary architecture framework to the specific South African context requires a range of conceptual choices on how to depict the institutions and instruments configured into the evolving balance sheets that constitute South Africa's monetary architecture.

To understand how South Africa's monetary architecture has evolved, we analyse the state of play of these ever-changing balance sheet configurations at four critical historic moments in time that best characterise a phase of changing balance sheet configurations around:

- 1983, a setting that illustrates the balance sheet configurations under apartheid when South Africa experienced international sanctions, the debt standstill, and a State of Emergency as mass uprisings engulfed the country.
- 1996, when the democratic transition after 1994 was largely accomplished and a new post-apartheid balance sheet configuration was established.
- 2014, when a series of crises had consolidated bank balance sheets, state capture set in, and South Africa was more deeply integrated into the BRICS.
- 2024, when the focus is on overcoming the legacy of state capture and unsustainable debt levels, re-establishing a viable growth path and implementing the just and sustainable transition.

We map out a monetary architecture figure for each of the four periods to provide an idealised representation of the balance sheet configurations at the time. To achieve this is a methodical challenge which requires, in some respect, squaring a circle: The visual representation must necessarily be static, but it is always only a snapshot within wider transformational dynamics. In line with the research questions of this report, we are interested in both the snapshot and the wider dynamics around it. We solve this problem by providing a narrative and data that considers what happened before those inflexion points (how did we get to this balance sheet configuration?) and shortly after those inflexion points (what outcomes did these balance sheet configurations eventually generate?).

In that sense, it is important to stress that the four snapshots are connected to broader historic inflexion points, when significant changes were taking place in different ways across the different segments of the monetary architecture. They are, in other words, markers along an institutional evolutionary pathway that reveal how the system has evolved over time. As reflected in Figure 2-2, these moments correspond more or less to economic turning points over the 1979-2022 period. In some cases, the drivers were crises, while for 1994-96 and even 2014, they were political shifts in state power.

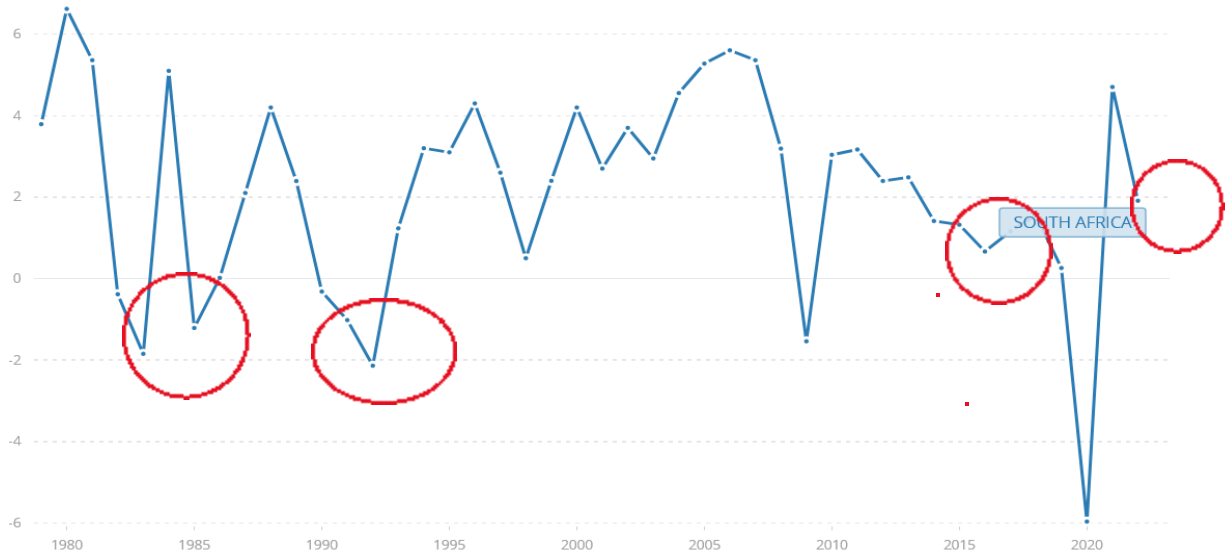


Figure 2-2: Annual GDP growth in South Africa, 1979-2022 (in%)
Source: World Bank (2024)

To map the four monetary architecture figures, the report adopts a range of inductively developed classifications, considering South Africa's economic and financial history and the framing of the research questions. We look at nine different categories of balance sheets that feature in South Africa's monetary architecture and address them from a bottom-up perspective, beginning with households and firms and ending with the quintessential balance sheets of the state, the Central Bank and the Treasury.

Households: The report adopts a classification of four household classes, interconnected in different ways to the rest of the monetary architecture, and which therefore have differential access to credit and financing opportunities. The focus of this report is on household balance sheets (i.e. their assets and liabilities over time) rather than income. This means for each historic moment, an analysis is provided that connects evolving household wealth (i.e. assets minus liabilities) with access to financial services and resources. First, 'non-banked poor households' do not have access to bank deposits as money; they are only able to hold what few bank notes they can access by various

means and have no access to other formal credit instruments. Second, 'banked poor households' do have access to bank deposits and can access informal credit instruments, micro-lending, or retail debt. Third, middle-class households are characterised by their access to formal bank and non-bank lending and the ability to accumulate savings, for instance by accessing pension funds. Fourth, elite households occupy the top-end of the wealth and income spectrum, with access to pension funds, and a variety of financial instruments such as bank loans and sophisticated products including MMF shares, bonds, or stocks.[25]

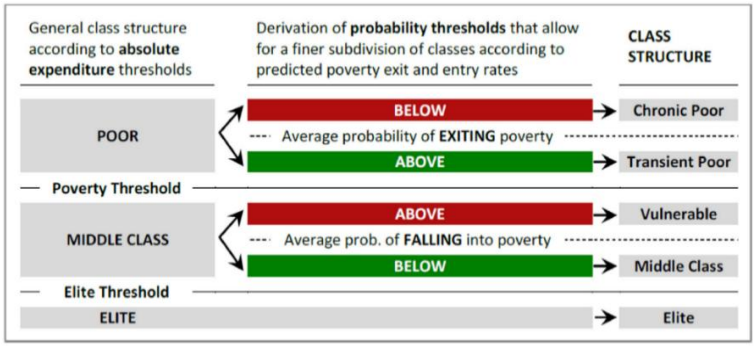


Figure 2-3: Social stratification of households based on living standards
Source: Schotte, Zizzamia & Leibbrand (2018)

The definition of household classes via their characteristic balance sheet configuration initially abstracts from properties of individuals such as race and gender. However, we can approximate how different races and genders are proportionally represented in different household classes over time. As a general tendency, black households and female-led households are more likely to belong to poorer classes than white households and male-led households.[26]

Firms (non-financial corporates): Replicating the approach to households, the report distinguishes different 'classes' of firms based on their balance sheet structure and international connectedness. In our idealised depiction, we start with the predominantly women-led 'informal' small enterprises without access to bank deposits and the regular banking system and 'formal' SMEs with access to deposits and the possibility to access bank credit. In addition, we have different classes of large enterprises that traditionally formed part of the wider minerals-energy complex. For the apartheid era, we distinguish 'domestically constrained' and 'internationally orientated' large corporations; their balance sheet structure differs regarding the types of currencies they hold. For the post-

[25] Data on South African households often follows the System of National Accounts and look at the aggregated household sector (see e.g. Aron & Muellbauer 2006; Kuhn 2010), which does not allow distinguishing different types of households. A notable exception is Daniels & Khan (2019), who address inequalities in wealth as well as in asset and liability structures between different percentiles of South Africa's income distribution (see in particular tables on pp. 7-8). Our classification draws on the work by Schotte, Zizzamia & Leibbrand (2018) & Zizzamia, Schotte & Leibbrand (2019), who develop a dataset based on five classes that start with poor, middle-class, and elite households and add probability thresholds to define the transient poor who have a chance of exiting poverty and the vulnerable middle-class that is at risk of falling into poverty.
[26] Muthwa (1995)

apartheid era, this distinction morphs into predominantly dual-listed large, financialised corporations with largely externally based operations and locally listed, less financialised corporations whose operations are largely, or entirely, located within South Africa.

State-owned enterprises: The SOEs inherited from the apartheid era play a crucial role in the South African economy. Some of them have been privatised since 1994, but the majority of them have remained in public ownership. The value of their collective balance sheets has consistently been equal to around 30 per cent of GDP. They play a central role in the provision of major economic infrastructures, including energy, water, rail-based freight, ports, passenger transport, airports, telecommunications and digital infrastructures. They are all owned by the state via a disparate set of authorities. From 2009, a number of them have become subject to 'state capture', which has also affected their asset and liability structure. Many SOEs have required equity injections over the years to remain financially viable.

Banks: The structure of the South African banking system has changed profoundly over time and is reflected in the categorisation adopted in the visualisations. During and shortly after apartheid, South Africa had several smaller banking institutions, including merchant banks and mutual banks, which have disappeared through bankruptcy or mergers over the last three decades. The collective value of the balance sheets of South African banks is around R6.7 trillion. South African banks are, in general, well-capitalised and benefit from a stringent regulatory regime that favours stabilisation and risk reduction over innovation and broadened access to finance. For the contemporary structure, the report merely distinguishes between large and small banks. Using the Money View[27] definition, banks are regarded as both intermediaries *and* creators of money via decisions to allocate credit reflected as deposits on the balance sheets of their respective counterparts.

Development finance institutions: The three largest DFIs inherited from the apartheid era are the IDC, DBSA and the LBK. A range of smaller provincial-level so-called 'development corporations' was also inherited from the apartheid era. Since 1994, the number of DFIs has increased substantially, and all the DFIs inherited from the apartheid era have been restructured and re-oriented to serve the policy goals of the post-apartheid government. However, they have never been capitalised well enough to play a major, high-impact policy role. The fourteen largest have a collective balance sheet of approximately R345 billion, a fraction of the value of the collective balance sheets of the banks.

Pension funds: The number of members of pension funds increased from 9.2 million in 1994 to over 18 million by 2023. The number of pension funds increased from 35 to over 800 for the same period. Furthermore, their collective asset base increased from R171

[27] Mehrling, 2011

billion in 1994 to R5.6 trillion in 2023. South Africa has the 16th largest pool of pension fund savings, larger than countries with much bigger populations (India, Ireland, France, Spain and Chile). Pension funds are generally divided into three categories: (a) large state-controlled defined benefit funds, such as the GEPF, as well as the Eskom and Transnet funds. These funds are ultimately underwritten by the tax payer thus enabling an indirect link between benefits and assets, which, in turn, reduces the risk of patient long-term investing; (b) large private sector defined contribution funds sponsored by employers and trade unions that could potentially invest more capital in long-term investments that generate dividends; (c) smaller private sector employer-sponsored funds, umbrella funds and personal pensions where demand for liquidity transformation is high and therefore more constraints on long-term investing exist.

Shadow banks: Shadow banks are used as an umbrella term for quite a wide range of different financial institutions that provide credit but are not regulated in the same way as commercial banks or pension funds. Although the term was first coined in 2007, it can be used to refer to financial institutions that perform credit intermediation functions without access to central bank liquidity or public sector credit guarantees.[28] Often classified internationally as a subset of other financial institutions (OFIs), most shadow banks in South Africa are regulated by the Financial Services Conduct Authority. Shadow banks include a diversity of institutions, including Collective Investment Schemes (CIS) (often referred to as unit trusts), Money Market Funds (MMFs), participation bond schemes, Personal Banking Services (PBS), HFs, Multi Asset Funds (MAFs), and various other CISs. Beyond these, there are finance companies, securitisation schemes, REITs, trust companies, stokvels and certain types of brokers. Although the stokvels, almost all of which are led by women, are usually not regarded as shadow banks because of their informal nature, we include them in our understanding of shadow banks. The fundamental difference between banks and shadow banks is that the former are licensed to take deposits from the public, whereas shadow banks rely on individual and institutional investors who invest purely to generate higher returns than they could otherwise secure from commercial banks or even conventional investing in the JSE. In the South African context, shadow banks typically refer to long-term lenders who also offer liquidity transformation to short-term investors. This definition can include components of the CIS industry (e.g. some MMFs or illiquid corporate bonds), but it excludes some instruments that are not prone to run risks in the near cash and credit markets. While valid, this fine distinction is difficult to operationalise in this qualitative analysis. Unfortunately, the data on shadow banks before 2010 is limited, which means we are unable to provide much detail for the 1983 and 1994 periods. Instead, our focus for these early historic periods will be the emergence and proliferation of the unit trusts that came to be managed by a wide variety of shadow banks.

[28] Kemp (2017). Our approach to and definition of shadow banks stems from Kemp's South African Reserve Bank Report

Central Bank: The SARB is the apex institution of the South African monetary architecture and a key 'firefighting' institution. It has a substantive structural continuity throughout the apartheid and post-apartheid eras, but significant policy advances made after 1994 resulted in the transformation of the SARB into a powerful regulator of all banking and non-banking financial institutions.[29]

National Treasury and the fiscal ecosystem: The report divides the public core budget into the NT and municipal treasuries. While both have a tax base, they are interconnected with the rest of the monetary architecture in different ways that have changed over time. The NT is the linchpin of the fiscal ecosystem. Although strictly speaking, the NT does not have a balance sheet, in terms of the Constitution, it is responsible for managing the National Revenue Fund (NRF), into which all revenues collected from the public must go. The balance sheet of the NRF is the de facto balance sheet of the NT. The broadest possible definition of the 'public sector balance sheet' would have to include the balance sheets of all the SOEs, municipalities, Sector Education and Training Authorities (SETAs) and various other state agencies.

In reality, South Africa's monetary architecture comprises interdependent monetary and fiscal hierarchies, with the SARB at the apex of the monetary hierarchy and the NT at the apex of the fiscal hierarchy. Both these national hierarchies, in turn, fit into wider US dollar-denominated global hierarchies with the US Federal Reserve at the apex. We regard the SARB and NT as the 'firefighters' of the overall system, with the 'workhorse' balance sheets that do the heavy lifting lying at lower levels of the hierarchy. The workhorses are those institutions best placed to expand their own balance sheets and therefore the balance sheets of their respective counterparties to unlock new funding flows. These are the 'balance sheet reconfigurations' that could potentially change the ballgame. 'Elasticity spaces' are where there is significant potential for these balance sheet reconfigurations to unlock significant flows of public and private capital. The 'firefighters', the SARB and NT, must have sufficient strategic space to move quickly to stabilise the financial system when potentially threatening imbalances arise, which, of course, they will. Overburdening either with the exclusive task of financing future development runs the risk of constraining the strategic space they need to fulfil their fire-fighting roles when required.[30]

As far as the financial instruments are concerned, these building blocks include a range of different credit instruments reflected as both assets and liabilities on at least one balance sheet each. They indicate the interconnectedness of different entities and how this evolved and changed during, and after, the apartheid era.

Monetary instruments: The key monetary instruments comprise bank notes, reserves, and deposits. Notes are issued by the SARB and can, in principle, be held by anyone.

[29] For an elaboration of these three analytical angles, see Naidoo, Meerholz & Lehmann-Grube (2024)
[30] Murau, Haas & Guter-Sandu (2024)

Reserves are also the liabilities of the SARB, but only banks can hold them as assets. Deposits are liabilities of commercial banks, constructed as promises to pay the central bank money. Deposits are accessible to anyone who has a bank account.

Longer-term instruments: Loans and bonds are the typical reverse entries to the balance sheet operations that involve money creation. Loans tend to be non-marketable debt; bonds are debt instruments that can be more easily sold on. Bonds tend to be more prominent in larger institutions, while loans can be found on the balance sheets of smaller DFIs and SOEs. Generally, the international and national DFIs tend to extend loans to their counterparts.

Instruments of the Non-Bank Financial Institution segment: To conceptualise the activities of South African Non-Bank Financial Institutions (NBFIs), this report looks at different instruments, such as contributions to pension funds and pension liabilities, shares of different collective investments, or derivatives such as credit default swaps.

For the contingent instruments, the report distinguishes three types of insurance[31] that hierarchically higher balance sheets grant to hierarchically lower balance sheets and that can be either explicit (for instance, via a law or established practices) or implicit (based on shared expectations or there-is-no-alternative rationales):

- *Liquidity insurance* refers to the guarantee of the central bank to some other balance sheets to replenish that other balance sheet's holdings of central bank money in a moment of scarcity. A straightforward example is the discount window, but there can be other ways of providing such insurance.
- *Solvency insurance* comprises mechanisms to guarantee the nominal value of a balance sheet's liabilities if it defaults. The straightforward example would be deposit insurance, which is often a formalised scheme around a specific Off-Balance Sheet Fiscal Agency (OBFA).
- *Capital insurance* refers to the, usually implicit, guarantee to recapitalise or 'bail out' another balance sheet in case of negative equity capital, which is perceived as endangering systemic stability. The capital insurer of last resort in a monetary architecture is the Treasury, but it may also use existing OBFAs or set up new ones for this purpose.

By analysing the above building blocks of South Africa's monetary architecture, a bottom-up perspective emerges that provides the basis for assessing the changing relational dynamics of the South African monetary architecture over time. Specifically, this means revealing how different balance sheet reconfigurations emerged and declined, resulting in the changing nature of financial flows over the 1983-2024 period. This provides the basis for addressing the current conjuncture, which is characterised by many finance-related challenges, foremost of which is the apparent severe shortage of

[31] Alessandri & Haldane (2009)

funding for large-scale infrastructure investments needed to reignite economic growth and drive the just transition. Without this, it will be impossible to address the triple challenge of (class- and gender-based) inequality, unemployment and poverty. However, it needs to be accepted that this so-called 'shortage of funding' to address infrastructure backlogs is a function of the current configurations of the web of interlocking balance sheets. It follows that there may well be opportunities for reconfiguring selected clusters of interlocking balance sheets in ways that could unlock new funding for investing in infrastructure. These opportunities for balance sheet expansions are what we refer to as 'elasticity spaces.'

In general terms, we will show that the monetary architecture of South Africa, that was constructed during the apartheid era for the benefit of the elite, has not been fundamentally transformed during the democratic era to support the developmental aspirations of the 1994 Constitution, other than to broaden access to financial capital for the black elite (via BEE requirements) and, in line with the Financial Charter, to basic banking facilities and fiscal transfers for the poor majority. The inequalities remain intact, including increasingly serious gender-based inequalities that translate into the power dynamics that foster gender-based violence. Policy interventions to address this systemic challenge are required. Unfortunately, to date, a systems view of the financial ecosystem has not been compiled, which means there is no adequate evidence base for considering a range of policy options that could catalyse change. The report is aimed at addressing this knowledge gap.

2.3 Generating content and collection of empirical material

To generate the empirical material for this report, the NPC gathered a group of financial experts who met repeatedly for workshops and wrote background papers to compile empirical information about various parts of South Africa's monetary architecture.

Several experts provided commissioned working papers based on various qualitative and quantitative sources that formed the basis for the report. Andrew Donaldson wrote on the GEPF;[32] Roy Havemann on the South African banking system;[33] Makhiba Mollo on the Public Investment Corporation (PIC);[34] Nthabiseng Moleko on pension funds;[35] Chantal Naidoo, Yasmin Meerholz, and Patrick Lehmann-Grube on the SARB;[36] Mlondi Ndovela on non-financial corporates;[37] Zeph Nhleko on DFIs;[38] Kate Rushton and Avril Halstead on

[32] Donaldson (2024)
[33] Havemann (2024)
[34] Mollo (2024)
[35] Moleko (2024)
[36] Naidoo, Meerholz & Lehmann-Grube (2024)
[37] Ndovela (2024)
[38] Nhleko (2024)

SOEs;[39] and Pieter van der Merwe on NBFIs.[40] In addition, we have carried out semi-structured interviews with Andrew Donaldson[41] and Nimrod Zalk.[42]

Mark Swilling and Steffen Murau wrote this report based on secondary literature, primary sources, the commissioned working papers, and the interviews. The monetary architecture visualisations have been compiled by Friederike Reimer.

[39] Rushton & Halstead (2024)
[40] van der Merwe (2024)
[41] Donaldson (2024)
[42] Zalk (2024)

3 Snapshot 1: South Africa's Monetary Architecture in 1983

This section investigates the balance sheet configuration of South Africa's monetary architecture in 1983 as depicted in Figure 3-1. During the last decade of the apartheid era, the South African economy was split into a small and informal sector, and a large formal sector dominated by the so-called minerals-energy complex that entailed the collusion of both large private and SOEs. Still, reforms in line with the spreading neoliberal ideas were being adopted by reformers, SOEs were being 'commercialised', liberalised capital markets were introduced, shadow banking activities were on the rise, and the economic crisis was forcing changes in South Africa's apartheid-based monetary architecture.

At the time, South Africa operated a dual currency system that comprised two different units of account: the Commercial Rand (referred to as ZAR) and the Financial Rand (referred to as ZAL). As the monetary architecture figure indicates, in the columns to the left of each instrument, in the balance sheets, the ZAR was used to denominate the majority of instruments for the domestic use of South African residents. It existed both as printed money in the form of notes and as instruments on ledgers such as reserves and deposits. The ZAL, by contrast, did not exist in a printed form but only on ledgers. It could only be held by a limited number of institutions that operated at the interface of the global economy and were not eligible for the purchase of domestic goods and services. The South African monetary architecture, therefore, had a low level of international financial integration, with severe government restrictions on cross-border capital flows in place.

The dual currency system originated in 1961. Just as South Africa declared independence from the Commonwealth and phased out the usage of the South African pound, the apartheid government introduced, what was then called, the 'Blocked Rand' system to impose controls on financial outflows and counteract capital flight that had set in after the Sharpeville Massacre of March 1960, when the South African police killed 69 protestors. The Blocked Rand system sought to prevent both South African residents and non-residents from shifting their funds outside of the South African monetary jurisdiction. To achieve this, sales proceeds from foreigners in South Africa had to be invested in special 'Blocked Rand' accounts at South African banks. Moreover, if foreigners wanted to exchange foreign currency for South African Rand, they had to acquire the local currency by purchasing Blocked Rand stocks instead of exchanging money at the regular exchange rate. In 1976, the Blocked Rand system was replaced by the 'Securities Rand' mechanism, which classified sales proceeds of foreigners as 'Securities Rands' that could be traded on the Johannesburg Stock Exchange (JSE). Following a major report of the Central Bank governor, De Kock, in November 1978, the Securities Rand was

replaced in 1979 by the Financial Rand, which offered a more favourable exchange rate to non-residents to attract international investments. The Financial Rand could not be used to purchase goods or services. The Exchange Control Department determined its exchange rate. This was the system in place in 1983.[43]

The apartheid state system is depicted explicitly in Figure 3-1 via the illustration of South Africa's fiscal organisation on the top right of the monetary architecture visualisation. The fiscal organisation was subject to substantial fragmentation due to the 'Homeland System' that was in place at the time, which the figures represent in a simplified and idealised manner. Following the logic of the monetary architecture framework, South Africa had a hierarchically highest 'Treasury' balance sheet and several types of lower-ranking fiscal balance sheets. While the 'provinces' refer to those areas inhabited by whites as well as urbanised black Africans, coloureds and Indians, the 'tribal homelands' or 'bantustans' were territories to which many black Africans had been forcefully removed between 1960 and 1983. Four of these homelands, Transkei, Bophuthatswana, Venda, and Ciskei, were declared fully independent between 1976 and 1981. These feature as 'independent states' on the same hierarchical level. A complex redistributive system was in place between the Department of Finance and the Department of State Budget, the provinces, and homelands that nevertheless favoured the white provinces. Tax revenue and debt issuance took place mainly via the main Treasury balance sheet, and to a lesser extent, on those of the provinces, homelands, or 'independent states'. At local level, white provinces were organised as 'municipalities' for whites and into 'Black Local Authorities' for black Africans, and Management Committees for coloureds and Indians.

By the early 1980s, the reform wing of Afrikaner Nationalism discovered a convenient ideology for justifying 'free markets' in neoliberalism and therefore reduced state intervention, privatisation, the regulatory de-racialisation of labour markets, and the removal of restrictions on the urbanisation of black Africans. However, intensifying international isolation and sanctions prohibited the inflows of foreign direct investments that South Africa's racial version of neoliberalism required to succeed. Instead, the government faced an international sanctions regime that intensified in 1983 as mass protest movements gathered strength and impact. The United Democratic Front was founded in that year, and the mass-based industrial trade union movement that had begun to form in the early 1970s had consolidated its workplace base by 1979, and by 1985, the Congress of South African Trade Unions (COSATU), the largest trade union federation, was formed. In response, two states of emergency were declared in 1985 and again in 1986. These also ended the short-lived attempt to suspend the dual currency system and replace it with a unified Rand exchange rate.

[43] Gidlow (1976); Lewis (1990); Bhana (1985); Havemann (2014)

The 1983 South African monetary architecture indicates the balance sheet configuration that would lead to the 1985/86 debt crisis. In 1985, global banks delivered a devastating blow when they refused to continue funding South African banks and triggered a major domestic debt crisis, which revealed the extent of the entanglement of South Africa's financial institutions with the global monetary architecture. In the context of growing pressures for financial sanctions against South Africa and the imposition of a State of Emergency in July 1985, on 31 July, Chase Manhattan Bank announced that it would not extend any new credit to South African borrowers, nor would it roll over short-term loans that were to fall due in late August. Security Pacific Bank immediately followed suit, as did most other international banks. At the time, around 85 per cent of US bank exposure to South Africa, 57 per cent of UK bank credits, and 31 per cent of German credits were short-term. Furthermore, most of the scheduled debt repayments fell due in the second half of 1985. This meant that if all these banks refused to roll over their debts as they fell due, South African borrowers would be unable to meet their obligations.

In response to President PW Botha's famous 'Rubicon Speech' in August 1985, where he ruled out majority rule, there was an immediate 20 per cent drop in the value of the Rand and a substantial capital outflow. By 27 August, the Government was forced to close the foreign exchange and stock markets. Before reopening the markets on 2 September, the government announced that the two-tier currency would be reintroduced, thus giving it the power to limit outflows through the capital account of the balance of payments. Furthermore, it was announced that the government had decided to declare a four-month moratorium on the repayment of USD 10 billion of short-term debt owed by the banks. The government proclamation, made in terms of the relevant legislation governing the dual exchange rate, specifically excluded South African government debts owed to, or guaranteed by, other governments from the moratorium. The moratorium was, therefore, limited to debt owed by the South African private sector to private lenders. Reflecting the extent of South Africa's entanglement with international banks during apartheid, the banks set up a committee that included twenty-nine international banks that represented the interests of 233 international bank creditors.

For many business leaders, the writing was already on the wall by the mid-1980s. It was clear to them that there was a certain inevitability about releasing political prisoners and negotiating with the exiled African National Congress (ANC) leadership. As a result, they began their own unilateral engagements with the internal and exiled oppositional leadership. When the notorious 'securocrat' president, PW Botha, was replaced, after he had a stroke in 1989, by FW de Klerk, international and enlightened sections of the local corporate sector embraced what followed: the release of political prisoners, the unbanning of the liberation movements, the return of exiles and the commencement of formal negotiations in 1990 that led to the first democratic elections in 1994. FW de Klerk made his intention clear to remove the 'securocrats' from the centre of power by re-establishing the political leadership of the National Party.

The global and economic dynamics of the time reinforced the political pressures for change. Compared to the early 1970s, the early 1980s were challenging times for South African economic policymakers. Average annual growth rates dropped to 1.9 per cent between 1974 and 1985, compared to the average of 4.9 per cent between 1946 and 1974. Fixed investments were declining, unemployment was rising, the average per capita standard of living was deteriorating, and sanctions were having the desired effect. The decline, however, was temporarily halted by the brief gold price hikes between 1977 and 1980 and good rains. The world recession of the early 1980s and resultant inflationary pressures reinforced the rising levels of domestic political discontent. In particular, the oil shocks of the late 1970s and early 1980s triggered inflationary pressures, resulting in inflation levels well above 12 per cent for most of the 1980s and steep increases in the money supply.

The remainder of this section will explore the balance sheet configurations of South Africa's monetary architecture as depicted in Figure 3-1 in greater detail. Following the analytical logic of the conceptual framework, we adopt a bottom-up approach that starts with households and private non-financial firms as well as their public counterparts, the SOEs. We then address the financial institutions: private banks, public DFIs, pension funds, as well as unit trusts and other shadow banks. We complete the section by addressing the two quintessential institutions in charge of monetary and fiscal policy, the SARB and the NT, with their sub-balance sheets.

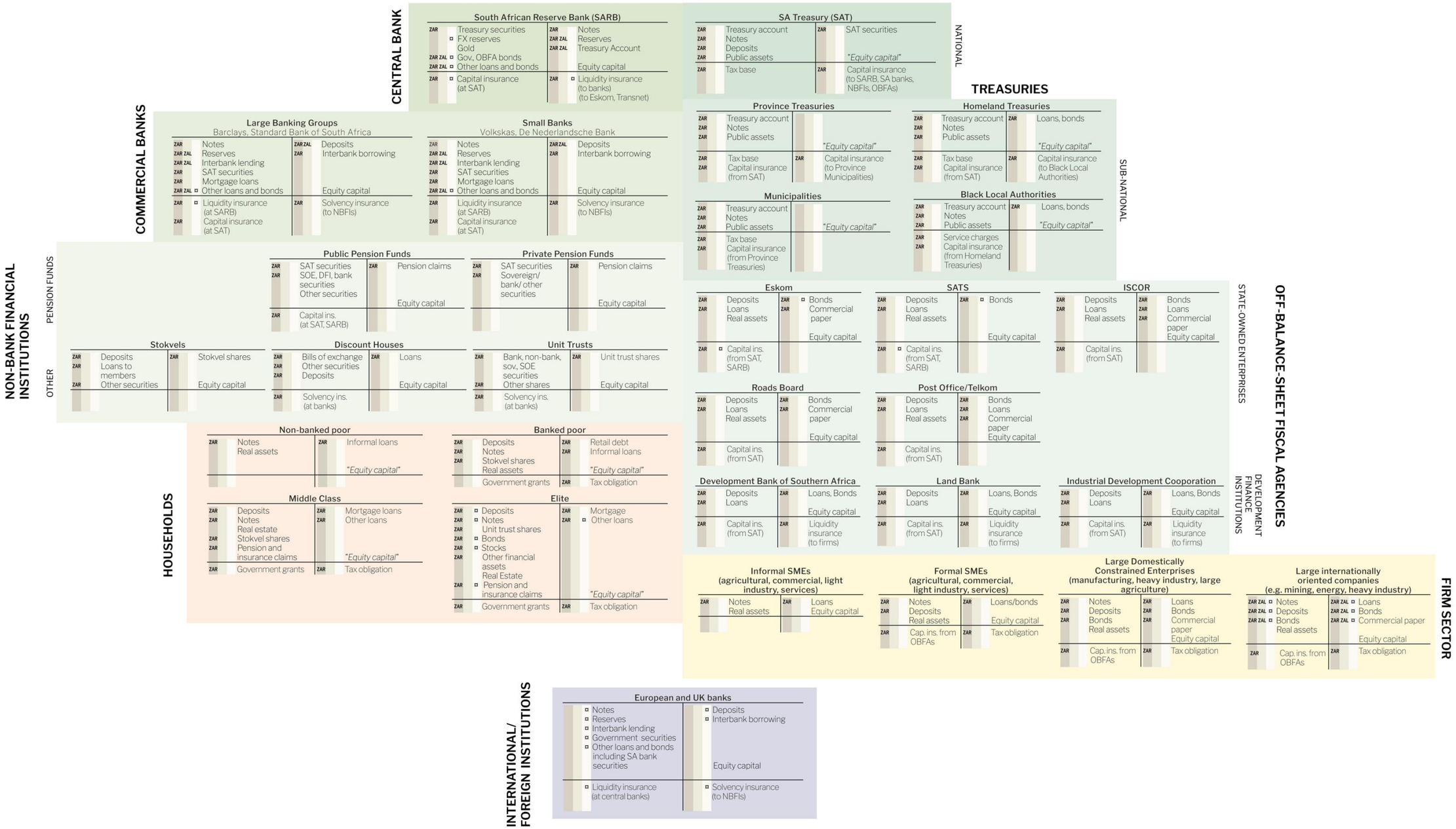


Figure 3-1: South Africa's monetary architecture after 1983

3.1 Households

By the early 1980s, household wealth as a percentage of national income had peaked. This was almost entirely made up of white, male-headed households. The top 5 per cent of households held nearly 90 per cent of all wealth. The large bulk of this household wealth was held by white-owned banks, which, in turn, were the primary lenders to (white-owned) non-financial corporations. This was the apartheid monetary architecture.

To outline the domestic setup of South Africa's monetary architecture in 1983, we begin by defining the four household categories in the household sector: the non-banked poor, banked poor, middle class, and the elite, which differ significantly concerning the actual and contingent assets and liabilities on their balance sheets and thus interconnections with other institutions in the monetary architecture. The wealthier the household, the more extensive and complex its balance sheet structure and interconnectedness.

By 1982, household wealth (which, of course, was almost entirely white) as a percentage of national income had peaked at over 350 per cent; it has never been higher since. Non-financial assets (mainly property) made up more than half at over 200 per cent, and household debt was less than 50 per cent of national income; it has never been lower since.[44] However, this does not indicate the race-, class- and gender-based inequalities of household wealth.

Unsurprisingly, by the early 1980s, South African society was extremely unequal. An early study using estate duty returns in 1974/75 found that the top 5 per cent of the population owned 88 per cent of total household wealth[45] and that 94 per cent of all wealth was held by the white population. It is safe to assume nothing fundamental had changed by the early 1980s. Any form of private wealth was concentrated in a comparatively low number of white 'elite' household balance sheets. Invariably, these stable middle-class and upper-income households were centred around a classic suburban nuclear family with a male head.

One outlier to the class division along racial lines was the emergence of a small rent-seeking group within the black urban population that was able to generate large economic benefits and thus chose to collude with the apartheid system rather than openly oppose it. This group comprised both 'old' money, which originated from agricultural and commercial activities stretching back to the late nineteenth century, to 'new' money, which included various kinds of entrepreneurs and opportunists resulting from the elites created by the apartheid policy, and even local warlords.

Nevertheless, using household survey data, van der Berg and Louw found that, by 1985, 78 per cent of all income from property accrued to white people, who made up only 14.5 per cent of the population (i.e. R64 billion out of a total of R82 billion of property assets). Per

[44] Chatterjee, Czajka, & Gethin (2020: 7)
[45] McGrath (1982) quoted in Chatterjee et al. (2020)

capita incomes were also extremely unequal. Between 1980 and 1985, they increased as follows: black people – from R5 107 to R5 423; coloureds – from R8 822 to R9 855; Indians – from R13 296 to R15 113; white people – from R46 670 to R48 370. As a result, the percentage of the black population living in poverty in 1985 was the highest at 49.1 per cent; followed by coloureds at 28.3 per cent, Indians at 10.6 per cent, and whites at 1.8 per cent.[46] This data does not reveal the gender dimension of these inequalities.

As shown in Figure 3-2, recessionary conditions in the early 1980s were reflected in significant declines in personal consumption and even negative growth in household debt as interest rates started to climb.[47] However, as access to credit was liberalised, from about 1983 onwards, a pattern of expanding personal consumption and rising household debt levels was initiated that has continued ever since.

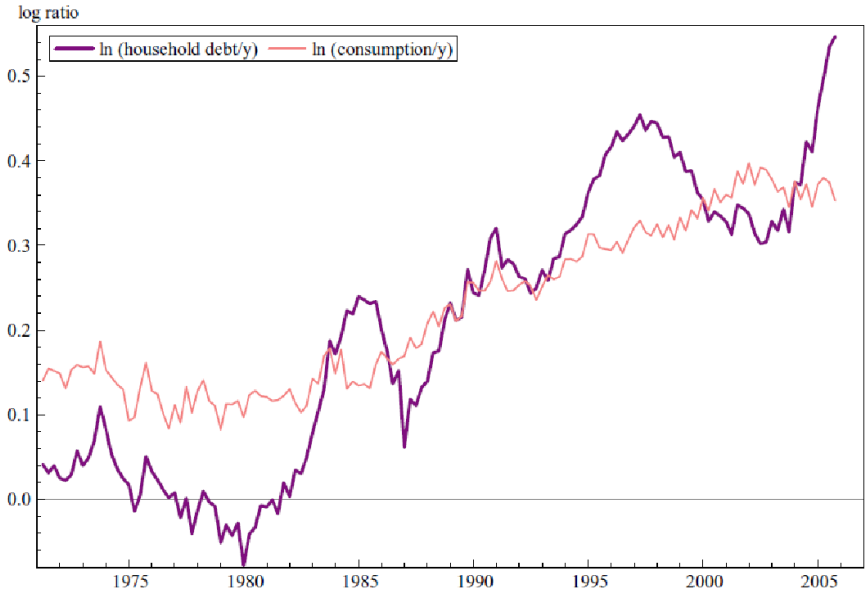


Figure 3-2: South African Personal Consumption and Household Debt Relative to Personal Disposable Non-Property Income
Source: Aron and Muellbauer (2013: S163)

Three dynamics, arising from the credit liberalisation measures of the early 1980s, were set in motion, which resulted in this long-term trend.[48] Firstly, households which, for whatever reason, expected income growth to occur in the future were able to more easily access credit to finance their ramp-up to a higher level of consumption in anticipation that future revenues would pay down debts. Secondly, easier credit included lower deposit requirements for first-time home buyers who could afford the repayments. Finally, easier credit increased the availability of debt finance for households that could provide the required collateral. For Aron and Muellbauer, these three dynamics enhance

[46] Van der Berg & Louw (2003: 19)
[47] Aron & Muellbauer (2013: S163)
[48] Aron & Muellbauer (2013: S163)

the ‘marginal propensity to consume’. However, given the data in the previous paragraph, in the early 1980s, these three dynamics were applicable to wealthier (and therefore overwhelmingly white) households as they could expect to earn more, afford mortgage repayments, and provide collateral. Most of the rest of the population had none of these attributes.

There was, however, a fourth dynamic that contributed significantly to widening inequalities, namely the rapid rise in pension assets and corresponding decline in liquid assets as wealthier households realised that the new pension products being created by the finance sector offered better returns than bank deposits (Figure 3-3). Indeed, liquid asset ratios were negative from 1990 and only began an upward climb from 1996, while housing wealth steadily declined for a decade and a half, initially in response to the worsening political and economic environment after 1985.

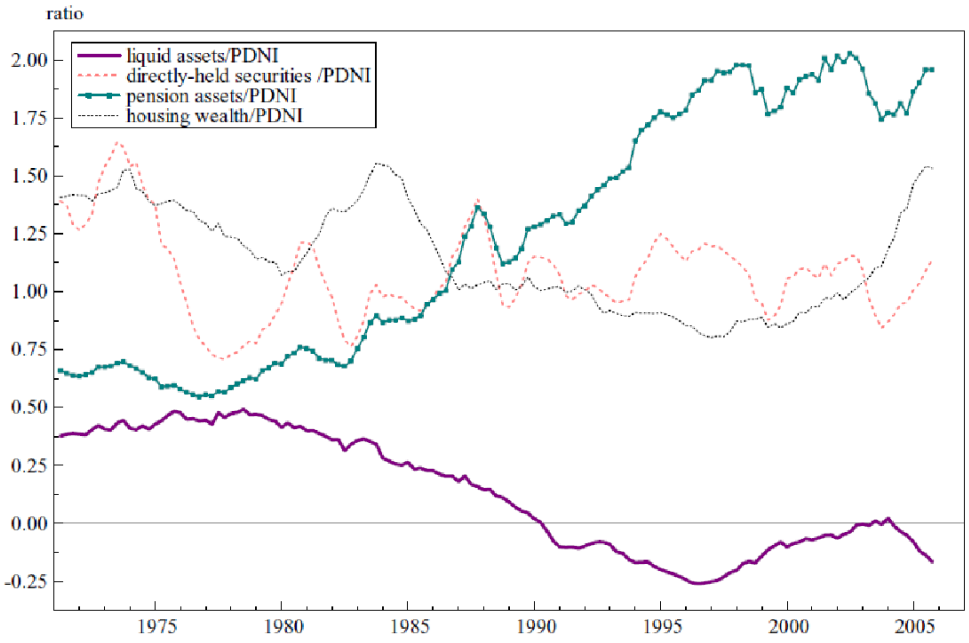


Figure 3-3: South African Debt, Liquid and Illiquid Assets relative to personal disposable non-property income, 1975-2005
Source: Aron & Muellbauer (2013: S170)

The fundamental inequality of apartheid-era South Africa, as reflected in the balance sheet configuration of its monetary architecture, was most striking in the household sector, which was subject to stark class divisions. As noted, the gender dimensions of these inequalities are not reflected in this data. However, as the section on shadow banks reveals, poorer women (but not the very poor) set up stokvels to pool their meagre resources to survive their marginalised status in the white and male-dominated labour and financial markets.

3.2 Firms

For South Africa's firm sector, the monetary architecture depiction in Figure 3-1 provides a stylised representation of four types of balance sheets.

The first two types of firm balance sheets depict small and medium enterprises in both the formal and informal sectors. These firms held the straightforward forms of money, notes and deposits, denominated in the commercial Rand and financed themselves in various ways. The overwhelmingly white-owned formal small businesses tended to source debt through banks, whereas small informal businesses, which were mainly run by black people, sourced finance provided by other informal sources. Women have always played a leading role in this business sector. A major difference lies in their contingent instruments: Small formal businesses had contingent assets, which we broadly refer to as capital insurance, and a tax burden to the fiscal authority as their contingent liability. Small informal businesses, by contrast, did not have access to contingent assets and fell through the cracks of tax revenue collection.

These two categories of balance sheets broadly match firms in fields such as agriculture, commerce, light industry, or services. In principle, both types of firms were present in the provinces and the bantustans (including the 'independent states'). However, as small informal businesses dominated the economic structure of the bantustans and independent states, these areas thus had a very low tax base. A number of small formal and large firms, predominantly in the independent states, received contingent assets from specific DFIs that sought to support economic development, particularly in the 'industrial development zones' that were established.

The four white provinces comprised three essential zones, namely the white cities and towns with cities dominated by large corporations and small formal white-owned businesses; urban townships for black, coloured and Indian people dominated by a small retail-based SME-owning elite; and vast rural areas comprising large white commercial farmers and agri-businesses interspersed here and there with what were referred to as 'black spots' (small rural populations, often comprising a small agricultural elite). The bantustans (both independent and non-independent) comprised rural villages, small towns and a large town that was the 'seat' of the bantustan 'government.' Bantustan-based firms were largely SMEs rooted in the agricultural and urban commercial areas.

The research on small businesses in South Africa deploys many different terms to describe various sub-sectors. Our preference is to make a primary distinction between the balance sheets of small formal businesses and small informal businesses/informal enterprises (used interchangeably). Small informal businesses or enterprises are often referred to as micro-enterprises, most of which comprise an owner/operator and no employees, but some employ four people or less (sometimes referred to as 'very small' enterprises). Sometimes larger informal enterprises are referred to as 'very small or

small informal businesses.' Formal small businesses tend to be larger businesses, registered in some way (for Value-Added Tax (VAT), and with Companies and Intellectual Property Registration Office) and employ anything between 5 and 250 people, often divided into 'small-' and 'medium-sized' businesses. The literature also makes a distinction between the SME and SMME sector, with the first 'M' in the latter category referring to 'micro-enterprises.'

Based on a review of 45 quantitative assessments of the size of the 'informal economy', Kirsten estimated that in 1985, 23 per cent of the 7.9 million economically active people (i.e. 1.8 million) 'were making a living out of the informal sector'.[49] The average annual income generated from these informal small businesses was estimated to be R3 228, thus contributing R5.9 billion to the GDP in 1985. This equated to 5.1 per cent of GDP in 1985, which, Kirsten observes, was 'comparable to the figure calculated for other countries' in the mid-1980s.[50]

Due to the constraints imposed by apartheid, most of the people engaged in these informal small businesses did not have bank accounts, nor did they access debt from any formal financial institutions. Their balance sheets were largely self-funded, with at most small loans from 'family and friends'. Very few would have owned property, but some may have owned rudimentary retail 'street furniture'. Contingent liabilities such as rentals payable to private or public landlords (e.g. for municipal housing and/or services) would have existed.

Kirsten's description of informal small businesses, which covers a wide range of activities that continue into the present, some of which may overlap with more formal small businesses with a larger impact, distinguishes four categories. The first was trading and hawking, which included hawkers and street vendors of 'fruit and vegetables, flowers, hand-made articles, shebeens, spaza shops and foodstuffs'. Second, production and construction activities, which included the production of food, light manufacturing (e.g. of furniture), as well as making clothes, shoes and baskets. Construction activities included window-making, fencing, plumbing, painting and self-help housing. Third, services such as panel-beating, hairdressing, photography, child-minding, car-washing, room-letting, pirate taxiing, beer brewing, and traditional healing. Fourth, 'immoral' or 'illegitimate' activities such as prostitution, drug-trafficking, pornography, illegal lending, forex racketeering, and gambling. Kirsten's data does not provide the gender profile of these activities, but it is not hard to imagine that women did some of the lowest-value and riskier work.

It is necessary to make two distinctions: firstly, between informal sector employment and the balance sheets of informal sector enterprises; and secondly, between the balance sheets of informal sector enterprises and more formal small businesses. While

[49] Kirsten (1991: 156)
[50] Kirsten (1991: 157)

most of the latter could be expected to be formally registered in some way, this was not true of informal enterprises. Unfortunately, national data for both these sectors are only available for the post-1994 period. Nevertheless, the results of a set of case studies of informal, mainly women-led enterprises, published in 1991, found that informal small businesses employed 2.1 people on average; over half had employees, of which 38 per cent were paid, and the remainder were unpaid family members. Working backwards from data provided by Fourie,[51] it is possible to estimate that there were approximately 400 000 small informal businesses in 1985.

The other two types of balance sheets depicted in Figure 3-1 are large enterprises. It is safe to assume that these only existed in the financially developed provinces, and the white cities, in particular, with some factories located in industrial development zones adjacent to some of the bantustans, where they could secure cheap labour, low rentals and decentralisation incentives. We distinguish them by their level of international integration. One type is internationally active and holds its instruments in ZAR as well as USD and ZAL. For instance, at some point, the Anglo-American Corporation conglomerate was the largest foreign investor in the United States. The other type is domestically constrained and only uses ZAR. Compared to the small businesses, their actual assets and liabilities are much more complex.

The financially constrained environment of the 1980s resulted in a highly concentrated corporate sector that sourced two-thirds of its capital from external funds (i.e. not retained earnings) and one-third from retained earnings. Over half of this external capital was equity raised via the JSE from the five main finance houses (see below), and the other half of the external capital came mainly from unlisted debt provided by banks. The result was balance sheets with an unusually high debt/equity ratio, a cash flush environment, cheap debt and limited opportunities for exporting capital into more profitable international investments. Roughly a third and, at times, up to half of the debt sourced outside South Africa was short-term debt, much of it raised from international banks. The remainder of the external debt was long-term debt raised from a range of international and local sources. However, it was mainly the short-term debt, provided by the international banks, that was a risk factor, which, as discussed above, triggered the 1985 debt crisis. From the 1980s through to the late 1990s, no corporate funding came from listed debt (i.e. bonds); it was still only at 2 per cent by the late 1990s following the first listed corporate bond, which was issued by the South African Breweries in 1994.

The two large firm categories comprise what has come to be known as the minerals-energy complex, which characterised South Africa's industrial structure in the apartheid era.[52] This apartheid-based balance sheet configuration involves firms in the mining and manufacturing sectors, which exercised dominance over all other sectors via a top-down

[51] Fourie (2018: 113)
[52] Fine & Rustomjee (1996)

hierarchy of balance sheets that locked them into the minerals-energy complex. Financially, mining relied mainly on equity, while manufacturing relied mainly on a mix of retained earnings and debt. The crucial raw materials produced by mining corporations were gold, increasingly platinum in the 1980s, diamonds, and coal. Manufacturing firms contributed products such as explosives, chemicals, or drill steel, as well as earthmoving equipment, mine winders, or other mining equipment. Mining companies were organised via the century-old 'Chamber of Mines.'

To illustrate the dynamics of the minerals-energy complex balance sheet configuration, Figure 3-4 depicts the relative contributions of the mining and manufacturing sectors to South Africa's GDP, in juxtaposition with the share of the agricultural sector. The time series shows a steady increase in the share of manufacturing and a decrease in agriculture. Mining witnessed a sharp uptick in the 1970s but decreased in the 1980s. Figure 3-5, taken from the seminal book by Fine and Rustomjee on the minerals-energy complex, depicts the number of employees in the mining and manufacturing sector. It also conveys the trend of an ever-increasing influence of the mining sector.

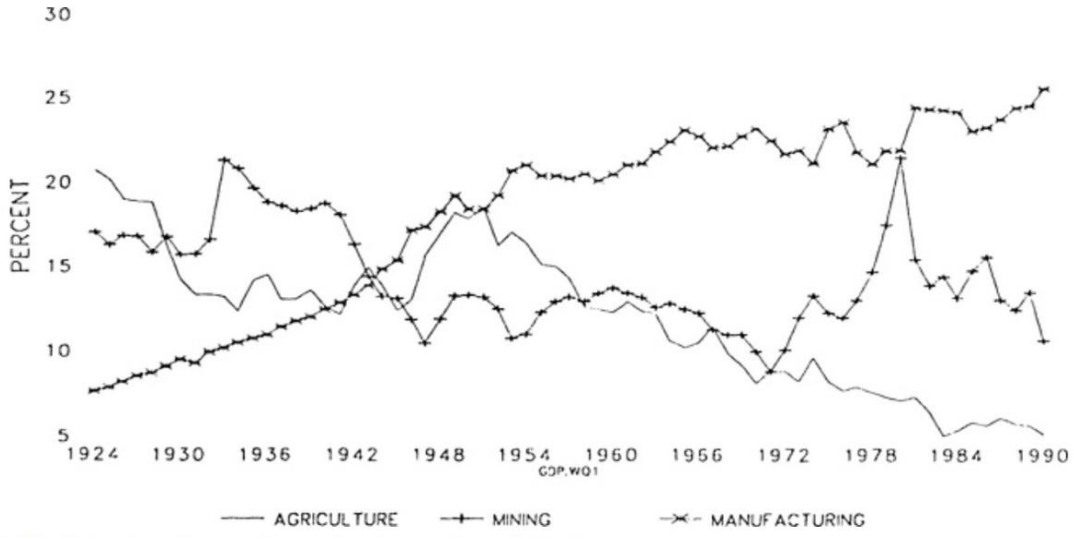


Figure 3-4: Contributions of Mining, Manufacturing, and Agriculture to the South African GDP, 1924-1990
Source: Fine & Rustomjee (1996: 72)

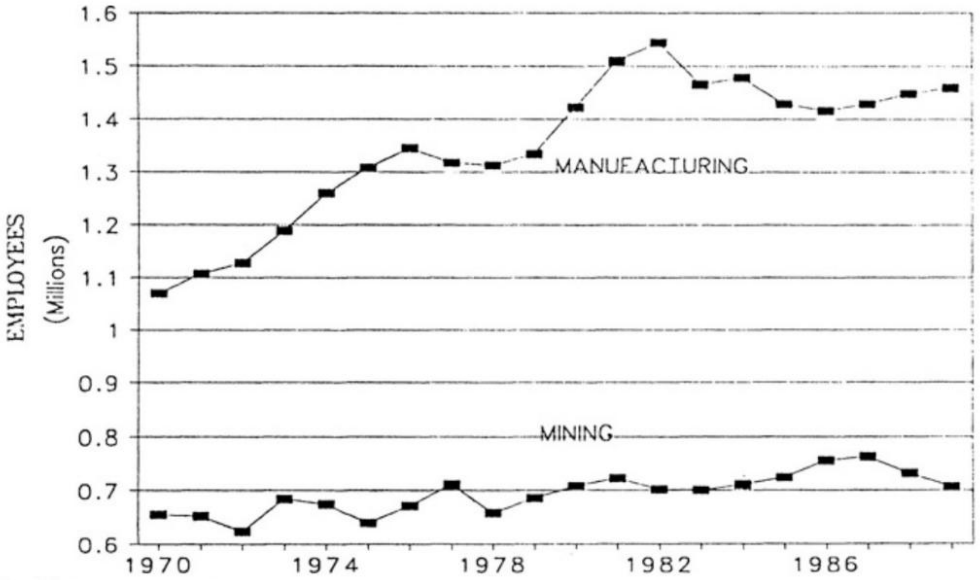


Figure 3-5: Number of Employees in Mining and Manufacturing, 1970-1990
Source: Fine & Rustomjee (1996: 74)

The minerals-energy complex was dominated by six mining conglomerates: Anglo-American, Rand Mines, Gencor, JCI, Anglo Transvaal (Anglo Vaal), and Gold Fields South Africa (see Table 3-1). By the early 1980s, extensive state interventions, in particular via SOEs to provide the necessary energy, transport and water infrastructures, had succeeded in consolidating a wide range of Afrikaner-led firms in the minerals-energy complex balance sheet configuration, underpinned by a white middle class and white (unionised) labour aristocracy.

Table 3-1: Market Concentration of Major Mining Houses in Mineral Production, 1988

	Anglo American (AAC) [1]	*Rand Mines (SA Mutual)*	*Gencor (Sanlam)*	*JCI (ACC)*	*Anglo Vaal (family)*	*GFSA (family)*	*% of total market*
Gold[2]	39	8	14	6	6	18	91
Coal[3]	23	20	21	3		4	71
Diamonds	100						100
Ferro-chrome		27	42	13	8		90
Platinum	49	1	39	2			91
Vanadium	77						77
Copper	69				29	2	100
Iron Ore[4]	?				?		30
Chromite Ore	3	30	42		9		84
Antimony				100			100

[1] Ultimate controlling shareholder in brackets .*Source* McGregor (1990)

[2] 1989 statistics used for market share.

[3] 1984 statistics used for market share.

[4] Information not available. Iscor is the largest consumer of iron ore, owning most of its mines. Since privatisation, no clear ownership control, of Iscor has emerged, but ACC, SA Mutual and the IDS hold significant stakes.

Source: Fine and Rustomjee (1996: 100)

Market capitalisation on the JSE at the time reveals that five minerals-energy complex-related finance houses dominated the JSE, namely Liberty Life/Standard Bank, Old Mutual, Sanlam, Rembrandt/Remgro, and Anglo American, who together accounted for more than 80 per cent of the value of the JSE. However, despite decades of interventions to favour Afrikaner capital, the English-led Anglo-American Corporation remained the leading mineral-energy-complex related finance house, accounting for 60 per cent of market capitalisation on the JSE by 1987.

Although South African firms could access short-term international funding in the 1980s, the international isolation because of apartheid meant that South African firms had limited access to international value chains and capital markets, which, in turn, induced the consolidation of a balance sheet configuration comprising a few large inter-linked multi-sectoral conglomerates dependent on a limited, racially skewed domestic market and local savings. South Africa's firms mainly exported raw materials in this period, which made them vulnerable to global price fluctuations. At the same time, their manufactured products tended to be uncompetitive on world markets. Unsurprisingly, by the 1980s, they wanted a very different balance sheet configuration, resulting in the initial embrace of neoliberalism by reformers who thought this could depoliticise racial capitalism, who eventually supported democratisation when reforms failed in the face of mass uprisings.

The early signs of widening class divisions within the black population became apparent from the early 1980s. While the vast majority suffered from extreme poverty, a small business elite emerged, supported by business-linked institutions such as the Urban Foundation, and urban wages of black workers started to move marginally upward in the face of pressures from an aggressive industrial trade union movement. In line with the emerging neoliberal narrative, combinations of loan and grant finance began to help build up the balance sheets of these emerging black elites and for housing projects that benefitted newly unionised working-class households. While women-led stokvels and burial societies had existed previously, it was from the 1980s onwards that they started to grow stronger as black people were recognised as permanent urban dwellers and as bona fide workers with the right to join trade unions. The credit union movement also emerged alongside the union movement at this time.

Notwithstanding these changes, it is important to note that labour markets are not gender neutral. Unequal pay and higher unemployment levels amongst women forced unemployed women to find alternatives in the informal economy.

In general, the balance sheet configuration of South Africa's firm sector mirrored the apartheid era social structures. Informal small firms dominated in black areas; the formal economy was largely white. The minerals-energy complex was the apartheid state's key business model. Large firms were divided between those who managed to

benefit from the apartheid era arrangement and those who found themselves constrained, particularly due to the international sanctions regime.

3.3 State-owned enterprises

In addition to privately owned firms, South Africa has traditionally had big SOEs, established primarily to support the growth of the minerals-energy complex that operated in the energy, transportation, water, telecommunications, and mining sectors. This was the case in 1983, exhibiting a significant path dependency that currently continues to exist. The five quintessential SOEs that are included in the monetary architecture figure are the electricity provider Escom,[53] the South African Transport Services (SATS), the South African Post Office (SAPO), the South African Roads Board (Roads Board), as well as the Iron and Steel Corporation (Iscor).

SOEs have been central to the evolution of the South African political economy and should be seen as complementary to DFIs.[54] These two groups of entities are the main types of off-balance-sheet fiscal agencies. Their balance sheets have been reconfigured during different historical periods in ways that reflected changes in the character of the political regime in response to changing economic conditions, realignments of ruling and business elites and shifting political settlements.

Although these SOEs tended to operate as commercial enterprises, the railways, road, and telecommunication entities were not separate legal entities in 1983. However, this legal status would gradually change later. By the late 1990s, the majority of the major state-owned enterprises had been 'corporatised'. The state would privatise its holding in Iscor during the apartheid era. From 1998, the state would gradually reduce its shareholding in the telecommunications sector. Beyond that, other than some institutional restructuring, the SOE sector has remained relatively stable over the period.

To explain the 1983 setting of the SOE sector as well as the path-dependent balance sheet configurations involved, it is helpful to look at the historical evolution of the key institutions.

The oldest SOE was South African Railways and Harbours. Formed in 1910 to coincide with the birth of the Union, the entity was the new Union government's primary SOE for crafting the imaginary of a white South African nationhood that became coterminous with its romantic notion of a racially exclusive image of the South African landscape, from the Cape to the Limpopo.[55] Inspired by a desire to replicate the modernist socio-technical infrastructural vision of rail-based mobility that had emerged in nineteenth century Europe and North America, the balance sheet configuration that underpinned

[53] The document uses 'Escom' for the period before 1987, as the name change occurred then. After 1987, it reverts to 'Eskom'. See abbreviations
[54] Clark (1994); Freund (2019); Magubane (1996)
[55] Foster (2003)

the political settlement linked together Cape-based agricultural export businesses and the mining houses from the interior, enabled by influential engineering professionals and a section of the new Union bureaucracy committed to knitting together the railway and harbour authorities of the pre-1910 states.[56]

Until the Pact Government in 1924, despite the political significance of the agricultural sector, white minority rule and foreign capital colluded primarily in the extraction of rents from mining and its subsidiary sectors. The state's role during this period was to reproduce a specific colonially-oriented balance sheet configuration that, in turn, enabled the externalisation of the vast bulk of mining profits in exchange for access to finance to fund inward industrialisation.[57] This political settlement reflected the mutual interests of ruling elites and businesses for long-term benefit in that pre-1924 period. However, the mining-centred balance sheets of the goldfields started to undermine the English-Afrikaner political alliance as mining profits continued to enrich foreign shareholders with little reinvested to stimulate local industrial development. This eventually led to the formation of the Nationalist Party-led Pact Government in 1924, which, in turn, created new conditions for SOE and DFI formation. The transformation of the Electricity Supply Commission (Escom) from a mere facilitator of electricity for the mines to a key driver of import-substitution industrialisation (ISI) is a case in point.

The decision to establish the Escom (now Eskom) was taken by the Smuts Government during the height of the Rand Revolt by white workers in 1922 to facilitate the provision of cheap electricity in return for raising the wages of white workers. It came into being in 1923 to facilitate the provision of cheap electricity to the expanding railways (which required cheap energy for the new electric trains), increasingly deep-level mines, and nascent secondary industries. Ernest Oppenheimer, the founder of Anglo-American, personally brokered the balance sheet reconfiguration that underpinned the new political settlement between mining magnates, key industrial planners, like Hendrik van der Bijl, railway planners, and Escom itself. The result was the complete integration of the electricity industry by 1948 under the auspices of Escom, a public entity. The formation of Iscor in 1928 reinforced the ISI programme by providing the booming mining and secondary industries with reliable and affordable energy and steel. After 1924, the Pact Government used these two SOEs as the core pillars of a balance sheet configuration that unlocked the funding needed to drive the highly successful ISI programme, especially during the war years.[58]

As WWII loomed and as anti-Smuts pro-Nazi Afrikaner nationalist sentiment mounted, the pro-British, Smuts-led United Party government enabled the formation of the IDC in 1939.[59] As a state-owned capital investment agency, the IDC became the linchpin of a

[56] Foster (2003)
[57] Clark (1994); Magubane (1996)
[58] Freund (2013)
[59] Clark (1994)

new balance sheet configuration: it was able to access public funds for reinvestment into South African-owned industrial enterprises, marking the start of a period of expanded inward industrial development for the benefit of white elites and white workers.[60] The IDC helped fund major industrial clusters, including Anglo-American's diversification into industry, the Suid-Afrikaanse Steenkool-, Olie- en Gasmaatskappy (South African Coal, Oil and Gas Company) (Sasol) and the growth of Afrikaner-owned industrial conglomerates after 1948, such as those associated with Sanlam. Without explicit state support for this kind of balance sheet configuration, the formation of a white industrial class would not have been possible, and it is unlikely that a substantial South African-owned industrial sector would have emerged.[61]

However, despite his efforts to the contrary, the broad-based white political settlement that Smuts attempted to broker between English and Afrikaner interests, underpinned with ISI policies, failed. Fuelled by the Afrikaner nationalist sense of exclusion from the succession of white political settlements since 1910, the National Party won sufficient support to win the white general election in 1948. This marked another turning point in the role of the SOEs and DFIs as balance sheets were once again reconfigured, but this time to explicitly favour the Afrikaner nationalist alliance between white workers and Afrikaner business elites.

SOEs were a central pillar of the state-building project of Afrikaner nationalism after the formation of the Nationalist Party government in 1948.[62] Capitalising on the rapid state-directed industrialisation programme, initiated after 1924 and reinforced during the 1940s by war conditions,[63] the post-1948 government focused on supporting the alliance between Afrikaner capital and organised white labour. SOEs proliferated and prospered in the food, fuel, arms, forestry, chemicals, housing, networked infrastructure, and even the family holiday sector. Balance sheets were purposively engineered to favour the growth of Afrikaner industrialists by reallocating state contracts in ways that gave apartheid its rent-seeking characteristics that were carried through into the post-apartheid period.[64]

Rapid industrialisation depended on cheap electricity. In 1948, Escom became the primary supplier to the mines after the Victoria Falls and Transvaal Power Company was bought and nationalised with co-investments from Anglo-American.[65] Despite the post-1948 Afrikaner nationalist focus, the English-oriented Anglo-American corporation managed to establish a balance sheet configuration that underpinned the minerals-energy complex. This included Sasol, which was formed in 1951 with financing from the IDC, to drive investments in the nascent fuel from coal technologies. Global oil markets

[60] Freund (2019)
[61] Freund (2019)
[62] Clark (1994)
[63] Freund (2013)
[64] Clark 1994)
[65] Freund (2019)

spiked in 1971 after the fall of the Bretton Woods Agreement and surged again in the wake of the 1973 oil crisis, propelling Sasol into a dominant position in the liquid fuel and chemical sector in South Africa.[66]

After the cataclysmic Sharpeville shootings in 1960, followed by the banning of the liberation movements, the consolidation of white minority rule, led by Afrikaner interests, was coupled with the bantustan political project to counter black nationalist aspirations within an ethnically fragmented paradigm. The focus shifted from employing urbanised labour to employing migrant labour, coupled with forced removals to expel black South Africans from the urban areas.

By the late 1970s, the post-1948 state-centric economic project had run its course. Reflecting the rise in popularity of neoliberalism in Western countries following the electoral victories of Ronald Reagan in the US and Maggie Thatcher in the UK, a new political settlement emerged with a focus on 'free markets' and the reversal of state interventionism. A massive reconfiguration of balance sheets began, spurred by the economic crisis, local and international political pressures for reforms and the emergence of influential reformers in the (now well-established, mainly Cape-based) Afrikaner business and academic communities. A set of government commissions triggered policy reforms with respect to labour (Wiehahn Commission, 1979) and urban rights (Riekert Commission, 1979). The underlying reassessment of the role of the state, reflected in the reports of these two Commissions, set the stage for a rethink of the role of SOEs and DFIs, including privatisation narratives.

The turning point came in 1985 when, at the height of a State of Emergency, the De Villiers Commission recommended far-reaching changes to the governance of Escom. The 'commercialisation' of Escom soon followed with major ripple effects into the present, most of them negative [67]

By 1983, the biggest SOEs included Escom, SATS, South African Posts and Telecommunications (Telkom, the fixed line phone operator's predecessor),[68], the Roads Board, and Iscor.[69] At this stage, although Iscor was corporatised, Escom and the Roads Board were not, and remained independent juristic persons. While SATS functioned as an independent entity, it remained part of the Department of Transport.

At this time, Escom was financing the building of several large new power stations to address electricity shortfalls that had arisen during the 1970s. Most of the financing was long-term financing raised in the local capital markets (around R9 billion) in the form of bond issuances and direct placements. Short-term financing came mainly from banks in the form of revolving credit facilities, a bank overdraft and short-term advances.

[66] Roberts & Rustomjee (2009)
[67] Johnson (2021)
[68] South African Posts and Telecommunications (SAPT)
[69] SASOL was privatised in 1979, though it continued to enjoy state subsidies and support during the Apartheid era. The privatisation was precipitated by the need to fund the two oil-from-coal plants in the aftermath of the oil shocks during the 1970s.

International financing came from Export Credit Agencies (ECAs), especially those of Germany and Japan. The SARB subsidised the forward cover on the international financing, bringing the cost in line with the government borrowing rate (a discount of approximately 4-5 per cent). At this point, the electricity consumer (i.e., households and non-financial corporate sector) was effectively the holder of Eskom's equity.[70]

Escom launched an ambitious build programme in the early 1970s, resulting in four large coal-fired power stations (Kendal – 1982-1993, Matla – 1974-1983, Duvha – 1975-1984, and Lethabo – 1980 - 1990).[71] International and local capital markets were tapped to fund a build programme premised on overly optimistic assumptions about economic growth rates. Escom even created its own bond market, with Escom bond rates reported daily on the evening news as an indicator of economic health. Escom's balance sheet was regarded as so safe that it even borrowed additional funds from international lenders on behalf of the fiscus to avoid sanctions. However, as recessionary conditions set in from the early 1980s, overcapacity and debt burdens began to affect Escom. It was saved by democratisation in the 1990s that resulted in fiscal support for a mass electrification programme that benefitted unelectrified black communities and resolved the overcapacity problem. By 2001, Eskom was one of the largest electricity utilities in the world and in that year won the coveted 'Power Company of the Year Award' at the Global Energy Awards ceremony in New York.

Until around 1981, SATS (renamed Transnet after 1994) was only permitted to borrow offshore. International funding came primarily from commercial banks located in Germany, Switzerland, France and the UK in the form of bank loans. Domestically, SATS raised the majority of its funding in the capital market.

In 1983, the other major borrower in the local capital markets was SAPO. In addition, financing for equipment was also raised internationally, with the support of ECAs. During the 1970s and early 1980s, telecommunications was the main area of growth, with investments focusing on improving telephone services, the introduction of electronic exchanges and computerisation of the systems, and the development of a data transmission and optical fibre network. SAPO was also responsible for investing in the television network.

During this period, long-term insurers and pension funds were required to hold a large portion of their investments[72] in the form of prescribed assets, i.e., public sector debt or cash. Consequently, just over half of the SOE bonds (R8 billion) were held by funds

[70] When the company was in a sound financial position, equity could be paid out to electricity consumers through a lower electricity tariff (and vice versa).
[71] The dates refer to the start of construction and final commissioning.
[72] Long-term insurers were required to hold 33 percent of their liabilities at an actuarial valuation. Pension funds were required to hold 53 percent of their assets at book value. The bond portfolio was valued at the lower of cost or redemption value. There was a tendency to hold bonds to maturity, as selling the bonds below cost or par would create the obligation to buy additional bonds to make up the difference. Short-term insurers were also subject to prescribed investment requirements, but did not play such a significant role in the bond market.

administered by the SOEs, with another third held by insurers and pension funds (R5.2 billion). Banks (R808 million) and other companies and households (R1.4 billion) held the remaining bonds and listed notes. [73]

By December 1983, Escom's actual assets were at R16 billion. This was financed through a mixture of domestic loans, extended credit, import financing facilities, short-term advances, bank overdrafts, various government funds and reserves (Table 3-2).

Table 3-2: Balance of Eskom borrowings, 1982-83

Borrowings	Dec-83	Dec-82
Local registered stock, bond issues and direct placing	8 844	6 831
Import financing facilities and extended credit	1 686	1 547
Revolving credits and short-term advances	810	566
Bank overdrafts	34	38
TOTAL	**11 374**	**8 982**

Source: Eskom Annual Financial Statements, compiled by Rushton & Halstead (2024)

This new Escom model became the template for the future role of the state in the economy (even after 1994) and marked a decisive break from the post-1948 conception of the role of SOEs and DFIs as enablers of economic development (albeit for the benefit of white people). This ideological shift would be reflected in the setting up of the Trans-Caledon Tunnel Authority (TCTA) in 1986, the conversion of SATS into Transnet in 1990, and the establishment of the Airports Company of South Africa (ACSA) shortly before democracy in 1993. Democratisation in 1994 did not result in a fundamental change in this overall trajectory.

3.4 Banks

The visualisation of South Africa's monetary architecture depicts two different balance sheets representing the two main types of banks: large banking groups and smaller banks. By the mid-1980s, there were two main examples for each type.

South Africa's banking system has its roots in the imperial banking system that was consolidated after the Union in 1910 to benefit the newly created English/Afrikaner minority regime, which lasted until 1994. By 1926, there were two dominant banking groups which maintained their status until the 1980s: Barclays (incorporating Natal Bank, National Bank of Orange Free State and Bank of Africa) and the Standard Bank of South Africa (incorporating African Banking Corporation). The other two smaller banks were the Afrikaner Cooperative Bank, Volkskas (which eventually became the heart of the largest

[73] Jacobs (1988)

banking group in the 1980s, the Amalgamated Banks of South Africa (ABSA)), and De Nederlandsche Bank (which became Nedbank).

These four major banking groups remain dominant today, even though the banking system underwent significant changes over time, particularly after 1983. By the mid-1980s, five main banking groups controlled 97 per cent of total commercial banking assets and 98 per cent of commercial banking deposits. These were First National Bank (or Barclays until September 1987), Standard, Nedcor, Bankorp and Volkskas. Barclays/FNB was the largest, with total assets equal to R30.3 billion in 1989.[74]

As reflected in Table 3-3, compared to the 1950s, bank assets grew tenfold in constant prices by the 1980s (or 184-fold in monetary terms). As a percentage of GDP, the average was 100 per cent until the economic crisis of the mid-1980s, when the denominator shrank without a concomitant shrinkage of bank assets.[75] During this period, the large bulk of bank lending went into the minerals-energy complex, particularly mining conglomerates, Escom's building programme in the 1970s and 1980s, and the related heavy industries.

In the early 1980s, Barclays was already in the process of disinvesting. In 1986, it was sold to Anglo-American and subsequently renamed FNB. In 1998, it would become the FirstRand Group when it merged with Rand Merchant Bank. Projecting forward, two relatively new large banks would appear in the post-1994 period when banks experienced massive expansions, namely Investec (that started in the 1970s as a financial services company but expanded into merchant banking in the 1980s and later into asset management) servicing the corporate sector and post-1994 BEE deals, in particular, and Capitec in 2001 (that exploited the opportunity of providing poor people with ultra-low-cost banking services).

[74] Skinner et. al. (1992: 62)
[75] Jones (1992: 5)

Table 3-3: The assets of the financial sector, in current and constant prices, and their proportion of GDP, 1950-89

Year '31 Dec	*Current prices (millions)*	*Constant prices (1950 levels)*	*Proportion of GDP (%)*
1950**	£1,067.80	£1,067.80	106.5
1955	1,496.70	1,090.10	100.1
1960**	£3,027.60	£2,217.80	125.4
1965	R6,767.40	4,310.40	90.1
1970	11,730.40	6,506.00	100.6
1975	25,237.00	8,175.30	97.6
1980	54,390.00	9,307.00	93.8
1985	131,013.00	12,489.00	104.0
1989	395,578.00	20,830.00	191.1

* Assets include the banking sector, the building societies and the life insurance companies.

** The rand was introduced at the rate of two to the pound in 1962, so that the figures for 1950 and 1960 are in pounds

Source: Jones (1992)

Given the colonial origins of South African banks, the primary function of the core banking groups (mainly Barclays, Standard, BOE, plus a few smaller banks and some building societies) through to the early 1980s was essentially to transfer savings of white households into the loans that sustained the export-oriented minerals-energy complex. Easy convertibility into Sterling until 1960 reinforced this imperial orientation of the South African financial system. However, after 1948 and after the transition from Sterling to ZAR in 1960, in particular, the rise of Afrikaner-linked banks (like Volkskas and Nedbank), the expansion of the DFIs, the growth of Sanlam, and the direct subsidies for SOEs (that were a key source of employment for white workers and the drivers of industrialisation) resulted in the growth of Afrikaner-owned industries that were committed to the 'inward industrialisation' of the South African economy.

Bank assets fluctuated around 90 to 100 per cent of GDP from 1966 to the early 1980s, rising dramatically after 1985 through to the late 1980s, and again dramatically after 1994, to 120 per cent of GDP by 2008. South Africa's banking sector has always been highly concentrated: By the early 1980s, Barclays and Standard held 67 per cent of all bank assets. Their savings and loan instruments served primarily white households and businesses, while large-scale credit served the minerals-energy complex primarily.[76]

Following the recommendations of the 1985 Commission of Inquiry, led by Gerard de Kock, Governor of the SARB, and the Van der Horst Committee, the Financial Institutions Amendment Act was gazetted on July 1985, just three days before the State of Emergency was declared. This Act provided for significant reforms to the capital markets in the lead-

[76] Fine & Rustomjee (1996)

up to the debt standstill in September of that year. In an attempt to bring South Africa's financial system in line with global trends (despite apartheid South Africa's pariah status), the Act removed the explicit divisions between banks created by the 1965 Act, substantially increased capital requirements in line with the Basel Committee requirements, abolished prescribed assets, and freed up access to capital markets (both domestic and, in particular, international markets). These reforms, as recommended by the De Kock Commission, were in response to the negative impacts on capital flows caused by volatile earnings from gold exports (after the dropping of the Gold Standard in 1971 and subsequent boom-bust dynamic), the volatility of the inflation-prone exchange rate system (due to global inflationary dynamics), balance of payments disequilibria, and constraints on the competitiveness of South Africa's capital markets caused by monetary policies.[77]

In line with the growing influence of neoliberalism within South Africa's economic policy community, the overall aim of the de Kock Commission reports (1978, 1985) was to restructure South Africa's monetary architecture by freeing up the country's capital markets so that they could become more competitive, including the removal of constraints on interest rates and outward investment flows. In 1980, interest and credit controls were removed, and between 1983 and 1985, the liquidity ratios of the banks were significantly reduced. The temporary reinstatement of the financial Rand in 1985 in response to South Africa's politically driven international debt crisis was an inconvenient glitch in this neoliberal financial vision, resulting in the real prime rate becoming negative.

However, while international isolation of apartheid South Africa contradicted Gerhard de Kock's neoliberal vision, a key enabler of the reforms was the increased liquidity created by the passing of the 1986 Building Societies Act, which effectively converted these mutual funds into banks with huge financial benefits for the new shareholders. All these building societies were eventually subsumed by the large banks. The transformation of the balance sheets of these building societies should not be underestimated. As Table 3-4 shows, by 1985, the assets of these building societies were nearly as large as the commercial banking sector. As mutual funds that had been incrementally built up over decades from the savings of mainly white households, these assets, strictly speaking, belonged to the members of those mutual funds and were reinvested mainly in residential properties owned by white people. When they were converted into banks, these savings pools became the asset base of the new shareholders, who were rapidly bought out by the banks. This ambitious balance sheet reconfiguration contributed significantly to consolidating the banking sector that was in place by the early 1990s.

[77] Bhana (1985)

Table 3-4: The assets of the banking sector, of the commercial banks, of the building societies and of the life insurance companies, 1950-89 (in millions)

Year 30 Dec	*Banking Sector*	*Commercial banks*	*Building societies*	*Life insurance companies*
1950	£596.60	£405.30	£242.90	228.3*
1955	737.70	517.40	418.90	340.1*
1960	907.10	649.30	643.50	526.3*
1965	R3,430	R1,667	R1,860	R1,477
1970	6,150	2,511	3,032	2,549
1975	14,401	5,443	6,028	4,808
1980	30,210	9,557	12,153	1,202
1985	71,340	31,117	23,108	36,565
1989	162,244	109,254	30,020	94,060

* Year ending 31 March 1952,1956 and 1961

Source: Jones (1992: 9)

Overall, by 1986, the balance sheet configuration of pre-democratic South Africa exhibited a bank-centric financial system in which only a handful of banking institutions dominated. This was enhanced when a rule change allowed them to effectively subsume their only rival after the passing of the Building Societies Act of 1986, namely the old building societies. These financial institutions were privileged by the balance sheet configuration that apartheid structures enabled, but were themselves vulnerable to international pressure arising from apartheid South Africa's pariah status.

3.5 Development Finance Institutions

The private profit-oriented banking sector is complemented by a number of public DFIs. DFIs are a type of off-balance-sheet fiscal agency within the South African monetary architecture. There are currently 45 DFIs, most of them created after 1994.

By 1983, there were only three financially significant DFIs, which are depicted in Figure 3-1: The LBK was South Africa's first DFI, established shortly after the formation of the whites-only Union in 1912; the IDC, which was created in 1940 to invest in South African industrial companies, both private and state-owned; as well as the DBSA, set up in 1983 to promote the economic development of the 'homelands'. All three played a major role in financing white minority rule for most of the 20th century. The LBK was central to the building of Afrikaner agricultural capital, and the IDC played a key role as the funder of inward industrialisation strategies spearheaded by white-owned industrialists and SOEs like Sasol, Escom and Iscor. The DBSA was set up to fund separate development by mobilising investments into apartheid-created bantustans, particularly into the so-called homeland development corporations. In addition to the DBSA, these homeland development corporations were quasi-DFIs established to support the balance sheets

of businesses in the independent and non-independent homelands. These included Ithala Bank linked to the KwaZulu homeland, established as the Bantu Investment Corporation in 1959; the Ciskei Development Corporation, established in 1968 that later underpinned the 'independence' of Ciskei in 1981; the Transkei Development Corporation in 1965, which in turn underpinned the 'independence' of the Transkei in 1976; and finally the Bophuthatswana Development Corporation, established in 1968 that underpinned the 'independence' of Bophuthatswana in 1977.

Although their respective balance sheets have traditionally been relatively small, the three DFIs played a key role in enabling the financing of the 'racial capitalist' balance sheet. [78] While the minerals-energy complex largely depended on foreign funding, throughout most of the decades up to 1994, the state provided a steady stream of funding to support specific local interests of significance to the apartheid political project, namely the LBK financed white farmers (located mainly in the four white provinces), the IDC financed white-owned and state-owned industries, and, from 1983 onwards, the DBSA was funded to support infrastructure and economic development within or adjacent to bantustans in both the main cities and homelands.

An analysis of the balance sheets of the three DFIs, LBK, IDC and DBSA in 1983 (cf. Table 3-5) reveals that DFIs were already playing a role that was significantly amplified over the decades that followed: They sourced funds from banks and capital markets to invest primarily in public sector projects. This has always been their primary role, which was reinforced and expanded after 1994. Just as prescribed assets during the apartheid era forced the savings in pension funds into funding public sector projects via government bonds, so too did DFIs play the role of sourcing capital from the private sector to invest in public sector projects, some of which were co-funded via direct allocations from the national budget. The DBSA was explicitly established in 1983 to redirect public and private funding into the economic development of the Bantustans and, in particular, the so-called 'industrial development zones' connected to the 'independent states.'

Hence, the main asset counterparties by 1983 were investments in central and local government projects ranging from industrial parks to various infrastructure projects (R3 billion), while the largest liability counterparties were commercial banks (R4.3 billion). Loans to the private sector were also quite high, mainly for farmers, bantustan businesses, industrial enterprises and listed corporations (R2.7 billion). Loans to non-residents (R1.3 billion), households (mainly loans to farmers) (R1 billion), SOEs (R982 million), and banks (R313 million) were also recorded on DFI balance sheets in 1983. The main liability counterparties were banks (R4.3 billion), non-residents (primarily international financial institutions) (R2.6 billion), central and local government (R2.4 billion, mainly equity) and a small fraction from NBFIs (R49 million). The shares of these financial volumes differ significantly from those of later periods. Unlike the 2000s, for instance, by

[78] Saul & Gelb (1981)

1983, the most important counterparty for DFIs was the government. This was intentional on the part of the apartheid government; whereas white businesses were largely funded from household savings via the banks and short-term debt from international banks, public infrastructures and SOEs were funded from international loans plus a combination of public sector financial flows, i.e. the fiscus, DFIs, the Public Investment Commission (civil servant pensions) and SAPO (household savings).

Table 3-5: DFI counterparties and instruments, 1983

DFIs instruments [1]	Non-residents			Banks			Non-bank financial inst.			Central & local government			Public corporates			Private corporates			Households		
1984 - R million	OB[2]	Change[3]	CB[4]	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB
Total financial assets (change ≈ net acquisition)	**999**	**329**	**1 329**	**152**	**161**	**313**	**7**	**-7**		**2 742**	**345**	**3 087**	**739**	**243**	**982**	**2 042**	**749**	**2 790**	**767**	**253**	**1 019**
Currency and deposits				152	161	313															
Investment(debt)securities										2 177	-500	1 677									
Loans	999	329	1 329							565	186	751	739	243	982	2 042	673	2 715	767	253	1 019
Equity and investment fund shares/units																	75	75			
Insurance, pension and standardised guarantee schemes																					
Financial derivatives and employee stock options																					
Accounts receivable and other assets											659	659									
Property, equipment and land																					
Total financial liabilities (change ≈ net incurrence)	**1 658**	**999**	**2 656**	**3 772**	**590**	**4 362**	**45**	**4**	**49**	**1 973**	**841**	**2 454**									
Debit securities																					
Loans	466	46	512	385	38	423	45	4	49												
Equity and investment fund shares/unis										1 973	841	2 454									
Insurance, pension and standardised guarantee schemes																					
Financial derivatives and employee stock options				2 195	-401	1 794															
Accounts payable and other assets	1 192	953	2 145	1 192	953	2 145															

Notes: 1. The calculation is done from the DFI's point of view – assets are DFI claims and liabilities counterclaims by other sectors; 2. OB = opening balance; 3. The change is assumed to be the full transaction; no revaluations or other changes in value are included; 4. CB = closing balance.

Source: Nhleko (2024: 6)

Several industrial estates were developed on the outskirts of the homelands, ramping up South Africa's manufacturing capability in petrochemicals, gas, and textiles, among others. The role of DFIs in the apartheid monetary architecture is reflected in Figure 3-1.

Notwithstanding their policy role in propping up apartheid, Table 3-6 reveals how small the DFI balance sheets really were by the early 1980s. Total assets and liabilities of DFIs in 1983 were R9.5 billion. The decision to establish the DBSA in 1983 with an equity injection of R200 million reflected the government's intention to expand the total DFI balance sheet to achieve policy goals. Loans were the instruments used to achieve these goals with an asset class of R6.7 billion. This was followed by securities (R1.6 billion), accounts receivable (R659 million), currency/deposits (R313 million), and equities (R75 million). Significantly, DFIs were funding long-term assets with short-term obligations (accounts payable) and equity: Liabilities included accounts payable at R4.2 billion, equity, which included the equity to set up the DBSA (R2.5 billion), various other commitments (R1.7 billion) and longer-term loans (R984 million).

Table 3-6: DFIs key balance sheet items - 1983/84

Assets	R million	Liabilities	R million
Currency and deposits	313	Loans	984
Investment securities	1 677	Equity	2 454
Development loans	6 796	Accounts payable	4 289
Equity investment	75	Other	1 794
Accounts receivable	659		
Other	0		
TOTAL	**9 521**	**TOTAL**	**9 521**

Source: Nhleko (2024)

In the balance sheet configuration of South Africa's monetary architecture, DFIs have thus historically been a characteristic feature, even though their financial volumes always remained comparatively small. In the 1980s, they contributed to maintaining the financial structures of the apartheid state by financing investments in white areas, but also supporting the bantustans.

3.6 Pension Funds

Pension funds are a key category of NBFIs in South Africa's monetary architecture. Their primary role between 1956 and 1985 was to organise the savings of mainly white employees into pension funds that were required to reinvest these funds via government bonds in public sector infrastructures and ventures. Table 3-7 indicates the number of registered pension funds by type from 1960 to 1985.

The first phase in the evolution of South Africa's pension fund industry lasted from 1911 to 1958.[79] The institutionalisation of South Africa's pension funds dates back to the 1911 Public Debt Commissioners Act. This was the origin of the current PIC, which became the largest pension fund after 1994. Over the years, the role of pension funds expanded from asset holders to the providers of loans to government, state-owned entities, and provincial administrations. By 1958, 2 771 funds existed with a total membership of 675 404. This comprised 11 state-controlled funds, 599 private administered funds, and 2 147 underwritten funds.

Prescribed assets were first introduced in South Africa in 1956, when pension funds were required to invest more than half of their assets into government and SOE bonds. What began as Prudential Investment Guidelines similar to the current Regulation 28 of the Pensions Act eventually became more prescriptive, requiring that 53 per cent of retirement fund assets, 33 per cent of assets of long-term insurance companies and 75

[79] Moleko & Ikhide (2017)

per cent of the Public Investment Commissioners' (now the PIC) managed assets be invested into government and SOE bonds. By 1960, the total assets held by pension funds were R510 million.

The second phase in the evolution of pension funds, lasting from 1959 to 1984, comprised racial separation. The passing of the globally pioneering Pension Act of 1956 established the Registrar of Pension Funds. The Act put in place the differentiation between types of pension funds that are still used today. As a result, reporting on the number of funds, membership, assets/liabilities, etc, has existed since 1959. Pension funds were required to provide the Registrar with audited annual financial statements, not least to ensure adherence to the levels of prescribed assets. The level of prescribed assets peaked in 1977.

Africans, however, were excluded. As part of the bantustan strategy, separate pension funds were set up for them under the auspices of the Transkei, Bophuthatswana, Venda and Ciskei 'governments'. State pensions were also racially disaggregated: White pensions were ten times their African counterparts.

The growing strength of the black trade union movement from 1979 onwards resulted in prolonged struggles over the exclusion of African workers from pension funds and proper unemployment benefits. This led to trade unions forming their own pension funds and to the emergence of trade union-supported provident funds during the 1980s.

By 1984, there were 11 929 registered pension funds with a membership of 5.1 million and R44 billion in contingent assets under management. During the 1958-1984 period, pension assets grew by an average annual growth rate of 16.1 per cent. Middle-class and elite households, nearly all of whom were white in 1985, held the claims on the large bulk of pension assets.

Table 3-7: Number of Registered Pension Funds by Type, 1960-1985

No of funds	1960	1970	1980	1985
Privately/Self-administered Funds	674	810	788	1,032
Underwritten Funds	2,768	5,548	10 265	10 953
Industrial Agreements	17	28	35	30
State Controlled Funds	15	14	11	10
Officials Funds				
Total	**3,510**	**6,435**	**11,102**	**12,035**

Source: Moleko (2024), based on reports of the Financial Services Board (1960 – 1985)

In March 1984, government-related pension and provident funds held assets of R13.1 billion, approximately 26 per cent of total retirement fund assets, which was just 11.6 per cent of GDP.[80] All these assets were held in government, municipal or public enterprise securities. The Public Investment Commissioners' fund in 1984 accounted for R2.3 billion, and all funds were invested in government bonds and municipal or state enterprise securities.[81]

During the 1980s, various scandals were uncovered that revealed the way the government increased the retirement benefits of civil servants and significantly decreased their contributory obligations. The resultant widening gap between the assets and liabilities of government funds was funded by the taxpayer. A similar policy was applied to national and provincial government politicians, as well as politicians in the so-called 'independent homelands' and the municipalities.[82] What was initially a secret report that was finally disclosed in September 1987 found that, as at March 1985, government pension funds recorded a R7.6 billion deficit plus a further R9.4 billion contingent deficit related to adjustments for future inflation. As Donaldson points out: 'In effect, government pension funds held assets equivalent to perhaps 40 per cent, at most, of their actuarially determined liabilities.'[83]

In sum, pension funds have been part of the South African balance sheet configuration since the early 20th century. By the 1980s, the significance of pension funds had increased, but it was nowhere near contemporary levels. Beneficiaries of pension funds were almost exclusively white households during the apartheid era. Ownership of pension fund assets is a crucial feature that distinguishes the balance sheet structure of upper-class households from lower-class households.

3.7 Unit trusts and other shadow banks

The origin of South Africa's shadow banks dates to 1965, when SAGE, a finance company, created the first unit trust.[84] Established soon after South Africa's exit from the Commonwealth and therefore the Pound Sterling, this ZAR-denominated investment vehicle reinforced the racial structure of South Africa's balance sheets by creating wealth almost exclusively for white people. Investec was established as a financial services company in 1974, offering various products to a broader demographic, such as leasing finance, instalment credit, trade and asset finance, and small business financing.

Our focus is on the shadow banks that are, in turn, regarded as a subset of what are internationally classified as OFIs. The defining features of shadow banks are that they are involved in credit intermediation and are not prudentially regulated by the SARB in terms

[80] Donaldson (2024)
[81] Donaldson (2024)
[82] Donaldson (2024)
[83] Donaldson (2024: 2)
[84] Meyer-Pretorius & Wolmarans (2006)

of Basel III requirements. They therefore include what are now called MAFs, Fixed Income Funds (FIFs), MMFs and Hedge Funds (HF). The main non-fund shadow bank operators are finance companies, some brokers and some non-bank securitisation schemes. OFIs, which are often lumped together with shadow banks, strictly speaking, cannot be classified as such. Shadow banks include equity funds, REITs, real-estate funds, trust companies, PBSs, stokvels, peer-to-peer lending platforms and the securitisation schemes owned by banks (who are, in turn, regulated by the SARB).

Table 3-8 indicates that since the introduction of the first unit trust in 1965, unit trusts had mushroomed into a sophisticated industry by the mid-1980s.[85] Unit trusts have for decades offered ordinary investors a convenient, professionally managed investment product that spreads risk across a broad portfolio of shares/investments, provides the investor with the ability to liquidate investments at short notice, requires low initial investments, and ensures tax effectiveness.

Table 3-8: Monetary growth in economy (GDP) and growth in unit trust assets, 1965-1985

Year	GDP (Rm)	Annual compounded growth rate	Unit Trusts (Rm)	Annual compounded growth rate
1965	7 197		0,6	
1970	12 791	12,19%	358	259,04%
1975	27 323	16,39%	313	-2,65%
1980	62 730	18,08%	695	17,30%
1985	127 598	15,26%	1 540	17,25%

Source: Meyer-Pretorius & Wolmarans (2006: 52)

After rapid growth in unit trusts during the first years after 1965, there was a financial crash in May 1969 that constrained growth in unit trusts for a decade. However, this changed from the early 1980s onwards, and as they grew in size, variety, and number, a diverse set of OFIs emerged to manage them (Table 3-9). The main ones being the Sage Group, Old Mutual, Sanlam, Liberty Life and Southern Life. The passing of the Unit Trusts Control Act of 1981 established a regulatory framework that underpinned the expansion of these mainstream financial institutions into the unit trust market. The large mainstream financial institutions depended on the smaller, more agile shadow banks to manage the expanding pool of liquid investments. Non-liquid investments were made directly into South African corporations.

[85] Van Der Merwe (2024)

Table 3-9: Growth in the number and value of funds

Date	No of funds	Asset value (Rm)	Compounded annual growth rate in asset value
Dec-65	2	3	
Dec-80	12	682,8	43,6%
Dec-90	36	7 550,1	27,17%

Source: Meyer-Pretorius & Wolmarans (2006: 53)

Most South African funds have invested in equities over the years. By the end of 1980, all but one of the twelve funds available invested in equities. The first non-equity fund, a fixed-interest fund, was the Standard Bank Extra Income Fund established in 1978. By 1990, there were twenty-eight equity funds with R7.1 billion in assets, eight fixed interest funds (managing bonds) with R437 million in assets, and no MMFs.[86]

By 1983, but continuing into the early 1990s, general equity funds made up around 80 per cent of the ZAR value of all unit trusts. Managed by established life insurers like Old Mutual, Sanlam, and Liberty or banks like RMB, ABSA and Standard Bank, these funds invested via the JSE, which, in turn, was dominated by mining stocks. The resulting volatility caused by the ups and downs of the gold price, in particular, created the pressure to diversify beyond mining, but the dominance of mining on the JSE meant they could not escape mining stocks. That all changed after 1994.

While unit trusts offered investment opportunities primarily for white households, stokvels were also women-led shadow banking institutions that catered almost exclusively for poorer black households, particularly those with disposable income (i.e. not the very poor). Originally, stokvels were founded by poor women (initially in rural areas but spreading into the urban areas from the 1930s onwards) in response to their exclusion from the financial sector and subordinate positioning within patriarchal structures. Verhoef defines stokvels as 'a type of credit union in which a group of people, by voluntary mutual agreement, regularly contribute money to a common pool and circulate the pool among the group.'[87]

Although data on stokvel participation by poor people in the early 1980s does not exist, it is safe to assume that little had changed by 1989, which was when the first comprehensive survey of the sector was conducted. The 1989 Markinor survey of stokvels found that a *quarter* of the black population belonged to the 24,000 stokvels

[86] Meyer-Pretorius & Wolmarans (2006: 54)
[87] Verhoef (2001: 263)

active in the major metropolitan areas, with monthly contributions of around R52 million. The survey found that 41 per cent of the stokvels were savings clubs, 29 per cent were burial societies, and the rest were a mixture of different types of stokvels (including stokvels that provided credit at relatively high interest rates). Significantly, 60 per cent of stokvel members were women.[88] However, given that 50 per cent of the black population in the 1980s still lived in rural areas, some have estimated there were as many as 800,000 stokvels in South Africa's urban and rural areas.[89] In answer to questions about why people participated in stokvels in 1989 and how much they contributed per month, Markinor found the following: burial societies, i.e. savings to cover funeral costs of family members who have died (average contribution: R28 per month); to purchase major items like furniture or clothes (average contribution: R59 per month); to finance parties or events such as weddings (average contribution: R61 per month); to invest in a business (average contribution: R104 per month); other (average contribution: R44 per month).[90]

In 1988, the male-led National Stokvel Association of South Africa (NASASA) was formed to mobilise stokvel savings for BEE deals. NASASA successfully lobbied a building society, the Permanent Building Society, to set up a Club Account that was tailored to meet the needs of stokvels. By 1990, two years after it was launched, there were 44 500 Club Accounts.

A third type of apartheid-era non-bank financial institution, which features in Figure 3-1, is a discount house. They were money market institutions that acted as intermediaries for overnight cash between banks and the SARB. Their emergence in the 1970s can be explained as a feature of the dual-rand system and the segmentation of the financial system that it induced. There were four of them in the early eighties, but they suddenly disappeared due to a policy change, following which the banks took over this function. In theory, banks in the 1980s, like today, could apply to the SARB for liquidity assistance. However, as Falkena et al observed, in the 1980s, they would first withdraw all their call funds from the discount houses and the interbank market before approaching the SARB because the applicable interest rates from the latter were higher. The reason for this was to discourage banks from using repurchase agreements and call loans. Falkena notes, 'The SA Reserve Bank will either enter into repurchase agreements on Treasury bills, LBK, and liquid bankers' acceptances or grant call loans against the pledge of Treasury bills, short-term government stock, LBK bills, LBK debentures, liquid bankers' acceptances, and long-term government stock.'[91]

This overview suggests that in the balance sheet configuration of the apartheid era, shadow banking structures were present but still in their infancy. Unit trusts were a

[88] Verhoef (2001: 279)
[89] Verhoef (2001: 279)
[90] Verhoef (2001: 280)
[91] Falkena, Kok & Meijer (1987: 86)

financial innovation complementing pension funds, but the heart of the financial system remained focused on traditional commercial banks.

3.8 Central Bank

As Figure 3-1 conveys, the SARB is the apex institution of the banking system in South Africa's monetary architecture. It is the master linchpin for the different monetary instruments used within South Africa's payment system. It also controls the most significant elasticity space of all, i.e. the right to increase or decrease liquidity by the amount of credit it extends to banks and the related cost of that capital.

The key difference between the SARB's role in the 1980s compared to the post-1994 period is that during the apartheid era, it was generally markedly more interventionist. In the 1980s, the SARB faced the classic 'trilemma' that Central Banks have often faced, namely (i) wanting to maintain exchange rate stability, while (ii) maintaining an independent monetary policy with respect to setting interest rates, and (iii) promoting free capital flows.[92] One of these had to be sacrificed, and after 1994, that was exchange rates: To achieve (i) and (iii), (ii) must be sacrificed. To preserve (ii) and ensure (iii), then (i) needs to be sacrificed. During the 1980s, (ii) was sacrificed to achieve (i) and (iii), even though the latter did not materialise as expected. More importantly, to implement (i), substantial reserves are required to enable interventions that make a meaningful difference to exchange rates. This was not always the case. After 1994, reserves gradually increased because a firm decision was made to allow exchange rates to float.

As Figure 3-1 visualises, the SARB has several explicit counterparties. The most important ones are the fiscal authorities (which were the Department of State Expenditure and the Department of Finance before 1994) and commercial banks, which had accounts with the SARB and transacted with the SARB through deposits, purchases and sales of securities, advances, and purchases and sales of government stock. Among the less evident counterparties of the SARB are government bodies, including the central government, provincial governments, the National Supplies Procurement Fund, agricultural control boards and other semi-government bodies. These bodies could receive advances from the SARB and have done so during periods of financial instability. State-owned entities were not directly linked to the SARB but were indirectly linked through the Treasury.

The SARB has historically issued the ZAR-denominated currency in circulation. Through money market activities such as buying and selling government bonds to control the amount of money supplied, the SARB interacts with the economy as a whole and impacts everyone who uses or holds physical currency, from individuals to households and small

[92] Agénor & Pereira da Silva (2018)

businesses. In the mid-1980s, SARB offered two ways of refinancing to banks and discount houses, which acted as its counterparties. On the one hand, it rediscounted Treasury bills, LBK bills, and liquid bankers' acceptances. On the other hand, it extended overnight loans against Treasury bills or short-term government stock, LBK bills, notes of the IDC, banker's acceptances, and long-term government stock.[93]

Historically, the SARB was established as an institution in private ownership via the Currency and Banking Act No. 31 of 1920. At the time, South Africa was still part of the British Commonwealth, which had operated the Classical Gold Standard. After the First World War, as the international monetary system lay in ruins, London granted the right to South Africa to operate its own central bank. Previously, banknotes were created by private banks and had to be backed by gold. But when the price of gold in the United Kingdom rose, a profit could be made by converting banknotes into gold in South Africa and selling the gold in London. This meant that commercial banks in South Africa had to buy gold for re-import at a higher price in London than the price at which they converted their banknotes into gold, obliging them to trade at a loss. To ensure their financial viability, the banks requested the government to release them from the obligation to convert their banknotes into gold on demand. Following the Gold Conference of October 1919, a Select Committee of Parliament recommended that a central bank be established to hold commercial banks' gold and issue banknotes. Parliament accepted this recommendation and published the Currency and Banking Act in December 1920, which provided for the establishment of the SARB.[94] The SARB issued its first banknotes to the public in April 1922.

While the international gold standard was re-established in the 1920s, the Bank of England ended gold convertibility in 1932 during the Great Depression, once again shattering the international monetary system. In that situation, the SARB chose to link the value of the local currency to the Pound Sterling as the new monetary policy framework. In 1944, the South African Reserve Bank Act replaced the Currency and Banking Act of 1920. The SARB's initial 25-year period of issuing banknotes was extended indefinitely. Paralleling South Africa's 'independence' from the Commonwealth in 1961, the SARB was at the forefront of replacing the South African Pound with the Rand as the country's new unit of account and subsequently operating the dual currency system with the Blocked Rand.

The economic crisis of the 1980s gave rise to several changes that were made to the SARB's monetary policy strategy. Before December 1983, the SARB's refinancing rates were tied to market rates, with the bank rate set above the Treasury bill rate based on the rediscounted paper. To give itself greater freedom to respond to economic crises by manipulating interest rates, as from December 1983, the SARB set and adjusted the bank

[93] Falkena, Kok & Meijer (1987: 161-2)
[94] SARB (2025)

rate and other refinancing rates at its discretion. Initially, following this change, the bank rate saw frequent and sometimes substantial changes. For instance, in the first eight months of 1984, the rate increased sharply from 17.75 at the start of the year to 18.75 in July, then to 21.75 in August.

The SARB balance sheet for 1983, as reflected in Figure 3-6, was R8,4 billion. The balance sheet gradually expanded between 1977 and 1988, reaching over R25 billion. The increased general expansion from 1985 onward arose from the need for increased liquidity to deal with the debt crisis that began in August 1985, when the international banks refused to roll over private debt held by South Africa's private lenders. SARB policy decisions made in 1983 empowered the SARB to set interest rates and liberalise capital markets. This was a crucial mechanism for enabling the SARB to counteract the financial crisis by raising interest rates and injecting liquidity.

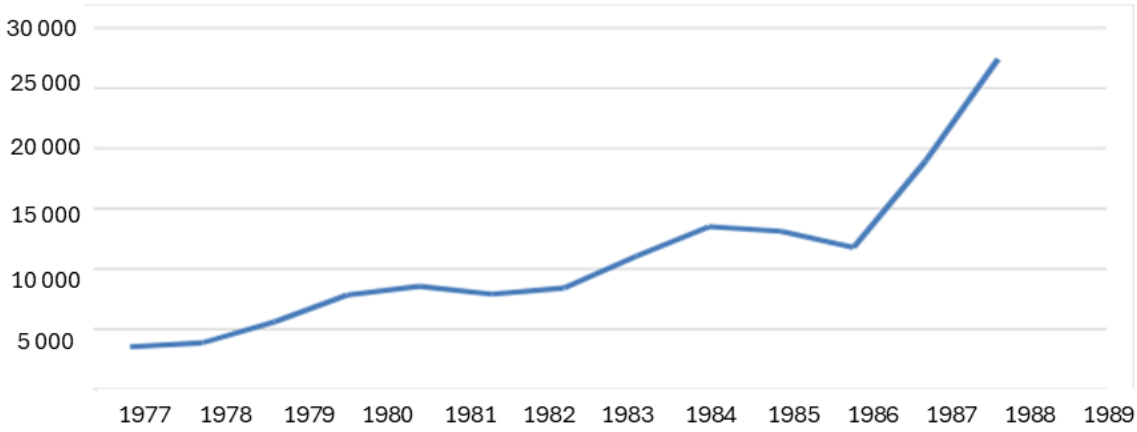


Figure 3-6: Total Assets 1977-1989
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Figure 3-7 shows how the SARB expanded its balance sheet by providing larger advances to banking institutions as well as advances to 'other' financial institutions (central government, provincial administrations, the National Supplies Procurement Fund, agricultural control boards and other semi-government bodies), valued at R780 million and R887 million, respectively, in 1988. The significant share of advances to 'other institutions' reveals how the SARB can create additional liquidity and expansion during times of crisis. This was done by purchasing significant quantities of illiquid assets such as gold, bonds and foreign reserves in return for greater liquidity for the counterparties to alleviate constraints on liquidity within the financial sector at the time.

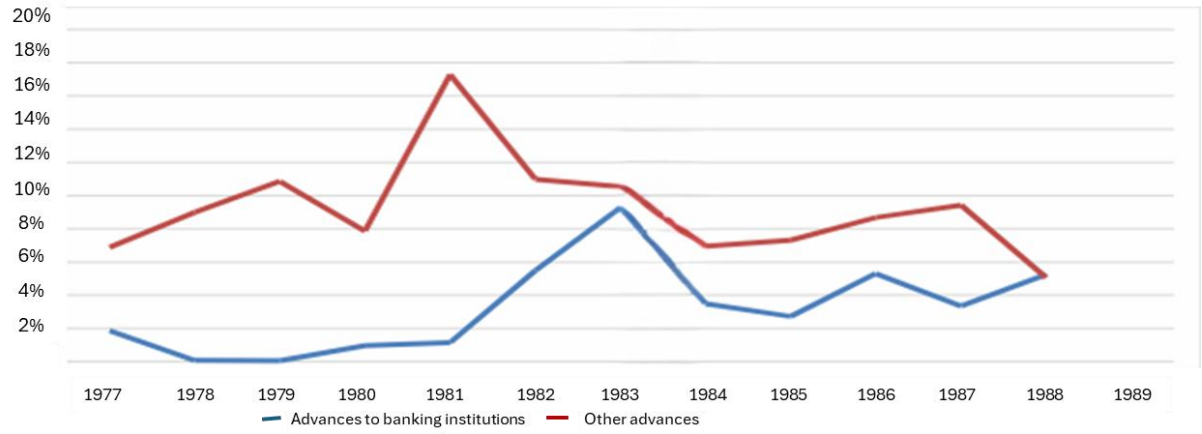


Figure 3-7: Advances provided (as a % of Total Assets) 1979-1989
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Figure 3-8 reveals the impact of the SARB's change in policy to adjust bank rates at its discretion. This allowed the SARB to create more liquidity through a lower rate and allowed banks to withdraw reserves to increase their liquidity, as a corresponding asset on banks' balance sheets. Here, fewer reserves held at the SARB meant that banks withdrew reserves or deposited fewer reserves, allowing for greater liquidity on their balance sheets.

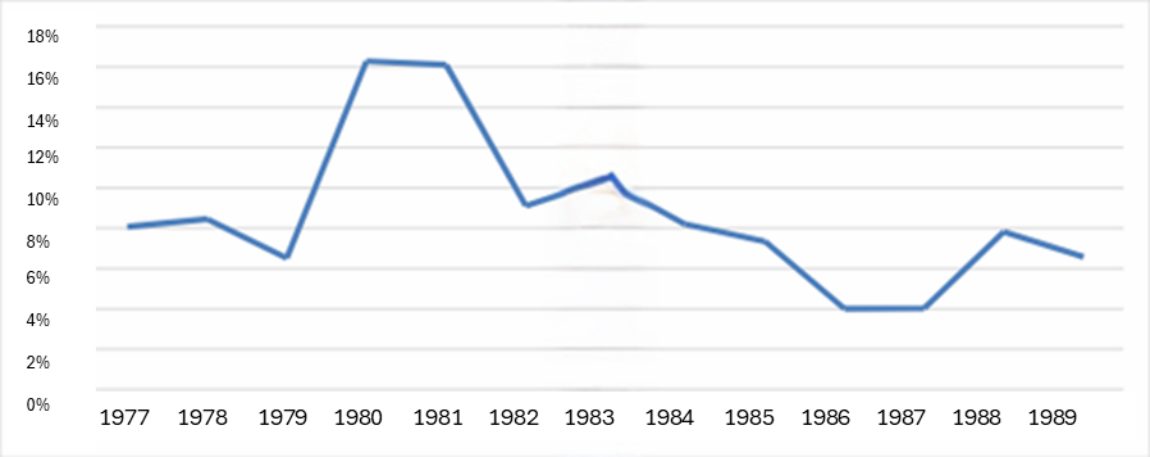


Figure 3-8: Required Reserve balances (SARB Liability) as a % of Total Liabilities 1977-1989
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

The SARB clearly played a role in stabilising the financial system following the 1985 debt crisis triggered by the decision by key international banks not to roll over existing short-term debt. The SARB's actions laid the groundwork for a phased repayment plan and prepared the way for the gradual reopening to international financial markets after Mandela and political prisoners were released from prison in 1990, and especially after the first democratic elections in 1994. The SARB was directly involved in negotiating and managing the debt standstill, which prevented a sudden outflow of capital; it imposed strict exchange controls to prevent the outflow of capital via the financial rand; it provided South African banks with substantial liquidity support to survive the crisis; it adjusted interest rates to contain inflationary pressures and restore investor confidence; and it coordinated with the fiscal policy authorities to maintain economic stability by jointly controlling inflation with monetary policies, and managing the fiscal deficit with fiscal policies when politicians were keen to spend their way out of trouble. Regardless, this did not prevent debt levels from rising rapidly to nearly 50 per cent of GDP by 1994.

3.9 National Treasury

During the apartheid years, South Africa did not have a strong, centralised national Treasury similar to what exists today and in most other countries. Instead, as indicated in Figure 3-1, fiscal policymaking (specifically revenue collection and expenditure controls) was fragmented between the national level Department of Finance and the four Departments of Finance set up within the four different so-called 'independent' homelands. The Department of State Expenditure was responsible for the budget.[95] There was limited coordination between the national government and bantustan fiscal authorities (including both the 'independent' and non-independent bantustans), and monitoring of expenditure was virtually non-existent. Old-style input budgeting still prevailed, which meant outcomes could not be evaluated. Secretive financing schemes to support sanctions busting, security action, and support for insurgents in neighbouring countries made matters worse. Revenue collection systems were fragmented, and tax laws were complex, with many exemptions and loopholes.

Although fiscal policy decisions were formally fragmented between the 'white state' and bantustans, reformers in the Department of Finance, working closely with reform-oriented SARB officials, managed the entirety of South Africa's monetary and fiscal system as a single integrated whole during the apartheid era.

For instance, during the period leading up to 1981, oil price shocks (1973-4, 1979-80) were counteracted by gold price increases. Thereafter, the gold price plummeted from USD 2 645 in February 1980 to USD 1 095 in March 1983, and down to USD 884 by February 1985. Non-gold terms of trade were negative: Between 1981 and 1985, export

[95] Pearson, Pillay & Chipkin (2016)

prices rose by 42.2 per cent, but import prices increased by 51.7 per cent, forcing the current account into deficit. The 1983-4 drought exacerbated the crisis. Increasing isolation and the refusal of foreign banks to roll over short-term debt in 1985 not only triggered a banking crisis (as explained above) but also created a serious balance of payments crisis in light of global trends in the gold price. Access to foreign capital was impossible, and capital outflows increased. Between the early and late 1980s, capital outflows were roughly equal to 4 per cent of GDP per year. By the early 1980s, South Africa faced stagflation, negative growth in real GDP, a collapse of the balance of payments, and virtually no investment.

Treasury officials responded to the economic crisis by engineering an ambitious balance sheet restructuring to strengthen domestic demand, increase savings and promote internal investment. First, in response to the balance of payments crisis, foreign exchange controls were lifted in 1983. Second, however, to protect foreign exchange reserves, three years later, in response to the 1985 debt crisis from capital outflows, the dual exchange rate mechanism was reintroduced in September 1985. Third, the department introduced tariff protection to limit imports and maximise the consumption of locally produced products. Fourth, to support exports, the Department of Finance managed to coordinate a Rand depreciation programme with the monetary authorities, and by 1989 it was 29 per cent below its average level in the early 1980s. Fifth, to manage demand and shore up government revenues, taxes were raised from 18 per cent of GDP in 1980 to 28 per cent by 1989. This was mainly achieved by raising the General Sales Tax and allowing bracket creep at the upper level to extract more revenue from the rich. Recent research shows how General Sales Tax negatively impacts poorer women in particular because of their role in financing daily consumption by the family. Finally, in the name of dampening inflation but in reality, to create incentives for international banks to increase lending to South African banks (which also lent to the government), the Treasury supported the SARB's gradual increase of interest rates at several points during the early 1980s, with sudden increases in 1984. After the SARB decided in December 1983 to give itself the unilateral power to set interest rates by formally delinking its lending rate from the market value of Treasury bills. In short, the balance sheet configuration that the Department of Finance and SARB had assembled by 1983 to respond to low growth levels created the conditions that led to the 1985 banking crisis, in particular, the rise in interest rates that attracted the short-term loans that matured in 1985.

The banking debt crisis in 1985 and the declaration of a State of Emergency in July 1985 were followed by foreign investors unloading billions on the JSE, further depressing prices.

The Black Local Authorities that were supposed to govern the black urban areas ('townships') were at the centre of the mass uprisings that led to the 1985 State of

Emergency. South Africa's towns and cities were bifurcated into four distinct governance configurations: White municipalities with their own tax bases, with a supervisory role for Coloured and Indian Management Committees for coloured and Indian areas, respectively, that, in turn, benefited from these mainly white tax bases. White, coloured and Indian citizens benefitted from the substantial rates paid by businesses, all of which were located in white areas, and it is where the bulk of black wages were spent.[96] Black Local Authorities fell under the authority of the four white provincial administrations and were never fiscally viable. As a result, rates and service charges were consistently increased, ultimately triggering the mass uprisings.

The anatomy of the banking debt crisis brings into relief the politicised role played by South Africa's fiscal and monetary authorities in the 1980s.[97] As predicted by the monetary authorities, the differential between the then (lower) international and (higher) internal interest rates, resulted in rising external debt levels as loan finance flooded into the economy, from 20 per cent of GDP in 1980 to 46 per cent of GDP by 1984, comprised mainly of short-term debt (i.e. maturities of less than a year). As argued in the previous paragraph, this was an intentional outcome of coordinated fiscal and monetary policymaking by reformers. By 1985, total external debt was equal to 50 per cent of GDP. The ballooning of external debt was a function of the deregulation of foreign exchange markets in 1983 and the simultaneous rise in interest rates engineered by the SARB. Exploiting the differential between high domestic and relatively lower international interest rates, South African banks borrowed heavily from international banks so that they had the funds to lend to South African private and public sector borrowers. The government borrowed from international banks directly as well as from local banks that had sourced funding on international markets. Despite growing international opposition to apartheid, international banks went along because they assumed South Africa knew how to manage its debt. By 1985, international banks were publicly acknowledging that they were mistaken and that South African debt could not therefore be refinanced. Powerful anti-apartheid lobbies in the US, in particular, helped to tilt the balance in favour of a de facto pro-sanctions orientation.

After the State of Emergency was declared in July 1985, American, French and British investors sold off R11 billion of their JSE holdings within a week. The French government joined the call for international sanctions soon after, and on 31 July, Chase Manhattan Bank announced it would not roll over South African (mainly short-term) debt, followed soon after by other banks. Conditions worsened when PW Botha made his famous 'Rubicon Speech' in mid-August, where he ruled out political power-sharing. The value of the Rand immediately dropped by 20 per cent, and capital outflows worsened.

[96] Planact (1989)
[97] Bradlow (1991)

A committee of representatives from 29 international banks (known as the Standstill Coordinating Committee) was set up by the Department of Finance to represent the 233 banks affected by the moratorium. After dropping their initial set of political demands (that were included thanks to influential anti-apartheid lobbyists) to drive reform, this committee agreed to an ambitious balance sheet reconfiguration that worked well for the South African government. Compiled by the technocrats in the Department of Finance who worked closely with SARB officials, a rather ingenious debt rescheduling programme was agreed upon that provided that debt repayments went into a special account managed by the PIC.[98] Conveniently, the PIC was obligated to lend 75 per cent of its funds to the South African government. Later, in 1987, banks were given an unattractive exit option that only some banks used, or an alternative debt-equity conversion option that allowed repatriation of profits made from investing in South African companies via the Financial Rand. In short, foreign banks effectively agreed to a balance sheet reconfiguration that gave the increasingly isolated apartheid state a new source of funding (by re-routing delayed debt repayments via the PIC) and a lifeline for investment-starved South African companies.

By the end of 1985, the UN Security Council had passed a resolution banning all new investments in South Africa; the European Community followed suit in 1986; and the US Congress overrode a Presidential veto and adopted the Comprehensive Anti-apartheid Act in October 1986. None of these resolutions prohibited international banks from rescheduling their South African debt. In the end, the South African government managed to survive the debt crisis quite well, but accessing foreign capital on scale only became a possibility after the newly elected President, FW de Klerk, released the political prisoners and unbanned the liberation movements in 1990. The last debt repayment arising from the 1985 crisis was paid in 2001, seven years after the start of the democratic era and 14 years after a borrowing spree to prop up apartheid resulted in a debt crisis.

3.10 Summation

This section has studied the balance sheet configuration of South Africa's monetary architecture during the apartheid era.

Our findings suggest that the apartheid state had a rather tight grip in terms of governing the monetary architecture. On the one hand, via the dual currency system and exchange controls, international financial flows were limited and subject to government approval. As a consequence, the interconnections of the South African balance sheets were mostly domestic. Still, some international funding would catalyse the 1985 debt crisis that mainly affected bank balance sheets, with a resolution that tied them to the PIC's

[98] PIC is the government agency responsible for managing the investment of government employee pension savings – see section on pension funds.

balance sheet. On the other hand, the state maintained domestic influence via the specific roles attributed to the main types of off-balance-sheet fiscal agencies: The Afrikaner-built state-owned enterprises played a key role in maintaining the minerals-energy complex, providing services and utilities in a way that largely benefitted large corporations and, as such, white elite households. Eskom was a key issuer of domestically held bonds but also acted as an international borrower on behalf of the main fiscus, which was under sanctions. By contrast, DFIs supported some businesses even in black communities, but only to a small extent and not in significant financial volumes. Women-led collective savings schemes like stokvels were left to fend for themselves.

Inequality between different racial groups was the fundamental principle on which the apartheid state operated, with a greater burden carried by poorer black women. This is usually understood in terms of legal and political rights, but it also, of course, refers to an economic and financial dimension in the form of wealth, income inequality and financial exclusion. The balance sheet configurations of the South African apartheid-era monetary architecture reinforced the poverty for the black population and enabled the white population to pocket the country's wealth and 'surplus.' The class division of households operated largely along racial lines - poor and overwhelmingly black households were not integrated into the wider monetary architecture. The balance sheet configuration largely excluded the poorest households from the financial ecosystem, with poor black women carrying the heaviest burden for daily household consumption (in particular in women-headed households). There were no serious mechanisms in place to lift the poor out of poverty; rather, forced resettlements and formal independence of bantustans prevented further integration into the monetary architecture.

Infrastructure investment and developmental policy were guided mainly towards supporting the industries and territories of white households and the minerals-energy complex, while neglecting black areas. For white households, the structures of the banking system had grown out of colonial structures shaped by commercial and mining interests. While the focus of development prioritised large firms, the specific balance sheet connections enabled traditional financial flows: Mainly white households held their savings predominantly at banks, who, for lack of alternatives, invested domestically. If households held bonds, they would fund mainly domestic institutions; for instance, Eskom bonds played an important role in the South African fiscal ecosystem. The system of pension funds was already up and running (even though at a much smaller scale than today), but public and private pension funds were obliged to invest part of their domestic portfolio into infrastructure development. Black people, by contrast, were largely excluded from formal financing institutions, cementing a different pathway regarding infrastructure development and investments in GFCF in areas defined for black people (townships and bantustans).

The trend towards neoliberalisation, understood not only as privatisation and a reduced role for public balance sheets but also as the conscious dismantling of institutionalised cooperative structures between different balance sheets, was already visible at the time but still in its infancy and not as strong as elsewhere. At the same time, the traditionally high degree of financial ‘repression’ was reduced, easing conditions to receive credit for middle-class and elite households and a rise in the volume of pension assets, but not for the poor households.

4 Snapshot 2: South Africa's Monetary Architecture in 1996

Three significant trends emerged after 1994 that shaped the policy choices of the post-apartheid government: globalisation (i.e. reincorporation into global financial markets), neoliberalisation (or deregulation of markets), and financialisation of corporate balance sheets and financial deepening of the economy.[99] As already indicated, the ANC came to power without a coherent economic policy. The Keynesian Macro-Economic Research Group (MERG) report was shelved by the ANC leadership shortly before the 1994 election. The upshot was a rolling set of reactive economic policy decisions. Inclusion into global financial markets was regarded uncritically as a means for generating large-scale foreign direct investments, which did not materialise on scale. Deregulation of apartheid controls of the economy was also somewhat uncritically regarded as part of the democratic project, including, for some, the privatisation of SOEs. In addition, there was a very limited understanding of the dynamics of financialisation, reinforced by a paucity of information about these dynamics at the time. For example, research on low levels of re-investment in GFCF coupled to high profit margins did not exist in the mid-1990s; inequality was defined in terms of the Gini Coefficient and not wealth, nor did policy makers adequately understand the role of the JSE, the expanding shadow banks, capital flight and the shift of savings by the rich into pension funds.

This section investigates the structure of South Africa's monetary architecture after the dawn of democracy in 1994. The visualisation in Figure 4-1 includes the major transformational steps that were taken in the two years following the first democratic election in the country and outlines the main changes that were adopted in the transition from apartheid. South Africa's first non-racial democratic constitution was signed into law in December 1996 and came into effect on 4 February 1997. It established the foundation for the post-apartheid monetary and fiscal policy. Section 224 of the Constitution formalised the independence of the SARB, including defining the primary objective of the SARB as the protector of the value of the currency in the interest of balanced and sustainable economic growth. Section 216 of the Constitution provided for the establishment of a National Treasury that was explicitly mandated to manage all government expenditure.

As reflected in sections 216 and 224 of the Constitution, the ending of apartheid was not merely about overall political and legal change to establish a non-racial democracy; it also entailed the reconfiguration of the governance of monetary and fiscal policy, including the relationship between the most significant public balance sheets. While South African governance was democratised, the task of overcoming racial segregation

[99] We distinguish between financial deepening and financialization: the former is an economy-wide phenomenon where financial assets as a percentage of GDP rises; while the latter refers more the way particular balance sheets – in particular NFC balance sheets – carry greater quantities of financial assets.

should also have included a 'rewiring' of the various instruments and institutions in South Africa's hitherto racially discriminatory monetary architecture. The dawn of democracy in South Africa was a moment of extreme uncertainty, with many possible directions in which the monetary architecture, in principle, could have been transformed. However, there is little doubt that the balance sheet configuration of the immediate post-apartheid era was settled by 1996, by which time many seminal decisions had been taken. This is the institutional setting that Figure 4-1 depicts.

First, globalisation: Although the South African government and businesses always found legal and illegal ways to remain connected to global financial circuits despite international efforts to isolate apartheid,[100] key political and business elites realised after the 1985 banking crisis and subsequent economic crisis that full access to international markets and investments would depend on the acceptance of democracy and black majority rule.

Moreover, the dynamics of the 1985 crisis exhibited clear vulnerabilities of the South African financial system to international financial sanctions. As a result, the post-1994 era was focused on fully integrating South Africa into the global governance institutions (IMF, World Bank, etc), global financial markets, and the African markets. With Nelson Mandela as its President, South Africa was seen as a poster child for the kind of market-friendly democratic projects that were in favour in the 1990s.

Consequently, the abolition of apartheid altered South Africa's interconnectedness within the international financial architecture. It led to the end of the parallel currency system and the opening up of the economy. In 1994, when South Africa became a member of the Southern African Development Community (SADC), which was founded in 1992,[101]South African firms used this opportunity to expand their business operations within the SADC region. The Financial Rand was abrogated in 1995.

At the same time, the opening up of South Africa for trade and investment resulted in the increasing dollarisation of the economy and a deepening of the interconnections with the Offshore USD System.[102] Increased regional imports and exports were largely financed and paid for in USD. The paramount role of the USD after the end of apartheid is emphasised in Figure 4-1, where various balance sheets have increasingly become dollarised.

Second, financialisation and financial deepening: These trends arise mainly from the liberalisation of the banking sector (including a significant increase in the number of banking institutions) after 1994 to strengthen the capital markets and enable debt-financed consumption-led economic growth. The upshot was the remarkably rapid growth of the finance sector, which became the primary driver of GDP growth after

[100] Van Vuuren (2019)
[101] SADC (1992)
[102] Murau, Rini & Haas (2020)

1994.[103] With growth came sufficient revenue for the state to increase transfers to the poorest households and to create various beneficial rents for boosting the expansion of the black middle class, such as housing subsidies, preferential procurement, and affirmative action.[104] Yet, the stagnation of investment in manufacturing meant that a blue-collar class of stable employed workers, who had previously formed the backbone of the trade union movement, to strengthen the lower middle class and boost consumption, did not materialise.

The monetary architecture visualisation figure demonstrates the financialisation and financial deepening dynamics in several ways: With regard to *institutions*, the post-apartheid era saw a mushrooming of new types of balance sheets. This refers to an increase in the number of banking institutions, expansion of the non-bank financial institutions such as pension funds and MMFs, as well as off-balance-sheet fiscal agencies in the form of new DFIs. Regarding *instruments*, the number of assets and liabilities of the various institutions increased tremendously, a dynamic that overlaps with the globalisation trend of South Africa's monetary architecture. Firms and (elite) households started to hold more complex financial instruments, with various domestic counterparties such as banks, NBFIs, and OBFAs, but also with different international institutions, contributing to the worldwide growth of the shadow banking system. These qualitative changes of the balance sheet composition in South Africa's monetary architecture do not grasp the increase in financial volume, which the stock depiction in Figure 4-1 cannot grasp, but which becomes obvious as soon as we zoom into actual time series data for some selected institutions.

Third, neoliberalisation (or what some would prefer to refer to as market-oriented economic policies): This may have been an influential narrative, but it was somewhat half-hearted and never fully implemented in ways that are comparable to what happened in other countries (e.g. Russia, Chile). The retention of a large SOE and DFI sector reflected the Keynesian influences within the governing party and policy leadership, which had been reflected in the MERG report that was shelved before the 1994 elections. However, in the late 1980s already, the apartheid government had incorporated key ingredients of a 'neoliberal' policy framework, which had increasingly become the dominant mode of economic thinking in Western countries from the late 1970s onwards. Apartheid state representatives found it convenient to justify reforms in the 1980s in terms of the virtues of 'objective market forces' rather than admitting the need for deracialisation. This included claims that this was the reason for eliminating formal race-based restrictions on the movement of labour and trade union membership, the 'commercialisation' of SOEs like Eskom to 'support economic growth', the liberalisation of capital markets (including opening up space for the emergence of shadow banking),

[103] Mohamed (2016)
[104] SADC (1992)

and the removal of restrictions on black property ownership for certain segments of the urban black population.

The extent to which these neoliberal ideas would be adopted for a post-apartheid settlement remained open at first. For instance, the 1993 MERG report articulated a Keynesian framework for post-1994 economic policy.[105] It proposed a development pathway based on the late-industrialising experiences of other countries such as Brazil, Malaysia and Taiwan, with a strong social-democratic focus that favoured state intervention in regulating and directing the private sector, investing in infrastructure, growing the manufacturing sector and small businesses, and land reform.

Although the ANC leadership initially embraced the proposals of the MERG report and its proposed redistributional land reform, they shelved it[106] shortly before the democratic elections in 1994 and de-emphasised the redistribution of land.[107] Instead, after the 1994 elections, the ANC led a Government of National Unity (GNU) that deployed the language of market-oriented deregulation that had begun to emerge in the 1980s, sans, of course, the racial framing. On the one hand, the ANC-led government emphasised macroeconomic stabilisation rather than investment-led growth by the productive sectors of the economy. On the other hand, it adopted a market-oriented approach to development, which focused on debt constraint, pursuing privatisation and liberalising trade to stimulate growth.[108] The key legitimising phrase for this approach was articulated in the original Reconstruction and Development Programme (RDP) that was adopted by the GNU in 1994:

> 'In the long run, the RDP will redirect government spending rather than increasing it as a proportion of GDP.'[109]

The operative words here were '*In the long run….'* It would, however, be naïve to over-emphasise the post-1994 commitment to neoliberalism. For example, contrary to neoliberal trends elsewhere in the world, privatisation never happened on scale; instead, the SOE and DFI sub-sectors actually expanded. Other examples of a more interventionist approach included the expansion of the welfare sector, regulatory interventions in favour of BEE, a strong defence of a pro-worker labour relations system, and a 'developmental' role for local governments. If, however, neoliberalisation is equated to financialisation and financial deepening, as is the case in some analyses, then one can be more assertive about the degree of neoliberalisation after 1994.

In short, the 1994 election and adoption of the new constitution in 1996 were political watershed moments, but there was little clarity about economic policy and virtually no discussion about the most appropriate monetary architecture for managing a set of

[105] Padayachee & Van Niekerk (2019); Macro-Economic Research Group (1993)
[106] Macro-Economic Research Group (1993)
[107] Ngcukaitobi (2021)
[108] Nattrass (1994); Schneider (2018)
[109] African National Congress (1994: 142-3)

balance sheet reconfigurations for ensuring the re-investment of profits in GFCF as the material basis for greater social inclusion.

From a monetary architecture perspective, the (incomplete) neoliberal ideas can be seen both on the levels of institutions and instruments. The neoliberal design consistent with global trends at the time is reflected in the formalisation of the independence of the SARB in the Constitution to manage monetary policy independently from political interference, the constitutional provision for an integrated fiscal policy managed independently of monetary policy by a national Treasury, ongoing 'commercialisation' of SOEs, and fiscal constraints on DFIs that were required to be self-financing rather than being instruments for massive capital injections in GFCF.

A key economic policy decision with regard to instruments was whether or not to repudiate apartheid debt, which amounted to 48.7 per cent of GDP by 1994, of which 96.3 per cent comprised domestic debt held by South African financial institutions. Many civil society organisations and trade unions demanded that this so-called 'apartheid debt' be repudiated. However, repudiating this debt was regarded as a potential threat to the balance sheets of many South African financial institutions at exactly the moment when the democratic government needed financial stability and the confidence of local and international investors. The NT was adamant that this would be a futile exercise.

Post-1994 Ministers of Finance have always maintained a strong emphasis on minimising debt and therefore restraining spending despite massive socio-economic needs and low levels of investment in GFCF. When it came to investment, between 1994 and 2002, the focus was on mobilising private capital, and the oligopolistic nature of the banking sector was an accepted fact. During the immediate post-1994 period, there was limited emphasis on the SOEs, DFIs, and the PIC as key mobilisers of public and private capital. Renewed interest in these institutions would only emerge after 2002, when the ANC officially adopted the 'developmental state' paradigm that was coupled to a de-emphasis on privatisation as a strategy for dealing with SOEs.

Taking a monetary architecture perspective to the period after 1994, there is no evidence that the key finance-related public sector institutions (i.e. NT, SARB, DFIs and even the Fiscal and Finance Commission) had a sense that the financial ecosystem was in fact an integrated complex adaptive system characterised by a distinct set of path-dependent financial flows that cross-cut traditional public-private dualisms. Instead, the financial system was depicted in the traditional way as comprising two sectors: The public and the private sectors. The core logic of the former was to collect taxes, borrow money, and invest in social and economic infrastructures; the logic of the latter was to invest to extract profits for shareholders and re-invest in fixed assets. The focus of public policy was on getting the former right, and assuming the latter would follow. There was no realisation that both are locked into a multiplicity of cross-sectoral balance sheet configurations that enable a specific set of financial flows that cannot easily be

disaggregated into public and private sectors. The focus of neoliberalism on contractual obligations for regulating intra-state and state-society relations, with institutional action constrained by narrowly defined, focused missions, rendered such a systems view of the financial system unthinkable.

All three trends, globalisation, financialisation/financial deepening, and (half-hearted) neoliberalisation, culminated in the GEAR strategy, which was adopted in 1996 and replaced the slightly more Keynesian RDP that was adopted after the first democratic elections (with residual influences from the MERG report). Relaxed exchange controls, market-related tariffs, integration into the global economy, export-led growth, and privatisation were aimed at achieving fiscal consolidation but were unable to realise job creation or restorative justice. By failing to find ways to significantly redistribute wealth after 1994, fiscal consolidation faced resistance as political pressures built up for increased fiscal spending that would, in turn, have needed to be funded by raising debt levels in a low-growth economy. Despite this, the poor effectively became increasingly dependent on expanding welfare budgets and micro-lenders, while unemployment levels were not significantly reduced.[110]

The adoption of GEAR in 1996 created the context for a gradual shift in the balance of power within the post-1994 political settlement. The Mbeki presidency weakened the ANC as the centre of political gravity, gradually marginalised organised labour, and concentrated policy leadership within an increasingly dominant presidential office.[111] A political settlement that endorsed the economic policies of the Ministry of Finance, formed around this and cemented a strong alliance between the core of Mbeki's Cabinet, white business leaders, the first generation of BEE beneficiaries, and a core group of state bureaucrats within departments and SOEs. Up until 2002, when the 'developmental state' narrative was adopted by the ANC and government, this coalition strongly favoured the privatisation of the SOEs, inflation targeting, fiscal restraint, stringent regulatory controls of the banking sector, relaxed foreign exchange controls, and offshore listing of large companies, like Old Mutual and Investec.

In summary, as demonstrated below, there is no doubt that major institutional changes after 1994 resulted in a significant range of balance sheet reconfigurations. These trends were shaped by the post-apartheid dynamics of globalisation, financialisation/financial deepening and (half-hearted) neoliberalisation. These governance reforms included the integration of the racially fragmented fiscal system by the newly established NT, the consolidation of the independence of the SARB and therefore the management of monetary policy, liberalisation of the banking sector, expansion of the DFI sector, and reorientation of the SOE sector with respect to infrastructure investment. Nevertheless, while financial transfers to the poorest households as a percentage of GDP commenced

[110] Mosala (2017)
[111] Gumede (2005)

a long-term upward trend that currently continues, little was done to address extreme levels of asset inequality beyond land reforms, housing subsidies, and support for black business. In addition, because these reforms had a household focus, the intra-household gender dynamics were ignored. Nor was there sufficient emphasis on productivity-led economic growth enabled by the reinvestment of profits in GFCF and the rising levels of public investment in infrastructure.

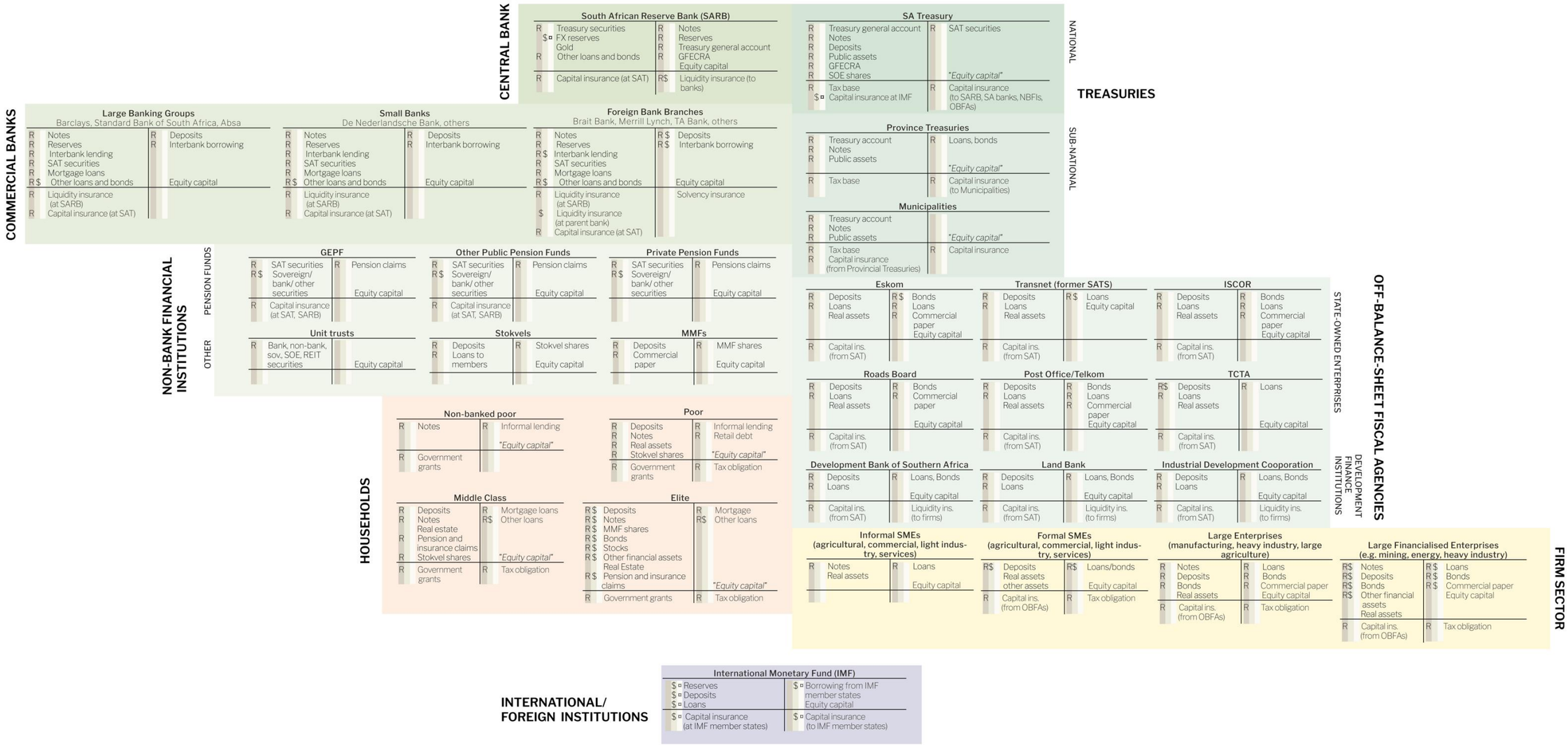


Figure 4-1: South Africa's monetary architecture in 1996

4.1 Households

The transition to a non-racial democracy in 1994 created an equal opportunity for all South African households, irrespective of race, to participate in and therefore benefit from the wider economy, in general, and the financial system, in particular, for the first time in South African history. A raft of reforms was introduced that resulted in the reconfiguration of household balance sheets, which were aimed at incrementally addressing the extreme inequalities that existed up until 1994 due to over a century of accumulated wealth on white household balance sheets. However, these interventions tended to ignore the intra-household gender dynamics that influenced the distribution of benefits.

These interventions included housing subsidies aimed at poor black households to secure urban land, services, and housing; financial support for land reform to support black households who's land was confiscated during colonial and apartheid times; expansion of various existing and new welfare grants to poor (that were largely black) households; increased investments in schools that service mainly poor (that were largely black) areas; expansion of the public health system to better service poor black areas; policies to support improved access to financial services for poor (that were largely black) households (e.g. expansion of micro-credit services where women-led collective savings schemes played an important role); BEE policies to create business opportunities for black entrepreneurs as well as new preferential employment opportunities in public and private institutions; the protection of the entrenched collective bargaining rights of organised labour via the Labour Relations Act; introduction of public works programmes to create employment opportunities for, in particular, black youth; an elaborate institutional structure for funding large-scale investments in the up-skilling of black workers; massive expansion of bursary schemes for black students entering tertiary education institutions; as well as increased state support for the arts and sport to redress past imbalances.

While the policy intentions of all these interventions to redress the injustices of the past were, without doubt, necessary and laudable, the underlying premise (except possibly the land reform and housing subsidy programmes) was that the fundamental problem with household balance sheets was income inequality, not asset inequality. Indeed, the research on asset inequality at the time was negligible. It took another two decades before this research would emerge,[112] and even then, the policy impact was limited.

We now know that by 1994, the wealth of the top 0.1 per cent of households accounted for twice the wealth of the bottom 90 per cent, and the top 1 per cent accounted for just below 50 per cent of all household wealth. The middle 40 per cent accounted for just below 15 per cent of household wealth, while the bottom 50 per cent, on average, had

[112] Chatterjee Czajka & Gethin (2020); Orthofer (2016); Schotte, Simone & Zizzamia (2018)

more debts than assets and so were at minus 2.5 per cent of total household wealth.[113] We also now know that, in general, the richest of largely white households are headed by men who, in turn, control the wealth concentrated in the top 10 per cent of all households. In contrast, while 31 per cent of all South African households were headed by women in 1994, 48 per cent of poorer households were headed by women.

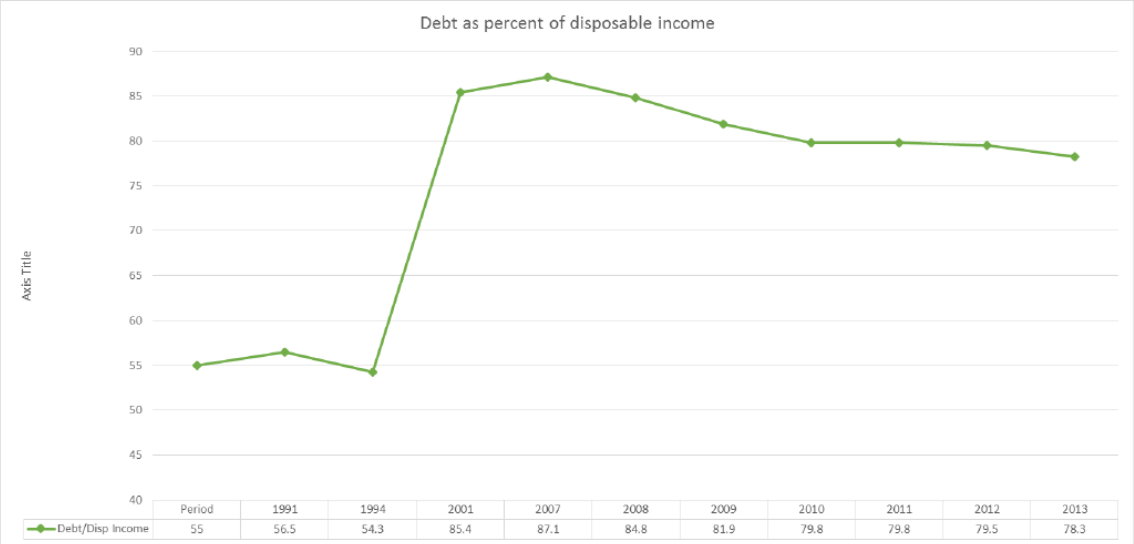
The most significant post-1994 trend was the dramatic increase in debt as a percentage of household income from just below 55 per cent in 1994 to nearly 90 per cent in 2007, after which it began to decline (Figure 4-2). Rising debt, however, was highly unequal. According to the Department of Trade and Industry (DTI), South Africa's credit market grew to R362 billion over the 1994 to 2003 period. This was comprised of mortgages, vehicle finance and overdrafts/credit facilities at moderate interest rates. However, 72 per cent of this credit was extended to about 15 per cent of the population, while 67 per cent received 6 per cent of the total credit. Of this 67 per cent who qualified for credit, most only qualified for in-store cards, hire purchases, and micro-loans at high interest rates.[114] This, in short, reflects what is the most dramatic and obvious social impact of democratisation, namely the expansion of the multi-racial middle class as large numbers of black households entered what was previously an almost exclusively white middle class.

The spatial manifestation of this trend was the movement of these households out of the historically black 'townships' into the historically white 'suburbs', a socio-cultural trend that boosted the private property development industry and was financed mainly by the banks. These black households were the beneficiaries of the policies articulated above aimed at redressing income inequality. The resulting expansion of disposable income of these emerging black middle-class households provided them with access to credit at relatively low interest rates. For those who could not securitise their loans against properties, they gained access to unsecured loans due to the rapid expansion of institutions influenced by the Grameen model.[115] This, in turn, triggered a virtuous cycle as debt-financed consumption by this expanding multi-racial middle class catalysed economic growth, which, in turn, reinforced expansion of the middle class, extension of more credit, more growth, and so on. The virtuous cycle evolved until the shock of 2008 and the small banking crisis of 2014.

However, an equally important trend is the financialisation of household balance sheets during the lead-up to 1994 (mainly white household balance sheets), and the balance sheets of an expanding multi-racial middle class after 1994, in particular. Household wealth as a percentage of national income had dropped to 300 per cent by 1994 from its 1982 high of 350 per cent. However, pensions as a percentage of the total had more than

[113] Chatterjee, Czajka & Gethin (2020: 38)
[114] Naidoo, Meerholz & Lehmann-Grube (2024: 15)
[115] The Grameen model refers to the Grameen Bank that was established in Bangladesh by Muhammad Yunus in 1983 which became a global model for how to provide banking services to poor women who lack collateral.

doubled by 1994, and non-financial assets had shrunk.[116] During 1994 to 1998, mortgages as a percentage share of household wealth rose rapidly from just over 9 per cent to over 11 per cent before dropping down to 9 per cent in 2002, followed by another steep incline to 15 per cent by 2008, at which point it consistently declined to 9.5 per cent by 2014. Similarly, non-mortgage debt (i.e. financing of consumption goods) as a percentage of household wealth escalated from its lowest point ever in 1994 at just over 7 per cent to over 9 per cent in 1997, dropping back down to 8 per cent in 1999, where it



stayed until 2004, from which point on it rose steadily to 10.5 per cent by 2018.[117]

Figure 4-2: Household debt as a percentage of disposable income
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

By 1994, women headed 48 per cent of low-income households. As these women, as well as male-headed households, depended on unreliable and often seasonal incomes, they carried a heavy debt burden. Based on 1993 household survey data, Klasen found that on average, the poorest households spent 9.8 per cent of their monthly income on debt repayments, and the total amount owed ('debt load') was equal to 33.4 per cent of their monthly expenditures (Table 4-1).[118] Wealthier groups may have owed a lot more relative to their incomes in 1993 (226 per cent), but debt repayments made up only 8.7 per cent of their monthly income. It is also clear that the poor did not have access to credit from banks, relying rather on credit from shopkeepers (48.2 per cent) and informal sources (34.3 per cent). Women were often victims of the so-called 'loan sharks,' many of whom used violence to enforce their terms. It is thus clear that poor households paid a higher percentage of their monthly incomes on debt repayments than richer households, with women-headed households paying even more than the average.

[116] Chatterjee, Czajka & Gethin (2020: 7)
[117] Chatterjee, Czajka & Gethin (2020: 35)
[118] Klasen (1997: 76)

As far as sources of credit were concerned,[119] in 1993 only 8.4 per cent of all South Africans had bank loans, while 30.4 per cent had hire purchase contracts, 33.7 per cent accessed credit from shopkeepers/retailers, 12.9 per cent loaned money from friends and relatives, and 14.6 per cent accessed credit from a mix of government schemes, non-government organisations (NGOs), money lenders, stokvels, burial societies, etc. While 27 per cent of the richest households had bank loans, the ultra-poor were unbanked, while access to bank credit amongst the middle quintiles averaged between 0.4 per cent and 6.1 per cent. The ultra-poor relied mainly on retailers for credit (48.2 per cent).

Table 4-1: Debt burden and source of credit, 1993

		Households Ranked by Composition Quintiles				
	All South Africa	Quin. 1 (Ultra-Poor)	Quin. 2	Quin. 3	Quin. 4	Quin. 5 (Richest)
Amount owed (% of monthly expenditure)	161.0	33.4	40.7	56.6	104.4	226.0
Debt Service (% of monthly expenditure)	8.7	9.8	7.8	8.0	10.3	8.7
Source of Credit						
Banks	8.4	0.0	0.4	1.8	6.1	27.0
Hire Purchase	30.4	17.5	29.4	39.5	33.9	27.6
Shopkeepers	33.7	48.2	37.4	31.6	32.3	25.7
Relatives/Friends	12.9	21.2	16.0	12.0	12.3	7.0
Other*	14.6	13.1	16.8	15.1	13.4	12.7

** includes government schemes, NGOs, moneylenders, stokvels, burial societies, employers, and miscellaneous sources (none of which exceed 5% individually).*

Source: Klasen (1997: 76)

In short, while it is unsurprising that household balance sheets were profoundly unequal at the dawn of democracy in South Africa, the household balance sheet reconfigurations that post-1994 policies aimed to achieve resulted mainly in the rapid expansion of an increasingly indebted multi-racial middle class (including many employed unionised workers). This may have helped to consolidate the electoral base of the African National Congress, but it excluded the poorest of the poor, who comprised at least one-third of the population. They were effectively excluded from the post-1994 monetary architecture because little was done after 1994 to fundamentally restructure the distribution of assets of household balance sheets. This problem was not resolved by the

[119] Klasen (1997)

expansion of unsecured lending via the formal banking institutions, the increasing number of micro-finance institutions, and the less formal institutions such as stokvels.

4.2 Firms

Between 1994 and 2000, large businesses were funded mainly from retained earnings and banks (including South African and international banks). The corporate bond market was negligible during the 1994-2000 period. However, instead of investing their surpluses in GFCF, South Africa's large, diversified conglomerates unbundled to extract returns more effectively for shareholders and to incorporate new black shareholders. Financial assets as a percentage of total assets expanded rapidly. Small businesses, however, became a major focus of post-1994 policies. Most of the resultant support benefitted the formal (mostly white-owned) small businesses, while the approximately 1.5 million informal black businesses remained small and survivalist. Since small businesses (both formal and informal) found it difficult to access affordable credit, inequalities were not reduced during the decade after 1994.

Large Businesses

By the mid-1990s, South African firms were gradually emerging from the apartheid monetary architecture into a new and much more complex world. Besides the unbundling of corporate balance sheets elaborated below to bring in the black elite as shareholders and thus avoid nationalisation, the unbundling was also a response to new international shareholders who, following the 'shareholder value' movement, demanded balance sheet reconfigurations to extract more value from under-performing underlying assets.

After 1994, and in particular, after 1996, when the GEAR economic policy framework was adopted, economic policy emphasised market-oriented strategies coupled with a BEE approach that linked emerging black businesses to contracts and deals with white businesses. This attempt to deracialise corporate balance sheets took place within a wider corporate-driven restructuring of the real economy, aimed at reducing the concentration into large conglomerates that had occurred during apartheid and were perceived to be vulnerable to the threat of nationalisation. The high point of this balance sheet reconfiguration was in 1999, when no less than 60 unbundling deals worth R80 billion were executed.[120] In parallel, as South Africa was reabsorbed into the global economy, international investors committed to the 'shareholder value' movement, which reinforced the need to break up the balance sheets of the conglomerates to realise the underlying value of the subsidiaries that were regarded as undervalued on the JSE in the early 1990s.

[120] Karwowski (2021: 1324)

These two dynamics resulted in three mutually reinforcing balance sheet dynamics: the increasing value of financial assets on the balance sheets of firms, households and even SOEs; the shareholder value movement that led to the breakup of most of the big conglomerates to enable increased returns to shareholders and limit the threat of nationalisation; and BEE, whereby black elites were granted access to debt finance to purchase hefty stakes in the restructured corporates.[121] Together, financialisation, shareholder value and BEE were not merely elements of a grand balance sheet restructuring to unlock new flows of finance in favour of shareholders; they also undermined what South Africa needed most, namely an increase in investment in the productive economy (specifically GFCF). Most of the unbundling resulted in capital structures geared for the extraction of profits rather than the reinvestment of profits in GFCF.[122] Had the ANC's shelved MERG report been implemented, an increase in investments in the productive economy (guided by a coherent set of industrial policies) would have resulted in a very different balance sheet reconfiguration (not dissimilar to what emerged in the Asian Tigers): Increased rather than reduced economic diversification, a consistent set of infrastructure investments required to catalyse manufacturing and not only to support the primary extraction/export sectors, as well as a massive expansion of small, medium and micro enterprises (SMMEs).

The ambitious balance sheet restructuring in favour of (established white and new black) shareholders after 1994 resulted in the extraction of a total of R384 billion by shareholders between 1999 and 2009, equal to 17 per cent of gross fixed investment during this same period.[123] This was reinforced by transfers to BEE groups. An equally massive R317 billion was transferred to black shareholders between 2000 and 2014, equal to 8 per cent of gross fixed investment during this period.[124] While this transfer to black shareholders may seem significant, it is worth noting that the number of black-owned and controlled companies fell precipitously from a high of 7.1 per cent during the 1995-2000 period (when the corporate sector was most keen to pay the price for co-opting a black business elite) to a mere 0.5 per cent of the JSE capitalisation in 2016, as the new black shareholders cashed in rather than sourcing larger co-investments to expand the productive economy to support the post-1994 political project.[125] This reveals the fragility of this corporate strategy and the extractive rather than productive interests of BEE shareholders.

These two sets of transfers (both underestimated here because they exclude transfers to external shareholders and are only for specific periods) disincentivised reinvestment in the real economy because of the need to service the debt-based equity of these

[121] Bhorat et al. (2017)
[122] Zalk (2021); Bosiu (2017)
[123] Zalk (2011) (2016)
[124] Zalk (2016)
[125] Bosiu, Goga & Roberts (2017)

groups.[126] Debt-based buyouts of key South African manufacturers (such as Iscor, Dorbyl, Scaw, etc.) by local and international companies resulted in corporate structures that constrained the balance sheets of these key infrastructure firms because the new holding companies limited the financial capacity for re-investment in expansion by servicing the debt-funded dividend extractions rather than reinvestments in expansion.[127]

To finance increased returns to shareholders, large corporations took on more debt. Whereas debt as a percentage of fixed assets hovered around 10 per cent from the 1970s through to the early 1990s, six years after 1994, it had reached 60 per cent.[128] However, most of this debt-financed increase in returns to shareholders was sourced from the liberalised capital markets that emerged after 1994 (originating, incidentally, in the apartheid era De Kock Commission Reports) and the banking sector. This massive redirection of financial flows not only enabled a rapid rise in mergers and acquisitions, but it also enabled dividend pay-outs to shareholders to double between the 1980s and 2015, while share buy-backs grew from R3 billion in 2000 (the year they were permitted), to R41 billion by 2009.[129] This, in turn, put upward pressure on interest rates and reduced the amount of loan finance that could have gone into rebuilding the industrial base of the economy (even if the correct policies were in place). Finally, to add salt to the wound, contrary to claims made by South African corporates at the time, international listings of South African companies promoted disinvestment rather than the much-promised capital raising for inward investment.[130] Indeed, legal and illicit outward flows of capital accelerated, peaking in 2007 at 20 per cent of GDP.[131]

A report published by RMB in June 2001, based on a detailed study of funding sources of JSE-listed corporations over the 1994-1999 period, concluded that by the end of the 1990s, South Africa's listed bond market as a source of funding for South African listed corporates was 'negligible'. The opening sentence of the report says it all:

> While South Africa has equity and public debt markets that are unusually large relative to the size of the economy, even by developed country standards, the market for corporate debt is negligible, even in relative terms.[132]

The first NFC corporate bond was issued by South African Breweries in 1994, and the first non-resident issuer shortly thereafter was the Mauritius Commercial Bank.

[126] Zalk (2021)
[127] Roberts & Rustomjee (2009)
[128] Karwowski (2021: 1325)
[129] Karwowski (2021: 1325)
[130] Schneider, (2018)
[131] Karwowski (2021); Ndikumana & Boyce (2022)
[132] Rand Merchant Bank (2001)

As Table 4-2 reveals, compared to its peers in the global economy, South Africa's domestic private debt in the 1990s as a percentage of total funding was low at only 1 per cent. Domestic public debt was at 24 per cent and equity at 75 per cent.

Table 4-2: Funding sources as a percentage of the total market in the 1990s

% of Total Market	Domestic Private Debt	Domestic Public Debt	Equity
Korea	25%	45%	29%
Chile	15%	20%	65%
Mexico	6%	5%	89%
Argentina	6%	51%	44%
South Africa	**1%**	**24%**	**75%**
Malaysia	1%	0%	99%
Poland	0%	42%	58%

Source: Rand Merchant Bank (2001)

Table 4-3 provides the annualised summary overview for listed corporates for the 1994-1999 years, indicating that 34 per cent of funding was from 'internal sources' (i.e. retained earnings), while 66 per cent was from 'external sources.' Further, 35 per cent of the external sources were equity, 31 per cent was debt (19 per cent was long-term, 12 per cent was short-term), and only 2 per cent of all debt came from listed debt (i.e. bonds). However, the debt/equity ratios differed substantially across sectors, from a low of 8 per cent for mining (because, unsurprisingly, it could source a combination of high levels of equity and substantial retained earnings) versus manufacturing with a high debt/equity ratio of 37 per cent (because of a dependence on retained earnings, relatively limited equity funding, and high debt levels). After 1994, the mining houses became increasingly internationalised in two ways: outward flows into non-South African assets and inward flows into mining equities. Manufacturing businesses were smaller and mainly locally owned.

Table 4-3: Funds used to finance corporate assets in various sectors (aggregate balance sheets)

Percentage of Total Funds	All Non-Financial	Manufacturing	Services	Technology Media & Telecoms	Mining	Parastatals
Utilisation of external funding						
Internal sources	34%	41%	24%	30%	40%	24%
External sources	66%	59%	76%	70%	60%	76%
Sources						
Equity	35%	32%	42%	52%	52%	20%
Retained earnings	34%	41%	24%	30%	40%	24%
Debt	31%	27%	34%	18%	8%	56%
Long-term	19%	17%	23%	12%	4%	43%
Short-term	12%	10%	12%	6%	3%	13%
Total funds	100%	100%	100%	100%	100%	100%
% traded debt	2%	2%	2%	2%	0%	48%
Risk indicators						
Debt/equity ratio	46%	37%	53%	28%	8%	127%
% of ST debt	39%	37%	34%	47%	46%	23%

Source: Rand Merchant Bank (2001).

The low level of listed debt (i.e. bonds) as a source of funding for corporates in the 1990s meant that South African and international banks (in particular after 1994) became the most significant funding sources for NFCs up until 2000. However, this began to change after the conversion of the Bond Market Association into the Bond Exchange of South Africa in 1996 (later bought by the JSE in 2009). Since 1996, the bond market has expanded rapidly due to the impact of high-speed electronic transacting, financial innovation (e.g. securitisation, etc), the issuing of inflation-linked government bonds, and the rapid growth in non-government sector bonds (which includes NFCs and financial corporations) from nearly zero in 1994 to R41 billion by 2006 (excluding securitised assets).[133] The emergence of the bond market reinforced the financialisation of the post-1994 balance sheet configuration and created the space for the rapid expansion of the shadow banking sector to play intermediary roles in the capital markets. This was a necessary corollary of the growth of the bond market. As NFCs sourced increased funding from the liberalised capital markets from the late 1990s onwards, the historical balance sheet configuration created by apartheid conditions, whereby white household savings funded white-run NFCs via white-owned bank intermediaries, shifted as banks were forced to find new categories of borrowers to replace some of the lending to NFC borrowers, who began sourcing some of their funding in the listed and unlisted capital markets. This shift in bank lending strategies reinforced the debt-funded consumption-led growth period (1999-2011), which also underpinned increases in fiscal spending. However, it also contributed to household indebtedness that helped expand

[133] Guma (2007)

the new multi-racial middle class through mortgages, credit cards and unsecured lending to poorer households and small businesses. Needless to say, the banks and capital markets did not prioritise investments in the expansion of GFCF.

Small Businesses

Both the informal and formal small business sectors received considerable attention from policy-makers during the post-1994 era. Very poor and somewhat contradictory data have made it difficult to estimate the size and dynamics of both sectors in 1994 with certainty. By 1995, 9.5 million South Africans were formally employed, and 3.8 million were estimated to be unemployed.[134] It is the livelihoods of the unemployed, in particular unemployed women, who matter most when it comes to understanding the informal enterprises and, to some extent, the formal small business sector. As far as the size of the informal sector in 1994 is concerned, estimates (that admitted to a high level of uncertainty) placed the number of people whose livelihoods depended on the informal enterprises at between 1.5 and 2 million, equal to between 10 per cent and 15 per cent of the labour force. Most of these were women.

According to the report by the Task Group of the Policy Board for Financial Services and Regulation,[135] estimates of the size of the formal small business sector ranged from Ntsika's 900 000 (i.e. 906 000 minus the 6 000 large businesses) through to an estimate by the consulting group Business Partners of 2.9 million (see Table 4-4). Taking into account various estimates and in light of more reliable data from later years, we are of the view that the formal small business sector (i.e. the 'small' and 'medium' sized businesses referred to the Task Group Report) in the 1990s was between 400 000 and 500 000 formal enterprises.

Table 4-4: Different indicators for size of SME sector

Source	Survivalist	Micro	Very Small	Small	Medium	Large	Total
Ntsika 1997 totals (as above)	184 400	466 100	180 000	58 900	11 322	6 017	906 700
Business Partners	2.3 million		600 000		35 000	Not reported	2,9 million
Management Sciences Group Survey, 1999	960 740	862 580		445 880			2,3 million
Escom Survey, 1999	900 000+ 'in-home businesses'; total 3 million if one includes small/emergent/established farmers						N/A
Statistics SA, 2000							1 628 797

Source: Task Group (2001)

[134] Bhorat (2006). Note that the number of estimated unemployed includes the so-called 'discouraged work seekers' who are not included in official unemployment figures – official unemployment was 1.9 million in 1995.
[135] Task Group of the Policy Board for Financial Services and Regulation (2021)

Based on the only systematic assessment of informal enterprises, there were 1.45 million 'firm operators/owner-managers' employing 750 000 people by 2013.[136] Given that this was more than double the size of this sector in 1985, it is possible to assume that by the mid-1990s, there were approximately 1 million informal sector enterprises engaged in a wide range of economic activities in the trading and hawking, construction and production, services, and largely illicit sub-sectors. This aligns with the lower estimates in Table 4.4 by Ntsika of 830 000.

The Task Group Report estimated that large businesses (i.e. the mainly listed corporate sector) contributed 43-48 per cent of GDP in 1997, compared to the formal small business sector (i.e. the 400-500 000 formal small businesses) that contributed 39-42 per cent. If the contribution of the informal enterprises is included, the total contribution of the 'non-large' business sector was 52-57 per cent of the GDP. As far as employment is concerned, the Task Group Report argues that by 1997, the 400 000-500 000 formal small businesses contributed 39 per cent of all jobs, equal to the number of people employed by large businesses. However, if the one million informal enterprise jobs are considered, the total contribution of the small business sector to overall employment goes up to 52 per cent. However, by the mid-1990s, the formal small business sector was mainly white, male-led family businesses, while the small informal businesses were almost entirely black owned, and the majority were women-led.

The balance sheets of these informal enterprises had not changed much since the 1980s, except that after 1994, they were able to open bank accounts and access the nascent micro-credit facilities that were emerging more easily.[137] Loans were derived largely from 'family and friends', liabilities were limited, and contingent liabilities were most likely rentals of various kinds (e.g. property, retail space, etc).

Soon after 1994, policies and legislation were put in place that aimed to achieve a grand balance sheet reconfiguration that would transform what was referred to as the SMME sector from the survivalism and informality of its apartheid past into a major driver of investment, employment creation, and redistribution.[138] The National Small Business Act of South Africa of 1996 was the start of a long line of initiatives, including a range of publicly-owned support institutions providing finance and business services. An authoritative, well-referenced source of primary information about the SMME sector is the FinMark Trust[139] who, in turn, define the sub-sectors of the SMME sector in terms of firm size, i.e. micro-enterprises employ 0-10 people and comprise the large bulk of the SMME sector (and overlap substantially with what has been referred to above as informal enterprises), compared to formal small enterprises who employ 11-50 people, and formal medium-sized enterprises employing 51-250 people.

[136] Fourie (2018: 113)
[137] Naidoo (2019)
[138] Rogerson (2004)
[139] FINMARK Trust (2010, 2024)

A range of institutions and initiatives were established immediately after 1994, including the Ntsika Enterprise Promotion Agency to provide non-financial services, and Khula Enterprise Finance to provide wholesale financial services. Furthermore, a range of localised business support centres were established to provide direct support services to local SMMEs. By 2003, there were nearly 100 of these centres. In addition, retail financial intermediaries were established to provide local-level financial services; there were 40 by 2002. Finally, manufacturing advice centres were established to assist SMMEs to become manufacturers selling into local, national and international markets; by 2003, there were 16 around the country. Later in the 1990s, the DTI complemented the manufacturing advice centre strategy with strategies to establish local industrial parks, business incubators, industrial clustering, and a comprehensive review of the regulatory obstacles facing SMMEs.

Despite all the various post-1994 government initiatives to drive this ambitious developmentally oriented balance sheet reconfiguration, the large majority of informal and most formal micro and small businesses that existed in 1994 or were established after 1994 did not become the major labour-absorbing, wealth-generating enterprises that post-1994 policies had envisaged. According to the report by the Task Group that reviewed the evolution of the SME sector in the 1990s, the reason for this was overwhelmingly very limited access to finance,[140] a problem that persists into the present.

By the end of the 1990s, there were 370 000 formal small businesses with loans with South African banks that contributed to a total loan book of R20 billion, which was, in turn, only 5 per cent of total bank exposure (excluding mortgages and credit cards).[141] Although the average loan size was R54 000, only 18 per cent borrowed above R50 000. Loans were used as follows: 61 per cent were instalment sales; 27 per cent were short-term overdraft facilities; 11 per cent were revolving loan facilities; and 1 per cent were for various other forms of financing.[142] It can be safely assumed that the large bulk of informal small businesses had no access to these financial services. The only exceptions would be informal small business owners who accessed funds from stokvels or loans from family and friends.

By 1999, the various financial institutions had built up fairly significant micro-loan portfolios:[143] Four banks (Cashbank, African Bank, Unibank and Saambou Bank) had already decided to specialise in providing microloans. These loans averaged between R3 000 - R6 000, with average interest rates of around 60 per cent per annum and repayment terms of between 12 months and three years. Most of these loans were for housing and repaid through payroll deductions, although the line between consumption and housing loans had largely dissolved by the end of the 1990s. By the late 1990s, 'cash lending'

[140] Task Group of the Policy Board for Financial Services and Regulation (2021)
[141] Task Group of the Policy Board for Financial Services and Regulation (2021)
[142] Task Group of the Policy Board for Financial Services and Regulation (2021)
[143] Task Group of the Policy Board for Financial Services and Regulation (2021)

franchise groups had been established, often operating from formal shop fronts. They provided very small consumption loans to desperate individuals, repayable in single payments at month-end at highly exploitative interest rates of 30 per cent per month (i.e. 360 per cent per year). Physical threats were often used to ensure repayment. In addition, about 30 NGOs emerged to provide microloans for housing lending. These 'development lenders' generally provided loans of between R500 and R3 000, repayable over nine to 18 months, at rates varying from 40 per cent to about 60 per cent per annum.[144]

By 2000, more than 1 300 lenders were registered with the Micro-Finance Registration Council, including nine banks, nine other listed companies and a number of large private companies. However, they were all restricted by regulations from lending over R10 000 despite significant demand from formal small businesses for loans of between R10 000 and R50 000. African Bank, for example, had a subsidiary for lending to small building contractors with a loan book estimated at R310 million.

In a survey, the Micro-Finance Registration Council found that if the sector were deregulated, the number of loans would escalate to between 550 000 and 850 000 with a book value of between R734 million and R1.4 billion.[145]

Finally, it is worth noting that DFIs had balance sheet relations with mainly formal small businesses. The LBK developed a micro-credit rural programme after 1994 for around 50 000 small rural farmers. Ithala had a small-business loan programme, and the DBSA also had a financing scheme for women-owned building contractors.

Rogerson concludes his authoritative review of the attempted developmental balance sheet reconfigurations to support the SMME sector during the first decade after 1994 by pointing out the following: Despite all the financial and non-financial support, micro and small enterprises did not grow in size due to lack of access to credit, the way programmes were in practice biased towards medium and small-sized enterprises thus bypassing the mainly women-led micro- and informal enterprises that make up between 80-90 per cent of the SMME sector, and that the manufacturing advice centre programme was the most successful element of the overall programme of support for SMMEs.[146]

4.3 State-owned enterprises

The ANC came to power in 1994 without a clearly articulated vision for the future of South Africa's state-owned enterprises within a non-racial, developmentally oriented democracy. The democratic government inherited a formidable set of relatively well-functioning SOEs.

[144] Task Group of the Policy Board for Financial Services and Regulation (2021)
[145] Task Group of the Policy Board for Financial Services and Regulation (2021)
[146] Rogerson (2004)

During the initial 'RDP years' (1994-1996), SOEs were seen as merely useful instruments for realising mainly consumption goals like infrastructure services, energy, housing, and social grant programmes. Economic policy did not leverage the substantial SOE balance sheets to enable the scaling up and redirection of investments into industrialisation and the productive economy.[147] Eskom, for example, became the primary instrument for delivering 'electricity for all' (a consumption goal), but there were very limited attempts to promote industrial policies to diversify the economy by restructuring the minerals-energy-complex inherited from the apartheid era that sustained this energy delivery strategy. Without the reconfiguration of the balance sheets that entrenched the minerals-energy complex, a more productive manufacturing-led industrialisation pathway was not possible.[148]

As South Africa's first democratic development policy, the RDP set massive welfare initiatives in motion to address apartheid injustices and unequal development. Social grants, free and subsidised housing and health, school feeding schemes, transport networks, electrification and other networked infrastructures were rolled out, and the land reform programme was initiated. SOEs like Eskom, the water boards, Transnet, and the Passenger Rail Agency of South Africa (PRASA) were deployed in the RDP's redistributive project, even though some of them were financially constrained and lacked the capacity needed to implement the new developmental approaches that required greater partnership and coordination between the state and private institutions. Many big SOEs struggled to sustain revenue generation in the context of pressures to increase public investment without increased financing support via the fiscus. Following the GEAR policy framework, smaller SOEs were restructured, and privatisation presented a solution for deficient performance and a way to fund redress.

By 1994, apartheid planners had made sure that most of the major SOEs were well-established as 'commercialised' public corporations operating separately from direct central government control. The TCTA was established in 1986, and Iscor was privatised in 1989.[149] In 1990, SATS was transformed into two corporate entities: SATS (renamed Transnet in 1991) and the South African Rail Commuter Corporation (SARCC, renamed PRASA). All the assets and liabilities of SATS were transferred to the new corporations, other than the rail commuter assets, which were transferred to SARCC. SAPO and Telkom were incorporated in 1991. ACSA was established in 1993. This extensive restructuring of the ownership and balance sheet configurations of these entities in the lead-up to 1994 was influenced by the commitment to liberalisation that characterised the Afrikaner elite in the late apartheid years. Significantly, it was not a reckless fire sale

[147] Zalk (2014)
[148] Padayachee (2009); Roberts & Rustomjee (2009)
[149] In December 2001, Iscor's steel and mining groups were unbundled into two separately listed companies that eventually became ArcelorMittal and Kumba Iron Ore respectively (History (arcelormittalsa.com)).

of all state assets in the name of privatisation as was witnessed in several other countries in the 1990s (e.g. Russia).

Table 4-5 provides an overview of Eskom's balance sheet in 1993 and 1994. The bulk of Eskom's financing came from the local bond market. In 1994, the company had R21.7 billion of bonds outstanding and another R4.5 billion in commercial paper. The remaining funding of R6.6 billion (20 per cent) of the company's funding was raised internationally, coming from the Eurobond issuances and loans from large international banks, e.g., UBS, Credit Suisse, and ECA financing (R6.6 billion). While the foreign-denominated debt was guaranteed by the government, during 1994, Eskom was also able to secure a syndicated foreign loan at interest rates that were better than those achieved by the government. A meaningful portion of Eskom's financing, both locally and internationally (primarily Germany and Japan), came from retail investors.[150] Locally, the primary investors were the large institutional investors: Old Mutual and Sanlam. In 1993, Eskom issued a 15-year Electrification Participation Note.[151] From 1987, Eskom made a market in options on their bonds, and in 1992, they began building a fully-fledged bond market of their own.

The large bulk of Eskom's debt in 1994 was local currency bonds and commercial paper. Eskom was able to comfortably service its debt obligations by the early 1990s despite the massive expansion of its balance sheet during the build programme of the 1970s and 1980s. During the late 1980s and early 1990s, Eskom was in such a strong position that it could raise financing at around 25-30 basis points below the sovereign. Consequently, Eskom earned a yield pick-up by raising excess financing and reinvesting the surplus funds, primarily in government bonds, as well as Negotiable Certificates of Deposit, bills and bankers' acceptances, and cash deposits held at banks.

Eskom had large commodity exposures, primarily to aluminium, through the contracts with Alusaf (aluminium smelter), where the electricity tariffs were linked to the aluminium price. Similarly, Eskom also had exposure to lead, coal, and copper. These exposures were hedged with large international banks and through the Chicago Mercantile Exchange.[152]

[150] Eskom had an effective administration, including a dedicated desk, for the retail investors. The retail investors tended to hold the stock they bought until maturity.

[151] The Electrification Participation Notes were designed to share risk between Eskom and investors (typically institutional investors) and to provide financing for investment in socially responsible projects. Although for Eskom, these were a successful financing instrument (although the administration was intensive), investor returns were low as they were linked to the revenues collected, which proved disappointing due to electricity meters being bypassed.

[152] The abolishment of prescribed assets in 1989 did not have a significant impact on the interest rates at which Eskom was able to raise financing. After an initial reset, the bonds traded back to the same levels as before the abolishment. This reflected the credit quality and liquidity of the Eskom bonds.

Table 4-5: Eskom balance sheet at the dawn of democracy (R million)

	Dec-94	Dec-93
EMPLOYMENT OF CAPITAL		
Property, plant and equipment	40 711	38 605
Non-current assets	4 074	3 762
Current assets	2 579	2 030
Inventories	*758*	*731*
Debtors	*1 821*	*1 299*
Total assets (excl current assets)	47 364	44 397
Interest-free liabilities	2 637	2 137
Creditors	*2 093*	*1 659*
Net interest accrued	*544*	*478*
Net assets	**44 727**	**42 260**
ACTUAL ASSETS	**46 739**	**44 816**
CAPITAL EMPLOYED		
Reserves	16 105	13 837
Accumulated reserves	*16 005*	*13 837*
Insurance reserve	*100*	
Provisions	738	396
Net interest-bearing debt	27 884	28 027
Long term	*24 404*	*24 946*
Short term	*3 480*	*3 081*
	44 727	**42 260**

Borrowings	Dec-94	Dec-93	Currency
Local stock	21 696	21 301	ZAR
Commercial paper	4 490	4 196	ZAR
Other	323	560	ZAR
Foreign bonds and loans	4 315	4 678	Mixed
Foreign project finance	2 330	2 772	Mixed
	33 154	**33 507**	

Source: Eskom Annual Financial Statements, Rushton & Halstead (2024)

Table 4-6 provides some financial details of Transnet for the same period. By 1994, around two-thirds of Transnet's funding came from bonds issued in the domestic market. Its international funding was mainly in the form of bonds (R7.7 billion), with the remainder coming from secured and unsecured international loans. Most of this funding was long-term. All of this borrowing was guaranteed by the government.[153] By 1994-95, Transnet was also in a healthy financial state, with net debt at R9.4 billion.

[153] The total debt outstanding as at the end of 1994 amounted to R14.6 billion and the government had guaranteed the repayment of loans amounting to R21.8 billion.

Table 4-6: Transnet balance sheet at the dawn of democracy

	Dec-95	Dec-94
EMPLOYMENT OF CAPITAL		
Fixed assets	32,732	33,678
Loans advanced	2,373	2,204
Investment in subsidiaries	95	28
Working assets	3,969	3,442
Inventories	*888*	*833*
Debtors	*3,081*	*2,609*
Total operating assets	39,169	39,352
Non-interest bearing debt	5,666	4,825
Long-term provisions	*617*	*745*
Creditors and short-term provisions	*5,040*	*4,073*
Taxation	*9*	*7*
	33,503	**34,527**
CAPITAL EMPLOYED		
Ordinary share capital	14,002	14,002
Accumulated loss	(1,985)	(2,103)
Outside shareholders' interest	13	6
Total equity	12,030	11,905
Retirement benefit provision for SATS pensioners	3,406	3,361
Debentures for pension fund liability	8,591	8,840
Net borrowings	9,470	10,418
Defrred taxation	6	3
	33,503	**34,527**

Source: Transnet Annual Financial Statements, Rushton & Halstead (2024)

TCTA was responsible for financing and financial risk management of the water transfer component of the Lesotho Highland Water Project (LHWP). This included the liabilities incurred for water delivery by the Lesotho Highlands Development Authority (LHDP), which was responsible for the physical implementation of the project in Lesotho. After several years of preparation, for which the funding requirements were limited, construction on the project began in 1990. At the end of 1994, LHDP debt made up close to 90 per cent of TCTA's liabilities (R2.5 billion). Almost 25 per cent of this funding was raised in the domestic capital markets, with the remainder comprising loans, both local and international. This included a loan from the European Investment Bank (EIB), ECAs, as well as domestic and foreign commercial banks. Around a third of the funding was raised in Rand, with the remainder in foreign currency.[154] Of the TCTA debt of R459 million, 75 per cent was in the form of loans, with the remainder coming from the domestic debt capital markets. Around 80 per cent of the funding was in local currency, with the remainder denominated in foreign currency.[155] All of the TCTA and LHDP debt was

[154] In addition, the government guaranteed R867 million of domestic and R1.5 billion of international borrowing by the Lesotho Highlands Development Authority.
[155] By the end of 1995, R1.4 billion of TCTA's domestic borrowing and R359 million of its international borrowing were guaranteed.

guaranteed by the government. Local banks, notably RMB and Standard Bank, built a market in the LHDP debt.

Government guarantees were made available to enable borrowing by other SOEs. By the end of 1995, R1.2 billion of the SARCC's domestic borrowing was guaranteed; as was R7.2 billion of Telkom's domestic borrowing and R2.2 billion of its international borrowing; as well as the borrowing of several other smaller entities.[156]

From the point when they were corporatised, the government was the guarantor of the Transnet and Telkom pension funds. In 1995, the Telkom Retirement Fund was established as a defined contribution plan. All pensioners of the Telkom Pension Fund and employees who retired after 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer, the government ceased to guarantee any deficit.

In total, by 1994, the total assets and liabilities of Eskom, TCTA and Transnet combined were R82.6 billion.

In short, by 1994, the balance sheets of the SOEs were in good health and quite well positioned to expand to support government infrastructure plans. Most were in advanced stages of 'commercialisation' and much of their respective debt obligations were government guaranteed. There was an ideological commitment to privatisation of the SOEs before and after 1996, but there was by no means a complete consensus.

4.4 Banks

There is a direct line from the 1985 banking debt crisis and the doubling of the size of bank assets as a percentage of GDP during the decade after 1994 (from around 60-70 per cent of GDP to around 120 per cent of GDP). As shown in the previous chapter, despite international commitments to isolate apartheid South Africa, the resolution of the 1985 banking crisis involved 233 international banks that were affected by the debt moratorium. This tells us how extensively international banks were engaged with the South African financial system, and, particularly, how they all significantly increased their lending to South African banks (many of whom were lenders to the apartheid state) during the years leading up to the 1985 crisis.

As the events of 1985 unfolded (Langa Massacre in March, State of Emergency in July, PW Botha's Rubicon Speech in August and the hardline sanctions resolutions adopted by the UN, US Congress and European Community that followed), South African banks realised that democratisation was the only way South Africa could be re-incorporated into international financial markets. They were right. From the late 1980s onwards, South Africa's banking leaders became active supporters of the key preconditions for a

[156] These included Armscor, the South African Nuclear Energy Corporation (NECSA), Kalahari East Water Board, Komati Basi Water Authority, Maize Board, South African Mint Company, and Umzimkulwana Irrigation Council.

negotiated settlement, namely lifting of the State of Emergency, release of political prisoners, unbanning of the liberation movements and a ceasefire. Nelson Mandela was released in 1990, and the first democratic elections took place in 1994.

By 1994, South Africa's banks were poised for what followed: An increase in the number of registered banks (including international banks), massive increase in lending to the expanding multi-racial middle class, expansion of the NBFI sector that was heavily integrated with the banking sector (especially the expanding shadow banks), huge pressures on banks to move into the unsecured lending market, increased lending to the public sector, and the beginnings of a corporate bond market as corporations started to reduce their dependence on bank financing. This provided the institutional context for what followed in 1994, namely, debt-financed consumption-led economic growth, which, in turn, underpinned the financial deepening of the economy. The core drivers were the commercial banks that provided the front-line lending to households, the nascent but rapidly growing merchant banks, and the increasing number of branches of foreign banks.

Average growth rates are not much use when trying to understand the evolution of the South African economy since the 1990s. A more accurate picture emerges when GDP shares per sector are considered. Figure 4-3 starkly reveals how the traditional mainstays of the South African economy, namely mining and manufacturing, went into decline after 1994, while the financial sector (which is not limited to banks) became the most significant driver of growth.

Figure 4-3: GDP shares by sector, 1960-2017

Source: Karwowski (2021: 1327)

Read together with the section on household balance sheets, it needs to be pointed out that while the banking sector may not have been formally structured along racial lines by apartheid-type legal statutes, it did reproduce the racially structured, male-dominated household and corporate balance sheets that the post-1994 government inherited from apartheid. In 1994, the leadership and shareholders of the banking sector were white, the large majority of households that held the bulk of deposits in the banks were white, and the bulk of the loans extended by the banks were in favour of white-owned and white-run corporations. The banks, in short, managed a specific matrix of apartheid balance sheets: The deposits of white households funded white-owned corporations in line with the expectations of the whites-only executive leadership and shareholders. It was this matrix of balance sheets that was restructured after 1994, in particular with respect to 'banking the unbanked' (a slogan from that period), lending to the new black elite to purchase their shares in white-owned corporations, supporting the development of women-owned and led investment companies, bringing black people into executive leadership and as Board members, and bringing black people and black-owned institutions in as shareholders. The first black CEO of a South African bank was only appointed in 2010, namely Sizwe Nxasana, who was appointed as CEO of FirstRand Limited.

By 1998, there were twelve large women-owned and led investment companies, including Women's Development Bank Investment Holding Company, led by Zanele Mbeki (whose husband became President in 1999). Others included Women's Investment Portfolio Holdings (Wiphold), Pontso, among others. Although they were all led by wealthy black women (many holding business degrees from foreign universities), most of them had shareholding and beneficiary structures that included tens of thousands of poorer rural and urban women (including many stokvels in the case of Wiphold). After 1994 there was a sharp financial deepening of the South African economy as the country opened up to the rest of the world, with bank assets growing strongly to 120 per cent of GDP by 2008 (compared to 65-70 per cent during the 1980s), before shrinking as a result of the impact of the 2007-9 global financial crisis (GFC) and the string of bank failures in 2014. Assets as a share of GDP peaked again in 2020, but this is largely because of the contraction of the denominator (GDP), not due to an increase in bank assets. By comparison, by 2023, bank assets were around 110 per cent of GDP, and the four biggest banks accounted for 88 per cent of these assets. It is this that has led many analysts to argue that the post-1994 debt-funded consumer-led growth period resulted in the financialisation of the South African economy, [157] or what some refer to as 'financial deepening'. The resultant balance sheet configuration during the 1994 period was characterised by a growth in financial assets at a rate in excess of the economic

[157] Karwowski (2021); Mohammed (2012)

growth rate and in the increasing concentration of these assets in the initially five and, after the founding of Capitec in 2001, six biggest banks.

Unlike the Afrikaner nationalist movement from the 1920s onwards that built an entire range of cooperative-based financial institutions, the post-1994 government did not catalyse and support a similar set of institutions for the poor black majority. The women-led financial institutions that emphasised these kinds of collective financing schemes obtained the bulk of their support from mainstream investors and international donors. However, the grassroots collective savings institutions, such as stokvels and the credit union movement, were forced to deposit their savings in banks, which then lent these funds as credit to the expanding middle class and corporate sector. This, despite the fact that by 2023, there were 800 000 stokvel groups with 11 million members who collectively managed cash balances of around R50 billion that were used primarily for consumption.[158] No wonder that Capitec, which aggressively tapped into this market from 2001 onwards, became one of South Africa's biggest banks by number of accounts by 2024.

The regulatory reforms of the early 1990s that were actively supported by South Africa's largest banks put in place the regulatory and institutional preconditions for the post-1994 era of finance-driven growth. These reforms included the passage of the South African Reserve Bank Act (1989) (that pre-figured the 'independence' of the SARB that was formalised in the 1996 Constitution), a new Deposit Taking Institutions Act (1990) (subsequently renamed as the Banks Act), and the Financial Services Board Act (1990). The Banks Act (1965) and Building Societies Act (1986) were repealed in 1991, which paved the way for the conversion of building societies into banks, thus transferring the large pool of savings of these semi-public membership-owned mutual financial institutions into the hands of private shareholders who now owned these banks and their respective pools of capital. The 1990 Financial Services Board Act was based on the Van der Horst Committee recommendation that an independent body to supervise and regulate the non-banking financial services industry be created.

At the same time, ABSA was formed in 1991 through the merger of UBS Holdings, the Allied and Volkskas Groups (mainly Afrikaner savings), and certain interests of the Sage Group. ABSA became the largest banking and financial services group on the continent and a major player in the debt-funded consumption-led growth after 1994.

By 1994, the funding sources (i.e. liabilities) of South African banks were as follows: Households were by far the largest source at R119.2 billion, followed by corporations at R69.3 billion, R41 billion from OFIs, R24.3 billion from government, and R9 billion from non-residents. In the same year, bank assets (loans and investments) of R276 billion included the following: R245 billion in private sector organisations, R214 billion in

[158] Verhoef (2001)

government institutions, R4.2 billion in inter-bank loans, R3.1 billion in foreign investments, and R3 billion in SOEs. In short, by 1994, the role of banks remained unchanged from their traditional role under apartheid, namely, they funded the non-banking corporations using the savings of households (primarily middle- and upper-class white households; however, after 1994, this included an expanding set of black middle-class and working-class households, including the expanding women-led stokvels.)

The banking system was rapidly globalised after 1994, with significant exchange control reforms allowing substantially more cross-border activity. The 1990 Banks Act had opened the door for foreign entry into the South African banking system. In practice, however, the Registrar of Banks found it difficult to regulate foreign banks in line with international best practice (Basel 1). This changed in 1996 in the wake of the lifting of sanctions. The Registrar allowed foreign banks, but imposed stringent conditions, first in 1996 and then again in 2000. A foreign institution had to maintain minimum net assets of USD 1 billion, or net assets of its own of USD 400 million if the foreign institution were to rely on its parent. The level of so-called 'endowment capital', effectively the minimum capital requirement, was set at the greater of R250 million or 8 per cent of assets. Significantly, these thresholds remain the same today, which means over time the real barriers to entry have gradually declined (which might explain the new entrants to the market from the late 2010s).[159]

The opening up of the economy, coupled with a wave of financial liberalisation in line with global trends,[160] led to the number of registered banks rising from 35 to 41 by 2001. Foreign banks with local branches roughly tripled to take advantage of the financial deepening of the South African economy, up from four to 15. Some of the international banks that opened local branches included Brait Bank, Cadiz, FirstCorp, International Bank, Merrill Lynch, and TA Bank.

These reforms enabled a set of balance sheet reconfigurations that resulted in the banking sector becoming substantially more competitive. The result was the financial deepening of the South African economy enabled by greater integration into the global USD system and the provision of massive quantities of credit to finance consumer-led economic growth, including the funding of the fastest transition in the world from a high street to a mall-based retail consumer system that, in turn, helped consolidate the market dominance of the large retail chains.[161] A new balance sheet configuration emerged that connected retail banking, the consolidated (mall-based) retail sector, and an emerging house-owning, highly indebted, multi-racial middle class. This balance sheet reconfiguration was at the very centre of the post-1994 political settlement to consolidate and stabilise the electoral base of the governing party.

[159] Personal correspondence with Roy Havemann
[160] Karwowski (2021); Mohammed (2012)
[161] Peyton, Moseley & Battersby (2015)

4.5 Development Finance Institutions

In contrast to the policy deliberations within mainstream government circles during the 1990s about the possibility of privatising SOEs, no serious proposals were ever made to effect it. Indeed, the number of DFIs has expanded since 1994, and their collective balance sheets have also steadily grown. Paradoxically, although the expansion of the DFI sector after 1994 may seem distinctly Keynesian, harking back to the MERG report, in reality, there was virtually no funding support aimed at substantially expanding the balance sheets of these DFIs to play major roles as lead arrangers of large-scale investments in GFCF. The key exception was the establishment of the National Empowerment Fund (NEF) in 1998, which was capitalised in 2004 with a once-off capital injection of R2.4 billion. The number of DFIs may have increased, but there has never been a policy ambition to substantively expand the balance sheets of DFIs to rival the size and power of the banks and NBFIs. Instead, following global trends in the 1990s, DFIs were regarded as minor players within the post-1994 monetary architecture.

Although the balance sheets of DFIs have remained small relative to the other non-state financial institutions (see details below), they were considered the policy-financing arms of the post-apartheid state. To this extent, they were widely expected to target their investments in ways that could have supported the industrial diversification of the economy as the most effective means to reduce unemployment and poverty. In reality, the pro-industrialisation investments of the key DFIs (namely the DBSA, IDC, and NEF) have been disappointing.[162]

Notwithstanding the paradoxical expansion of the number of DFIs without substantial equity injections after 1994, the balance sheets of the key DFIs were fundamentally re-oriented within the constraints of the post-1994 monetary architecture. This included aligning the missions of the DFIs with the goals of the RDP, which was adopted by the GNU a month after the founding elections in April 1994. This resulted in balance sheet reconfigurations of the traditional DFIs (LBK, IDC, and DBSA) as required by newly appointed Boards and Executives. The DBSA's mandate, for example, was shifted from making the bantustans economically viable to funding infrastructure development at the local government level. The LBK's focus shifted to investing in black farming businesses. The IDC's mandate included supporting the development of a black business class. The new provincial-level DFIs that were established were the Free State Development Corporation (1995) and the KwaZulu-Natal-based Ithala Development Finance Corporation (1998); while at the national level, the National Housing Finance Corporation (NHFC) (1996) and NEF (1998) were established to finance low-income housing development and SMMEs, respectively. As a precursor to what followed in 1994, the Independent Development Trust was established in 1990 by the apartheid government in collaboration with leading liberal business leaders and moderate

[162] Goga, Bosiu & Bell (2019); Panulo & van Staden (2022)

elements of the mass democratic movement after the release of political prisoners and unbanning of the liberation movements. The national budget allocated R2 billion to the IDT to provide funding for the upgrading of informal settlements across the country. The NHFC was formed to make housing finance more accessible to those who were not poor enough to benefit from the large, subsidised housing programmes, namely the low- to middle-income households. The NHFC collaborated with the DBSA to finance the infrastructure component of these new housing settlements that often combined low-cost loan finance for those who could afford the repayments and fully subsidised, mainly 'site-and-service' schemes funded via the national budget.[163]

Table 4-7 indicates that by the end of 1995, DFIs had increased their cumulative disbursements from R1.7 billion in 1984 to R10.2 billion. By 1994/95, the assets of DFIs in order of size included loans (R15 billion), securities (R10 billion), and currency/deposits (R644 million). Liabilities in order of size included equity (R14.2 billion), accounts payable (R6.7 billion), loans (R4.5 billion) and 'other' (R2.9 billion).

Table 4-7: DFIs balance sheet, 1994/95

Assets	R million	Liabilities	R million
Currency and deposits	644	Loans	4 545
Investment securities	10 028	Equity	14 249
Development loans	15 326	Accounts payable	6 703
Equity investment	0	Other	2 919
Accounts receivable	1 038		
Other	1 381		
TOTAL	**28 417**	**TOTAL**	**28 417**

Source: Nhleko (2024)

As Table 4-8 shows, the key asset counterparties in order of size were national and local government (R12.7 billion), private corporations (R6.1 billion), non-residents (R2.9 billion), households (R2.2 billion), SOEs (R2.2 billion), NBFIs (R1.2 billion), and banks (R644 million). DFI liabilities in order of size included national and local government (R14.2 billion), banks (R8.2 billion), non-residents (R5.7 billion), and NBFIs (R277 million).

[163] Khadiagala (2015)

Table 4-8: DFI counterparties and instruments, 1995

DFIs instruments[1]	Non-residents			Banks			Non-bank financial inst.			Central & local govt.			Public corporates			Private corporates			Households		
1995 - R million	OB[2]	Change[3]	CB[4]	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB
Total financial assets (change ≈ net acquisitions)	**2 839**	**158**	**2 995**	**1 384**	**- 740**	**644**	**1 465**	**- 84**	**1 381**	**10 965**	**1 794**	**12 760**	**2 098**	**117**	**2 215**	**5 801**	**322**	**6 123**	**2 178**	**121**	**2 299**
Currency and deposits				1 384	- 740	644															
Investment (debt) securities										7 511	2 517	10 028									
Loans	2 839	158	2 996							1 604	89	1 694	2 098	117	2 215	5 801	322	6 123	2 178	121	2 299
Equity and investment fund shares/units																					
Insurance, pension and standardised guarantee schemes							38		38												
Financial derivatives and employee stock options																					
Accounts receivable and other assets										1 850	- 812	1 038									
Property, equipment and land							1 427	- 84	1 342												
Total financial liabilities (change ≈ net incurrence)	**5 498**	**217**	**5 715**	**7 237**	**989**	**8 226**	**179**	**48**	**227**	**13 815**	**434**	**14 249**									
Debt securities																					
Loans	1 866	498	2 363	1 543	412	1 954	179	48	227												
Equity and investment fund shares/units										13 815	434	14 249									
Insurance, pension and Standardised guarantee schemes																					
Financial derivatives and employee stock options				2 062	858	2 919															
Accounts payable and other liabilities	3 633	- 281	3 352	3 633	- 281	3 352															

Notes: [1] The calculation is done from the DFIs' point of view – assets are DFI claims and liabilities counterclaims by other sectors; [2.] OB = opening balance; [3.] The change is assumed to be the full transaction; no revaluations or other changes in value are included; [4] CB = closing balance.

Source: Nhleko (2024: 6)

In general, the inclusion of black people and women in the mainstream of the economy was an overarching goal for all the DFIs after 1994. However, contrary to expectations, they were not seen by the post-1994 government as vehicles for channelling major high-priority public investments to achieve developmental goals. In line with international trends, this perception has changed since 2008, but without a commitment to large-scale recapitalisation.

The need to diversify the industrial base of the economy has been a consistent refrain by policymakers since 1994. This, however, can only be achieved if capital is invested in more complex economic activities with higher levels of productivity and therefore better returns on assets (i.e. GFCF). Yet, as already noted, bank lending was mostly consumption-oriented plus strategic funding for black and women's share ownership in existing enterprises rather than new value creation. It is in this context that, despite their relatively small asset bases, DFIs could be expected to play a countervailing role. However, as Maia et al.[164] found, South Africa's main publicly owned industrial financing institution, the IDC, served to reinforce path-dependency in the trajectory of its funding in the first decade after democracy, with 56 per cent of IDC funding allocated to heavy industries such as metals and machinery, mining and quarrying, and chemicals and other mineral products in the 1995 – 2005 period. Instead of following the example of the Asian Tigers by favouring the protection of nascent industries, the IDC conducted research that reinforced South Africa's commitment to the General Agreement on Tariffs and Trade in 1993.[165] The logic being that tariff liberalisation would force inefficient industries protected by apartheid-era safeguards to compete globally and thus become more profitable. After import controls and export subsidies were removed in the mid-1990s, the IDC financed resource-based mega-projects with export potential: Motor

[164] Maia, Mondi & Roberts (2005)
[165] Maia, Mondi & Roberts (2005)

vehicles, clothing and textiles, steel, petrochemicals and aluminium.[166] As a result, over 50 per cent of IDC's investments between 1994 and 1999 were in industries related to basic metals.[167] In parallel, the IDC diversified its investments to support black empowerment in the franchising, financial services, transport services, construction, education, health care, and industrial infrastructure sectors. However, the focus of these investments in the 1990s was to support black share-ownership of existing businesses within these sectors, rather than new value-adding ventures of up-and-coming black-owned businesses. This changed after 2000.

In short, Maia et al. conclude that, in general, the developmental potential of the DFIs after 1994 was constrained by a mix of poor developmental underfunding, limited concessional financing, relatively high administrative costs to profitability ratios, and path dependency (i.e. insufficient capital allocation to new high-risk black-owned businesses).

4.6 Pension funds

In the lead-up to 1994, various reforms were introduced that had the effect of protecting wealthy households and former apartheid civil servants. The quintessential transformation was the introduction of the GEPF, which was completed by 1996. At the same time, before and after 1994, the exclusion of the majority of black people, black Africans in particular, was recognised as a major welfare issue.

The various government pensions were merged and consolidated after 1994 and brought under the control of the Department of Finance. Benefit schemes directly funded on budget (post-retirement medical benefits, injury on duty awards, special pensions to non-statutory force veterans, amongst others) became the responsibility of the Pensions Administration Chief Directorate in the Department of Finance, and the PIC became responsible for the investments.[168]

By 1994, all government pension funds held assets worth R99.7 billion, which was equal to 30 per cent of the total assets of all retirement funds, 19 per cent of the assets of NBFIs and about 25 per cent of GDP. The main government pension fund (which became the GEPF) accounted for about 80 per cent of these assets.[169] Significantly, the PIC invested these funds mainly in government or state enterprise securities. Allowing these funds to be deployed for non-government investments began in 1995 when the mandate of the PIC was extended to include investment in equities and property. In contrast to the 1980s, prudent management resulted in government funds being fully funded by 2000, when funds and reserves reached R200 billion.[170] By 2006, the GEPF was more than fully

[166] Maia, Mondi & Roberts (2005)
[167] Roberts (2007) referred to in Maia, Mondi & Roberts (2005)
[168] Donaldson (2024: 4)
[169] Donaldson (2024: 1)
[170] Donaldson (2024: 4)

funded, and its funds and reserves reached R546 billion, which accounted for 36 per cent of all retirement fund assets and 20 per cent of NBFI assets, equivalent to 34 per cent of GDP.[171]

Table 4-9 demonstrates that at the dawn of democracy in South Africa, pension funds were already well-established financial institutions.[172]

Table 4-9: Pension funds' assets under management (R billion)

Assets in Registered Pension Funds [billions]	1990	1991	1995
Privately/Self-Administered Funds	68.9	78.7	203.7
Underwritten Fund	49	49.7	93.9
GEPF			
Officials Funds			87
Transnet Fund			19.7
Telkom Fund*			4 .1
Post Office Fund*			1.6
Industrial Agreements	0.36	0.46	2.6
State Controlled Funds	3.01	4.7	No reporting
Foreign Funds	-	-	-

Source: Moleko (2024), based on reports of the Financial Services Board (1990 – 1995)

These funds were heavily invested in equities and bonds listed on the JSE. Total assets held by pension funds by 1994 were R352 billion, having grown on average by 18.6 per cent per annum between 1985 and 1994, higher than the average for 1958-1984.[173] According to the Financial Services Board (FSB), total pension assets were over the R400 billion mark by 1995.

The end of the apartheid regime raised the question of how to handle the existing pension assets, which had been primarily accumulated by white elite households. Several official inquiries took place to address the challenge of the exclusion of the majority from adequate pensions upon retirement. This included the Mouton Commission (1992), the Katz Commission into Tax Reform (1995), the Smith Commission (1995), the Lund Commission of 1996 into welfare policy, the National Retirement Consultative Forum (1997), and the authoritative Taylor Committee on Welfare Policy (2002). The 1992 Mouton Committee exposed the fact that only 5.5 million employed people were covered by pension schemes for their retirement, compared to nine million people aged 15-64

[171] Donaldson (2024: 4)
[172] Moleko & Ikhide (2017)
[173] Moleko (2024)

who were not members of any retirement fund. It proposed 108 recommendations that should be read together with the recommendations of the other inquiries mentioned above. All five addressed the complex challenge of financial exclusion of the majority of the population, which in our conceptualisation comprises the household categories of the non-banked poor, the banked poor, and the middle class. A review of the state of play in 2004 (which was no different from the situation in 1996) by NT concluded that '[b]etween the basic old age social grant, on the one hand, and private contractual and voluntary savings vehicles on the other, there is a notable lack of cost-efficient vehicles appropriate to meeting the retirement funding needs of lower and middle income people, and those whose lifetime earnings are largely informal or irregular.'[174]

The first dimension of the balance sheet reconfiguration in the pension fund sector was the setting up of the GEPF in 1996. This was an essential part of the political settlement reached during the 1990-1994 period, which included the protection of the pensions of apartheid-era civil servants. The gradual re-orientation of the GEPF's investment mandate from being entirely focused on investments in public sector bonds to a diversified set of investments in the private sector effectively deprived the democratic state of crucial sources of capital required to redress the inequalities inherited from the apartheid era, which had been sources of capital for the apartheid state.

The GEPF was established as a separate legal entity with its own Board in 1996 as a so-called fully funded 'defined benefit' scheme rather than as a 'pay-as-you-go' fund. The core of the GEPF was the Government Service Pension Fund that had evolved during the apartheid era, and which was converted in 1989 from a 'pay-as-you-go' to a 'defined benefit' scheme. Hence, benefits were not correlated with contributions but rather pre-defined for all civil servants according to length of service and salary level, irrespective of contributions. This was combined with the legal requirement for the GEPF to be 'fully funded' in advance to ensure maximum protection of former apartheid civil servants despite the fact that annual payouts to retiring civil servants are a small proportion of the total fund at any fixed point in time. This was achieved by 2000. This double protection mechanism (defined benefits *and* fully-funded), which mainly benefitted former apartheid era civil servants in the 1990s, meant that the post-apartheid government needed to draw funds from the NRF to top up the existing contributions in the previous Government Service Pension Fund to legally comply with the provisions that led to the establishment of the GEPF. Without this direct transfer into the pension funds of mainly white civil servants, the 'golden handshakes' that were needed to retire civil servants to make way for the appointment of black people in the civil service at all levels during the 1990s would not have been possible. The deal did not include a requirement that the GEPF invest what became the largest pool of pension money in Africa in ways that

[174] National Treasury (2004)

directly supported developmental priorities, such as industrial diversification or infrastructure.

The asset manager for the GEPF became the renamed Public Investment Corporation (remaining the PIC). As noted above, its origin dates back to the Public Investment Commissioners Act of 1984 and the Corporation for Public Deposits Act of 1984, which provided for the rationalisation of the functions of the Public Debt Commissioners. All the short-term pooled funds were transferred to the newly formed Corporation for Public Deposits, a wholly-owned subsidiary of the SARB. The remaining assets and liabilities (essentially long-term in nature) were transferred to the PIC. The PIC is governed by a Board chaired by the Deputy Minister of Finance.

The first Board meeting of the GEPF was held in June 2005. This marked a fundamental balance sheet reconfiguration: Although still supported by NT, pensions administration was separated from the state and became the fiduciary duty of a semi-independent Board with a narrowly defined investment mandate. After its establishment, the Board's investment committee engaged the PIC regarding the nature of this investment mandate.[175]

Initially, the PIC's investments went into bonds and the fixed interest rate market, but by the 1990s, equity investments were being made in ordinary and preference shares. Assets under management grew from R1.6 billion in 1961 to around R25 billion in 1984, to nearly R80 billion by 1994 and R200 billion by 2000.

As the GEPF's asset manager, the PIC has consistently shielded its assets from any government access. Despite being a public agency, the PIC has always understood its role as no different to a private asset management firm with a primary fiduciary duty to maximise returns and profits rather than development outcomes. This was reinforced by the PIC Act of 2004. By 2003, the PIC had R309 billion under management, growing to a staggering R2.5 trillion by 2022.[176] By 2022, the PIC managed the following funds (percentage of assets under management in brackets): GEPF (89.4 per cent), Unemployment Insurance Fund (4.6 per cent), Compensation Commissioner Fund (2 per cent), Compensation Commissioner Pension Fund (1.6 per cent), and Associated Institutions Pension Fund (1.5 per cent). By 2022, these assets were deployed as follows: Bonds, listed equities (80 per cent internally managed), properties, and the Isibaya Fund (specialising in social, economic and environmental investments).

The post-apartheid monetary architecture did not include the need for a reintroduction of prescribed assets to boost investments in GFCF and to help reduce inequalities resulting from the apartheid period.[177]

[175] Donaldson (2024: 5)
[176] PIC annual reports quoted in Moleko (2024)
[177] Prescribed assets were only revisited after 1994 in the ANC's 2019 election manifesto which referred to the need to consider re-introducing prescribed assets, but this has been vigorously opposed by the pension industry.

As a result, according to one global comparative study, South Africa's pension funds were the fastest-growing pools of pension funds in the world between 1994 and 2014.[178] Between 1994 and 2005, the total number of funds increased significantly, peaking in 2005 and then declining as the industry consolidated, while membership was fairly level at 10 million between 1994 and 2005, after which it rose steeply to 15 million members by 2014. The funds that were exempted from the provisions of the Pension Funds Act of 1958 were the Officials Fund, the parastatal funds such as the SAPO Pension, Transnet and Telkom Funds, and the GEPF after it was established in 1996. These exempted funds were supervised by the NT, rather than the Registrar of Pensions.

4.7 Unit trusts and other shadow banks

Compared to the early 1980s, by the mid-1990s, general equity funds that managed 80 per cent of the ZAR value of all unit trusts were able to start diversifying beyond listed mining and mining-related stocks. Managed by established life insurers like Old Mutual, Sanlam, and Liberty or banks like RMB, ABSA, and Standard Bank, to grow their portfolios, these funds needed to diversify beyond mining, and they needed to access international capital.

The dawn of democracy in South Africa coincided with a rapid expansion of the domestic shadow banking system as the enablers of the expanding flows of funds that were not being reinvested in GFCF after 1994. At the same time, the end of the dual currency system and the associated international capital controls after 1994 led to the globalisation of South Africa's financial system. From a monetary architecture perspective, this led to profound changes in the balance sheet configuration of the NBFI sector. On the one hand, NBFI balance sheets became more strongly entangled with balance sheets outside of South Africa. On the other hand, the NBFI balance sheets became more strongly dollarised as more and more instruments were denominated in the international key currency.

The expansion of the shadow banking system was primarily visible with regard to unit trusts (later renamed Collective Investment Schemes – CIS). After a decade of sluggish growth following the financial crash of May 1969, unit trusts eventually recovered and flourished from the late 1980s onwards as financial markets were liberalised. Whereas the value of unit trusts was only R33.6 billion in 1995, they had mushroomed to R415 billion a decade later. Despite the minor financial crash of 1987, the average growth rates in the ZAR value of these unit trusts were consistently two to three times the GDP growth rates after 1994 (Table 4-10). Given that shadow banks played an important role in managing unit trusts, this reflects the significance of the 1994 moment for the growth of the shadow banking sector.

[178] Towers Watson, quoted in Moleko (2024)

Table 4-10: Economic growth (GDP) and growth in unit trusts assets, 1990-2005

Year	GDP (Rm)	Annual compounded growth rate	Unit trusts (Rm)	Annual compounded growth rate
1990	289 816	17,83%	7 550	37,43%
1995	548 100	13,59%	33 695	34,87%
2000	922 148	10,97%	128 385	30,67%
2005	1 529 658	10,65%	415 131	26,45%

Source: Meyer-Pretorius & Wolmarans (2006: 52)

The growth in the ZAR value of unit trusts was complemented by the growth in the number of funds. As Table 4-11 indicates, the number increased from 36 in 1990 to 88 in 1995, 334 in 2000, and 567 in 2005. Most of these funds invested in equities. However, a key balance sheet reconfiguration took place in 1997 when, '[a]fter many years of resistance from the banking sector ... which had a monopoly on the investment of short-term funds', money market unit trusts were introduced.[179] Within *three years*, there were 19 MMFs with assets of R31 billion, and 26 by 2005 with assets of R115 billion. As MMFs grew to 33 per cent of the ZAR value of unit trusts, the ZAR value of equity funds declined from 89 per cent in 1995 to 49 per cent of the ZAR value in 2005. Fixed-interest funds (otherwise known as bond funds) increased slightly.

Table 4-11: Distribution of the value between equity and other funds, 1990-2005

Type	1990			1995			2000			June 2005		
	No of funds	Assets		No of funds	Assets		No of funds	Assets		No of funds	Assets	
		R bn	%		R bn	%		R bn	%		R bn	%
Equity	28	7,136	94%	65	30,121	89%	273	75,012	59%	437	167,697	49%
Bond	8	0,437	6%	23	3,549	11%	42	20,053	16%	104	62,919	18%
Money Market							19	31,856	25%	26	115,304	33%
Total	**36**	**7,573**		**88**	**33,670**		**334.00**	**126,921**		**567**	**345,920**	

Source: Meyer-Pretorius & Wolmarans (2006: 54)

The globalisation of South Africa's monetary architecture after 1994, coupled with the liberalisation of financial markets, resulted in significant balance sheet reconfigurations that enabled unit trusts to escape dependence on volatile mining stocks. The result was a diversification of equity funds as asset managers began to set up their own unit trusts, thus competing with the traditional players (the life insurers like Old Mutual, Sanlam and

[179] Meyer-Pretorius & Wolmarans (2006: 54)

Liberty, and the established banks like Standard, ABSA and RMB). As a result, General Equity funds declined from 80 per cent (R23 billion) to 32 per cent of the market (R54 billion). This corresponded to the rise in the number of so-called 'Specialised Funds' and 'Balanced Funds' (now known as MAFs). Specialised Funds grew from 13 per cent (R3.9 billion) in 1995 to 23 per cent (R38 billion) of the market by 2005. Similarly, Balanced Funds grew from 6 per cent (R1 billion) in 1995 to 34 per cent (R56 billion) of the market by 2005. Unsurprisingly, international funds grew from only 6 funds comprising 1 per cent (R400 million) of the market in 1995, rising to 86 funds comprising 11 per cent (R18 billion) of the market by 2005. The growth from 10 to 199 MAFs to capture 32 per cent of the market in equities over the 1995 to 2005 decade reflects the success of the move of asset managers into the shadow banking space with unit trusts as a core instrument. Underneath this move was a decline in dependence on mining stocks, and the rising significance of industrial, particularly financial stocks.

By 2005, 26 finance companies were managing 567 funds representing the interests of around two million investors. The largest four by 2005 were Stanlib (17 per cent), ABSA Fund Managers (11 per cent), Investec (8.4 per cent) and Old Mutual (7.5 per cent). Collectively, all unit trusts held only 4.8 per cent of JSE-listed shares by 2005, up from 2.1 per cent. Significantly, most unit trusts in South Africa are held by individuals via management companies, while 24 per cent were held by institutions (pension funds, provident funds, retirement funds, endowments, companies and structured funds) after 1994.

Most funds were managed by individual portfolio managers rather than teams, especially after 1997. This had incentivised short-term capital gains within an increasingly financialised economy. The result was a shift from long-term investments in dividend-generating stocks to short-term capital gains investments. Meyer-Pretorius estimates that the total turnover of the trade in unit trusts was R622 billion by 2004. Even though unit trusts held only 5 per cent of JSE-listed stock by 2005, a turnover of R622 billion was equal to 40 per cent of the GDP in 2005. According to Meyer-Pretorius, short-term speculation had largely replaced conservative long-term investment strategies in South Africa.[180]

This shift from dividend-seeking long-term investing in real economic stocks (i.e. mining and industrial stocks) to shorter-term capital gains investing mainly within the financial economy began in the post-1994 period, and was further fuelled by the deregulation of fees and charges in June 1998. From this point onwards, removal of the regulated ceilings entitled the funds themselves to set their own fees and charges. This created irresistible incentives for portfolio managers to increase transaction rates (i.e. shorten holding periods to boost deal flow), thus creating a preference for stocks in businesses dealing in liquid rather than fixed assets. This turbo-charged rather than ameliorated

[180] Meyer-Pretorius & Wolmarans (2006: 59)

financialisation and enriched the transactors, i.e., the traders, brokers and portfolio managers that earn fees from every transaction. Assuming that fees and charges are equal to 7 per cent of turnover (see below), this amounts to R43.5 billion for the 1988 - 2005 period that accrued to these transactors.

Whether the unit trust industry is, in reality, more beneficial to investors than direct trading on the JSE is questionable. The average return at face value from unit trusts was 19.46 per cent for the 1988 to 2005 period, compared to the average returns on listed shares on the JSE of 17.97 per cent.[181] However, after the deduction of fees and charges, the face value average return of 19.46 per cent reduced to a real return of 12.4 per cent, which was lower than the JSE average for this period. And yet, millions of investors have bought into the much-hyped unit trust narrative and the related financialisation of investing that follows. This may explain why companies in this market have such large marketing budgets. That said, the skill and capacity to invest directly in the JSE is not available to the average investor in unit trusts.

The key shadow banking institution accessible for poorer households continued to be the women-led stokvels, whose members tended to be women with a little bit of disposable income, i.e. not the extreme poor. According to a survey of stokvels conducted by Market Research Africa in 1995, 29 per cent of black South Africans, most of whom were women, participated in stokvels of various kinds. This included 33 per cent of the total black urban population above the age of 16. It was estimated that the stokvels had 11 million members in 1995.[182] A 1996 survey of stokvels revealed the dependence of black women on stokvels relative to their limited access to banks across different LSMs (see Table 4-12).

Table 4-12: Stokvel activity, by Living Standard Measure (LSM), 1996

LSM Level	% Black	No. of Adults (Age 16+) (000s)	% of Total Pop.	% Women	% Working Full or Part-Time	% Member of Burial Society	% Member of Stokvel of Any Type	% with Bank Account
LSM1	99.8	4,358	20	57	19	0.2	15	3
LSM2	98	2,875	13	59	33	1.3	14	10
LSM3	93	2,993	12	48	40	5	24	23
LSM4	89	3,343	13	47	44	9	18	36
LSM5	81	3,314	14	49	41	13	26	44
LSM6	55	3,247	13	52	46	21	14	64
LSM7	12	2,987	11	49	55	26	3	93
LSM8	2	1,423	5	59	62	26	3	97

Source: Verhoef (2001: 281)

Note: Income of people in LSM1 to LSM3 varied from no income to R1,500 per month; people in LSM3 and LSM4 earned between R1,500 and R3,900 per month, while earnings rose to R5 900 for people in LSM5 to R8 000 for people in LSM6, and to over R8 000 per month for people in LSM7 and LSM8.

[181] Meyer-Pretorius & Wolmarans (2006: 59)
[182] Verhoef (2001: 280)

The EU Internal Market Information IMI survey revealed that between 3 per cent and 23 per cent of the poorest people (LSMs 1-3) had bank accounts, while between 15 per cent and 24 per cent of this same group participated in stokvels. Significantly, it was not the poorest people with the highest stokvel participation rates, but rather those with some disposable income (LSM 3-5), of whom 40 per cent had jobs and around 50 per cent were women.[183] The EU Internal Market Information survey confirms that women dominate participation in stokvels, in particular at the lower LSM levels. While women used stokvels to meet subsistence needs (food, transport, housing, clothing, education and informal trading operations), men used stokvels mainly for housing and buying alcohol.

In 1990, only 5 per cent of formal bank credit and hire-purchase advances were provided to black people. By 1993, stokvel savings had grown to approximately R280 million, which was, in turn, banked with the large commercial banks, who, in turn, then lent this money out to people with bank accounts and collateral (i.e. richer people).[184] Verhoef estimated that, as a result, stokvels provided 40 per cent of total credit accessed by black people in 1998.[185] In other words, thousands of women who led stokvels across the country managed R280 million in savings.

NASASA and radical NGOs tried to change the outward flow of capital from stokvels by mobilising policy and bank support for what is referred to as 'community re-investment' in the USA, i.e. the targeting of loans to benefit the communities from where stokvel savings originate. However, this largely failed, with a weakened version of this way of thinking incorporated into the Financial Charter. The Club Account of the Permanent Building Society would have been an ideal vehicle for such 'community re-investment' in South Africa. The short-lived non-profit Community Bank, founded by the former CEO of the Permanent Building Society and a group of NGOs, attempted to close this loop, but it also eventually failed.

It is estimated that by the mid-1990s, the Permanent Building Society had attracted 32 per cent of stokvel savings via its Club Account, the Natal Building Society held 21 per cent via its Life Saver account, the Standard Bank received 17 per cent via its Society Scheme, and First National Bank attracted 17 per cent with its People's Benefit Scheme. NASASA negotiated a 'stokvel loan scheme' from the Get Ahead Foundation, an NGO with funding from overseas development agencies and local banks. Copying the Grameen Bank model, the loan scheme provided loans to women micro-entrepreneurs, who were stokvel members, with the stokvel's savings providing the collateral. By the late 1990s, R33 million had been allocated via 50,000 micro-loans with a 95 per cent recovery rate. Operating in 23 townships by the mid- to late-1990s, 90 per cent of the

[183] Verhoef (2001: 280)
[184] Verhoef (2001: 285)
[185] Verhoef (2001: 283)

borrowers were women. Similarly, NASASA negotiated a funeral insurance scheme with African Life Insurance Company tailored to meet the needs of burial societies. Taking advantage of the BEE framework, NASASA also set up the NASASA Investment Finance Company that took stakes in listed and unlisted businesses on behalf of women-led stokvels. Similarly, Wiphold mounted a successful strategy to convince women-led stokvels to convert from pure savings groups to micro-investors in its various businesses. When Wiphold eventually listed on the JSE, many of these converted women-led stokvels did quite well.

4.8 Central bank

After the end of apartheid, the Constitution of the Republic of South Africa, which was adopted in 1996, clearly defined the SARB as the linchpin of South Africa's monetary architecture. Section 224 of the Constitution defines the independence of the SARB as follows:

> The primary object of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic' (Constitution of the Republic of South Africa, 1996).

Some left-wing critics have argued that the constitutional institutionalisation of the SARB as more independent than most central banks was a legacy of the apartheid-era South African Reserve Bank Act 90 of 1989 into the democratic era.[186] These critics call for the 're-nationalisation' of the SARB (including the party that is now the 'official opposition' in Parliament since the 2024 elections).

Successive SARB Governors have focused exclusively on currency protection, thus creating the key conditions for re-incorporating South Africa into the global financial system. The defenders of Section 224 envisaged a very particular post-apartheid monetary architecture whereby the role of the SARB's balance sheet is as guarantor of currency stability in an idealised balance between monetary and fiscal policy: In order to keep debt levels low via monetary policy, tight rather than expansionary fiscal policies will be required, thus leaving growth-stimulating investment to the private sector. Growth, in turn, increases revenues, which then creates space via improved tax collection for fiscal expenditures to address socio-economic needs.[187] Needless to say, as argued in a recent NT report, these ideal conditions may have emerged to some extent between 1999 and 2014, but not after the onset of the state capture years.[188]

[186] Hickel (2021)
[187] A National Treasury review of macro-economic trends published in 2024 clearly reveals the view that because state capture (2008-2017) and global recessionary conditions (pandemic years) forced up debt levels to finance higher fiscal spending, monetary policy had to do the heavy lifting to constrain inflation which, in turn, meant the balance between monetary and fiscal policy was compromised. National Treasury (2024).
[188] National Treasury (2024)

What is clear is that the constitutionally entrenched independence of the SARB formalised its role as the ultimate 'fire fighter' to combat crises when they emerge. The overall strategic outcome of its reaction to the 1996 balance of payments crisis (see below) and the impact of the 1998 Asian financial crisis (see below) was a useful legitimation of this necessary role early on in South Africa's journey into the uncharted democratic era. International investors watched closely to see whether its formal constitutional independence would be realised in reality. As this section will show, this pivotal role in the post-1994 balance sheet configuration was enabled by rising liquidity ratios, an expanding asset base, an overall decline in advances as a percentage of total assets, and protections from currency volatility made possible by the co-management of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) with the NT (see below). The overall economic outcome, however, was a highly liquid oligopolistic banking sector that redirected the advances banks received from the SARB into debt-financed consumption-led growth and not productive industrial development by investing in GFCF.

Unsurprisingly, from 1994 to 2024, numerous reforms have led up to the full elaboration of the current tasks and responsibilities of the SARB as the cornerstone of South Africa's monetary architecture as of 2024. For the sake of our narrative, the current configuration is summarised in Figure 4-4, while the remainder of this section and subsequent sections on the SARB elaborate on the journey towards this configuration.

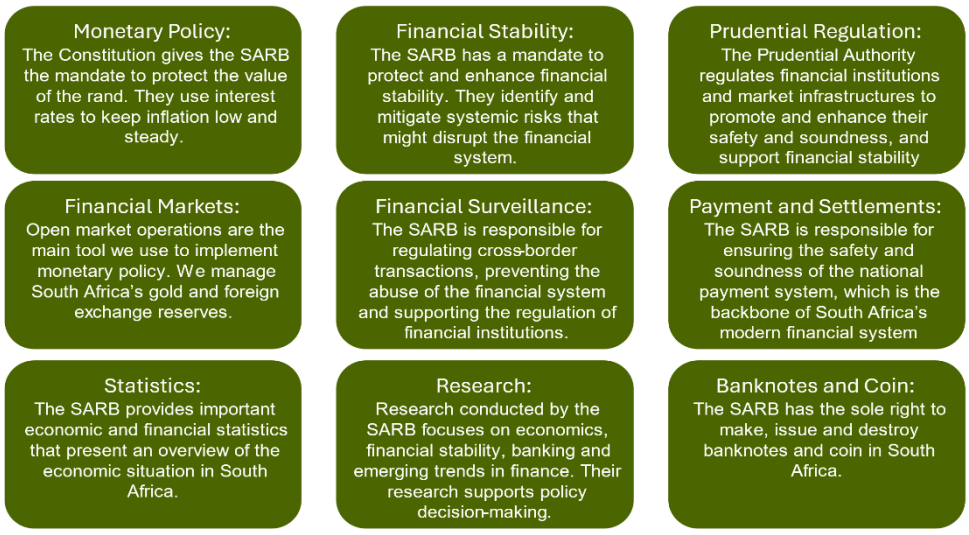


Figure 4-4: Tasks and Responsibilities of the SARB
Source: Naidoo, Meerholz & Lehmann-Grube (2024)
Note: The Prudential Authority was only established in 2018.

It is important to note that, unlike most other developed and developing countries, the SARB is not the prudential authority of the key DFIs. The LBK and DBSA fall under the authority of the NT, and the IDC falls under the Department of Trade, Industry and Competition (previously the DTI). This means these financial institutions are not regarded as 'part of the family' by the capital markets, which places limits on how much these DFIs can access in these markets. It also means that, unlike in many other Global South countries, the SARB is not obliged to provide advances to these DFIs.

From a monetary architecture perspective, what matters here is the role that the SARB balance sheet plays in the governance of South Africa's monetary architecture. Six dimensions are of interest, which can be explored with the help of time series data: (i) whether or not the SARB's assets are expanding; (ii) the extent of dependence of South African banks on advances from the SARB; (iii) the liquidity ratios which are essentially the ability of the SARB at any point in time to cover short-term liabilities (e.g. demand for advances to banks) with its short-term assets (liquidity), a higher ratio indicates better liquidity and therefore the greater the capacity of the SARB to play its 'fire-righter' role when crises hit;[189] (iv) government deposits as a percentage of liabilities; (v) foreign deposits as a percentage of liabilities; and (vi) the size and governance of the GFECRA that was established in 1989 in terms of the South African Reserve Bank Act.

First, looking at the asset side of the SARB balance sheet, it shows how it (working together with the Department of Finance) effectively engineered the balance sheet reconfigurations that made it possible to manage the challenges and instabilities of the mid-1980s for long enough until the democratic opening began with negotiations in 1990. On the back of the provisions of the 1989 South African Reserve Bank Act, between 1990 and 1994, when sanctions were formally lifted, the SARB's asset base was not only protected but also increased slightly. However, it was not until 1994 that the real expansions of the SARB's asset base began. Its assets expanded threefold from R33.9 billion in 1990 to R90.8 billion in 2000 (Figure 4-5). This was due to the lifting of sanctions in the post-1994 period, as well as the globalisation of the SARB balance sheet.

[189] Following Bagus & Howden (2016), the notion of 'liquidity ratios' shifts the view away from absolute monetary value to the quality of money, which provides better insight into the analysis of future monetary policy. Additionally, as the SARB creates liquidity for the entire economy, which can be seen as creating additional elasticity, understanding the state of SARB liquidity is key in assessing its ability to act as a 'firefighter' balance sheet.

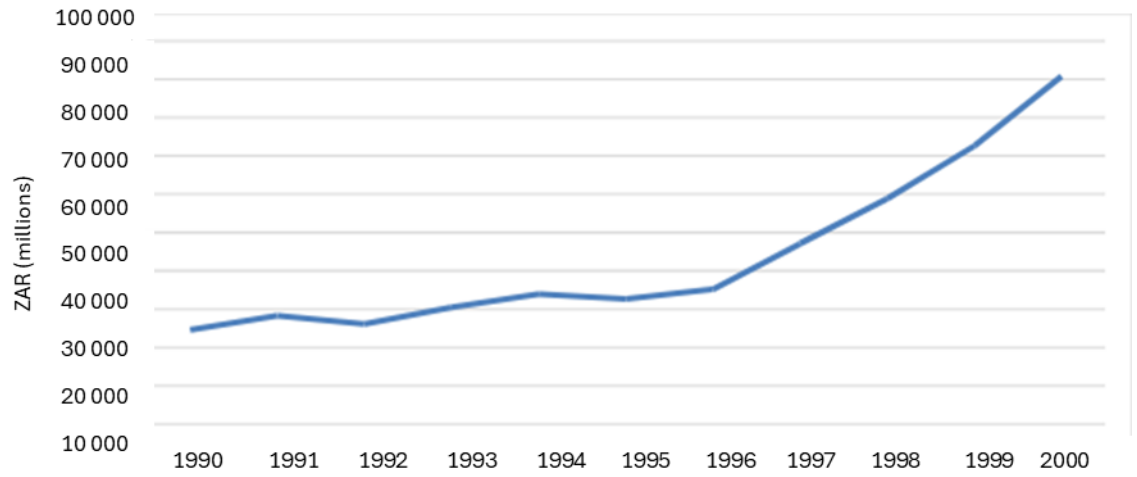


Figure 4-5: Total Assets 1990-2000
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

The increase in total assets was due to the holding of certain asset classes during the 1994-2000 period, specifically gold, foreign reserves, and government stock.

- Total gold and other foreign reserves (KBP1021M), increased by 89 per cent between 1990 and 2000.
- Gold coin and bullion (KBP1020M) increased by 67 per cent over the period.
- Investments in government stock (KBP1027M) increased by 91 per cent.

Strategically, the main increase was the purchase of foreign assets, most likely foreign currency, as well as investments in government bonds.

Given the transition from apartheid to democracy, a number of potential vulnerabilities were identified by the SARB that may have been the impetus for building these asset classes and appropriate monetary policy responses. These were:

- Hedging against expected future devaluation of the Rand: Holding foreign reserves as well as gold would function as a buffer against what may have been a disproportionate increase in the value of the Rand after the start of democracy and the lifting of sanctions, followed by a devaluation.
- Increased foreign investment and hedging against potential capital flight that might have followed: Increasing the variety of sources of liquidity (foreign reserves, gold, and government bonds), the SARB ensured that there were buffers against changing economic conditions both externally and internally.
- Sufficient gold reserves: f gold reserves in the SARB were insufficient due to sanctions during apartheid, it would have been important for the SARB to ensure these reserves were increased to ensure monetary stability.

Second, as far as advances were concerned, the expansion of the SARB balance sheet after 1994 enabled it to massively boost the liquidity of the banking sector (Figure 4-6). This elasticity space was exploited by doubling the size of advances as a percentage of a growing asset base, which made it possible for South Africa to weather the 1996 balance of payments crisis and subsequent 1998 crisis triggered by global dynamics unleashed by the 1998 Asian financial crisis. This double whammy led to a significant depreciation of the Rand by the end of 1998. Repeating a trick learnt in the mid-1980s, the SARB coupled a substantial increase in advances to the banks in 1996 with interest rate hikes to attract foreign capital to shore up its asset base, repeating these interventions in 1998. However, because of the extent of the interventions in 1996, lower than expected advances to the banks were needed to cope with the 1998 crisis. To then align fiscal policy with monetary policy, the NT adopted a new economic policy (GEAR) in mid-1996 to justify fiscal tightening that, in turn, rendered the more Keynesian, post-1994 RDP redundant. 'Macro-economic stabilisation' as a precondition for future economic growth (and therefore more redistribution later via increased fiscal spending) was the narrative that was used at the time to justify higher interest rates, fiscal tightening and constrained borrowing.

If the spikes in advances to banks in 1996 and 1998 in response to crises are ignored, the overall trend is a decline in advances to banks between 1994 and 1998, as well as a gradual decline in 'other advances' mainly to national and provincial government, National Supplies Procurement Fund, agricultural control boards and other semi-government bodies. Figure 4-6 clearly reveals how the SARB used its balance sheet to gradually engineer a form of macro-economic stabilisation that prefigured the subsequent fiscal expansion discussed in the next section on the NT. The 2008 Banking Enquiry Report[190] noted that the SARB's stringent conservative prudential controls of South African banks may have been good for stability and reduced dependence on advances from the SARB, but this resulted in oligopolistic behaviours that created high barriers to entry and high banking costs that negatively affected the poorer sections of society.

[190] See Competition Commission (2008) (discussed further in next section).

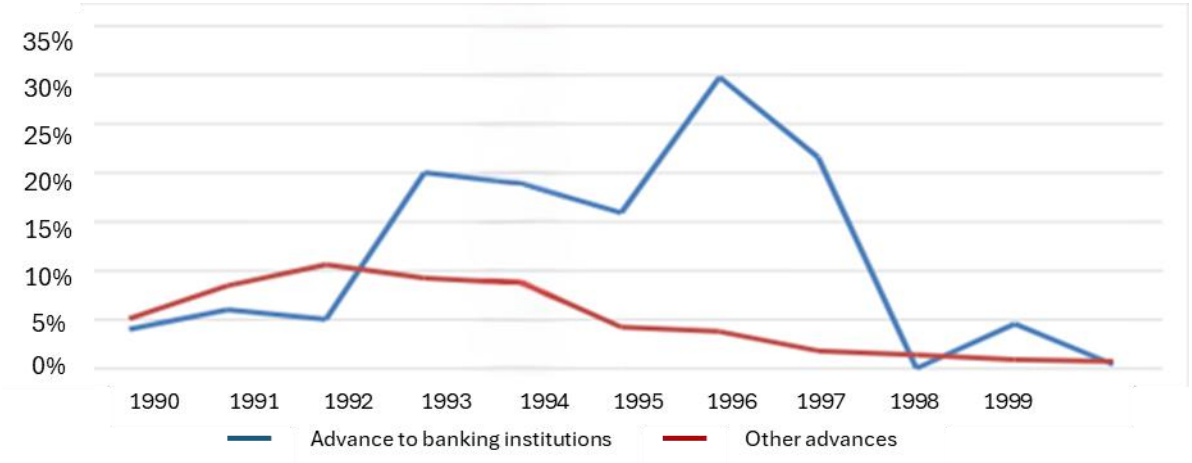


Figure 4-6: Advances provided (as a % of Total Assets) 1990-2000
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Third, the liquidity ratios in Figure 4-7 show that during the immediate post-1994 period, much of the initial liquidity came from government bonds, with, as expected, a slight increase in gold/foreign reserves once sanctions were lifted. However, from 1996 onwards, there was a substantial divergence as liquidity from gold reserves declined while liquidity from foreign reserves plus government bonds shot up. This reveals how successful the interest rate hikes were in attracting foreign capital, which, in turn, made the spike in advances to banks in 1996 possible. This is a further indication of the opening of the South African economy in the post-apartheid period, and the general international movement away from gold as a unit of account.

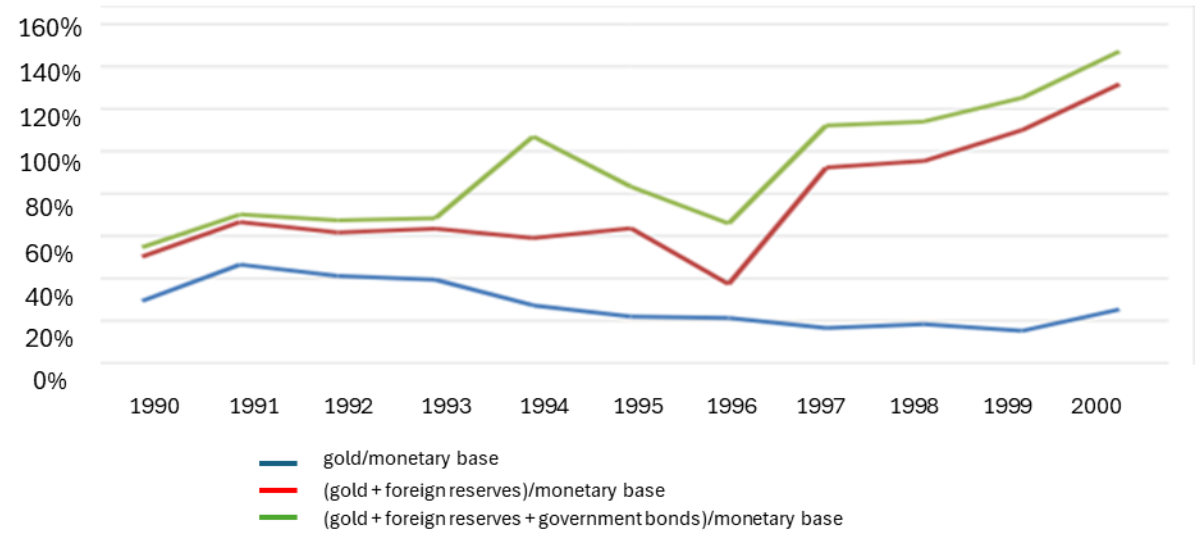


Figure 4-7: Liquidity Ratios 1990-2000
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Fourth, Figure 4-8 describes the volume of government deposits held at the SARB. As the South African economy started to stabilise, the elasticity created by these liabilities was no longer needed, which meant this elasticity space created by the SARB for the government could be contracted in the process of stabilising the economy. At the same time, various branches of government reduced their dependence on the SARB by opening accounts with commercial banks.

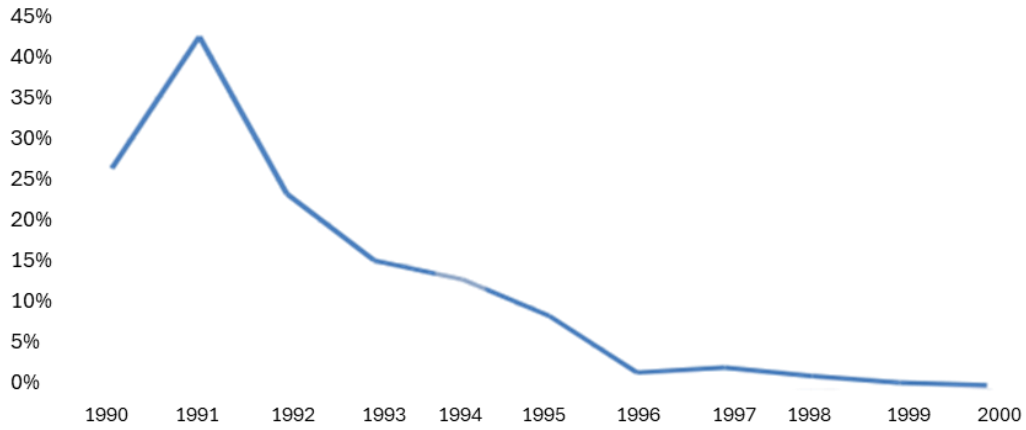


Figure 4-8: Government Deposits (as a % of total Liabilities) 1990-2000
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Fifth, during the transitional period leading up to 1994, foreign deposits as a percentage of total liabilities increased in anticipation of democratisation but then reduced after 1994 until the onset of the currency depreciation. They then escalated dramatically as interest rates rose before tapering off after the depreciation in 1998 (Figure 4-9).

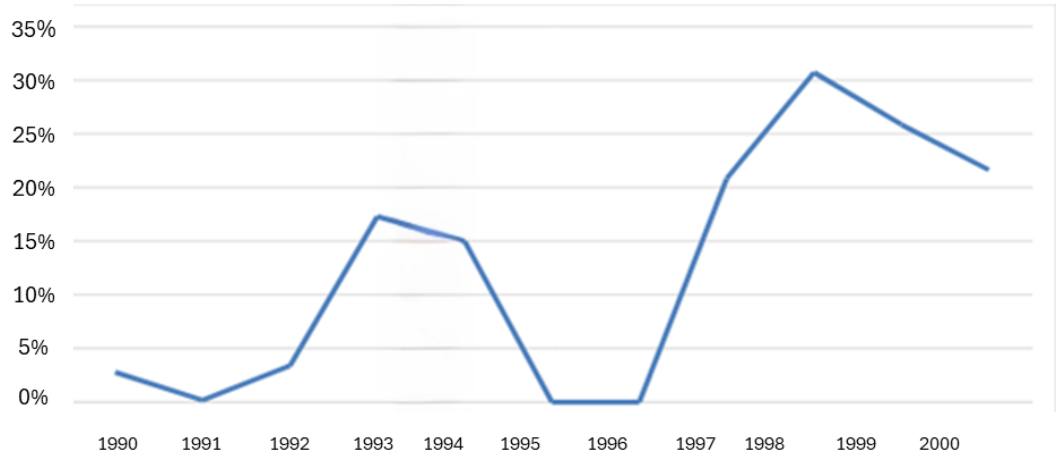


Figure 4-9: Foreign deposits (SARB Liability) as a % of Total Liabilities 1990-2000
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Finally, the South African Reserve Bank Act of 1989 established the GFECRA to protect the SARB's balance sheet from the impact of currency volatility. Gains or losses caused by currency volatility are recorded in the GFECRA. Counter-intuitively, given the commitment to keeping monetary and fiscal policy separate, this Act empowered the SARB and the NT to effectively co-manage foreign exchange reserves. For example, when the Rand depreciates, the GFECRA balance increases because the foreign reserves are now worth more in local currency. However, these are unrealised gains and do not immediately result in any real cash unless the reserves are sold. By 2003, the GFECRA reflected a negative balance of R28 billion, which was settled by the NT. However, by 2024, the positive balance was R500 billion, which allowed the NT to extract R150 billion to cross-subsidise increased fiscal spending without having to borrow. This suggests that while the original design of the SARB in the Constitution was to strictly separate it from the Treasury, in reality, the GFECRA was the back channel that tied them together. This reinforces our argument that the monetary-fiscal separation as originally intended is not nearly as strict as critics of the SARB's so-called 'neoliberal' design have suggested.

4.9 National Treasury

Before the adoption of the Constitution in 1996, which provided the constitutional mandate for the establishment of the National Treasury (reinforced later on by the passing of the Public Finance Management Act (PFMA) in 1998), the post-1994 government was faced with the herculean task of restructuring a racially and institutionally fragmented fiscal system in a way that complied with the ideals of the new democracy. Effectively, it involved 'integrating' the homelands for black people into the nine newly established provinces and establishing proper racially integrated municipalities instead of what were previously the white municipalities, black local authorities and management committees for the coloured and Indian areas. This new design of the NT is depicted in Figure 4-1 and is likely the most visible transformation from the apartheid balance sheet configuration.

The systemic balance sheet reconfiguration was highly ambitious and was executed in a relatively short space of time. The result was the consolidation of fiscal policy-making and authority in the powerful NT by the end of the decade. Prior to 1994, there was the Department of Finance that comprised technocrats who had foreseen the need for integration during the years leading up to 1994 and the Department of State Expenditure that managed *inter alia* the four *faux* balance sheets that had been established to legitimise the artificial sovereignty of the so-called 'independent homelands.' The task between 1994 and 1996 was, therefore, to build what eventually became the NT. This meant dismantling the homeland balance sheets, integrating the two finance departments at the national government level, establishing nine new provincial treasuries aligned with procedures at a national level, setting up the NRF and pooling all

public debts. All this took place in parallel to the establishment of the South African Revenue Service, which was only established in 1997 in terms of the South African Revenue Service Act of 1997. At the same time, the slow and complex processes of integrating racially divided municipal balance sheets were also underway across hundreds of local governments across the country within an evolving legal framework that was only consolidated in 2000 (Municipal Systems Act) and 2003 (Municipal Finance Management Act). All local governments have their own tax bases and balance sheets.

Although the South African government has always had a 'National Treasury' of some sort, it was only fully formalised in its current form by Section 5 of the PFMA. It was defined as a National Department responsible for 'financial and fiscal matters' with the Minister of Finance defined as the 'head of the Treasury.' Since then, the NT has not only been the primary driver of fiscal policy and the linchpin of the post-apartheid fiscal ecosystem, but it also eventually became the most significant bulwark against the balance sheet reconfiguration that state capture brought about during Jacob Zuma's presidency (2009-2018).

The depiction of the NT as a fully-fledged balance sheet is an idealisation; in fact, the actual accounting follows a cameralistic logic that records inflows and outflows rather than stocks (cf. Methodology section 2). The idealised NT balance sheet differs from the 'public sector balance sheet' which would include all the assets and liabilities of all public sector institutions, including government departments, SOEs, DFIs and the SARB; some would refer to this as a 'sovereign balance sheet.' Although government departments do not publish balance sheets, a narrower set than the 'sovereign balance sheet' is the general government balance sheet comprising national, provincial and local governments. National and provincial government departments are funded by the NRF, which section 213 of the Constitution defines as the fund into which all funds received by the government must go, including debt. The NT is the manager of the balance sheet of the NRF. The annual Budget announced in Parliament every year reflects how the NT plans to spend the funds in the NRF for that year, within the context of a continually updated rolling three-year medium-term expenditure framework, a fiscal planning practice introduced in 1997.

In short, the NT can be conceptualised as the executive coordinator of an idealised national-level balance sheet configuration that has the greatest developmental impact, in particular with respect to transfers to poor households and infrastructure investments. This not only includes how best to deploy the NRF's balance sheet for the purpose of 'core spending,' but also how the NRF's balance sheet interfaces with the balance sheets of the OBFAs, municipalities, special funds and a wide range of debt providers (including banks, local and international DFIs, donors, the PIC, etc).

As agreed during the negotiations leading up to the 1994 elections, the ANC-led GNU allocated the key economic policy posts of Minister of Finance and Governor of the SARB

to former apartheid appointees. Both individuals were vociferous proponents of neoliberal solutions during the late apartheid period. This, plus the structural constraints of high (apartheid-originated) debt service costs, limited domestic savings, the need for increased foreign direct investments and a jittery banking and corporate sector, reinforced a break from the more permissive fiscal and monetary policies pursued during the late apartheid years, leading up to 1994 when access to finance was restricted and economic growth levels were low.

In line with the neoliberal perspective that was embedded within the GEAR policy, fiscal spending per person and as a percentage of GDP actually declined overall between 1996 and 2000.[191] It only began to increase slightly after the GNU collapsed in 1997, and then significantly after the formal adoption of the 'developmental state' narrative in 2002 through to around 2011-12 when the formal indicators suggested that monetary policy had stabilised the currency, debt-funded consumption was driving economic growth, and the resulting rising tax revenues were enabling improved 'core spending' to redress the injustices of the apartheid past. This means core spending was pro-cyclical until the financial crash of 2008, which exposed the limits of rising household debt levels, and was counter-cyclical for a few years after that until the damaging impacts of state capture and low growth kicked in (Figure 4-10). In short, financial deepening worked for a while as a growth catalyst, which, in turn, helped generate the revenues needed for fiscal expansion. The adoption of the 'developmental state' narrative in 2002 marked the realisation that debt-funded consumption-led growth was ultimately unsustainable, and the alternative was large-scale infrastructure investments as a more sustainable driver of growth over the long term. This set the stage for the most significant period of rising investment in GFCF.

'Core spending' is a useful concept because it reflects the policy 'choices under the direct control of the national government; choices that are financed out of general taxation and borrowing.'[192] Although core spending declined during the GEAR years (1996-2000), it grew in real terms by 7 per cent per annum, from 2001 onwards. Between 1999 and 2011, core spending in 2021 prices doubled from R12 300 to R24 200 per capita.[193] Furthermore, tax rates were lowered: Corporate taxes were lowered from 40 per cent in 1994 to 28 per cent in 2009, and the top rate of personal taxes was lowered from 44 per cent in 1999 to 40 per cent in 2002. Core spending increased over the decade from 2001 for the following reasons: increased allocations to health, education and policing; higher salaries for public servants; rising transfers to poor households between 2001 and 2011 (including both social grants which increased from 3 per cent to 4.6 per cent of GDP and free basic water and electricity, which increased from 0.8 per cent to 2 per cent of GDP); and a significant increase in infrastructure spending. This rising level of

[191] Sachs (2021)
[192] Sachs (2021: 4)
[193] Sachs (2021: 4)

'core spending' on social services and transfers to poor houses benefited poorer women-headed households in particular.

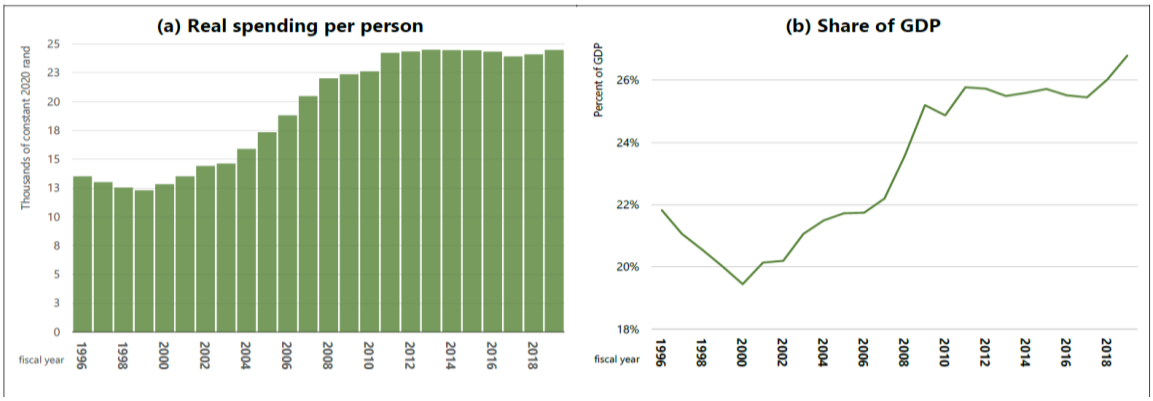


Figure 4-10: Main budget core spending (1996-2019)

Source: Sachs (2021: 3)

Note: Sachs defines 'core spending' as 'main budget non-interest spending excluding self-financing items and payments for financial assets. It is intended as a measure of discretionary allocations for the provision of government services under the direct control of the central government, and which are financed from general taxation and bond issuance.'

What matters for the purposes of this report is that total public investment in infrastructure up until the start of state capture was executed via a very particular balance sheet configuration, namely capital expenditure by core government departments at national, provincial and local level funded from the NRF, plus the investments made by SOEs that collectively rose at a faster rate than the capex budgets of departments over the 1994-2014 period. This, in turn, was all premised on a debt-financed consumption-led growth trajectory that was a function of the balance sheet configuration engineered by the SARB to weather the 1996 and 1998 crises, including substantial liquidity advances to the banks.

As far as transfers to households are concerned, these have consistently increased over time as a percentage of GDP (Figure 4-11). What this figure masks is the rise and decline of the absolute size of these transfers in real terms, as GDP growth falters from 2011 onwards.

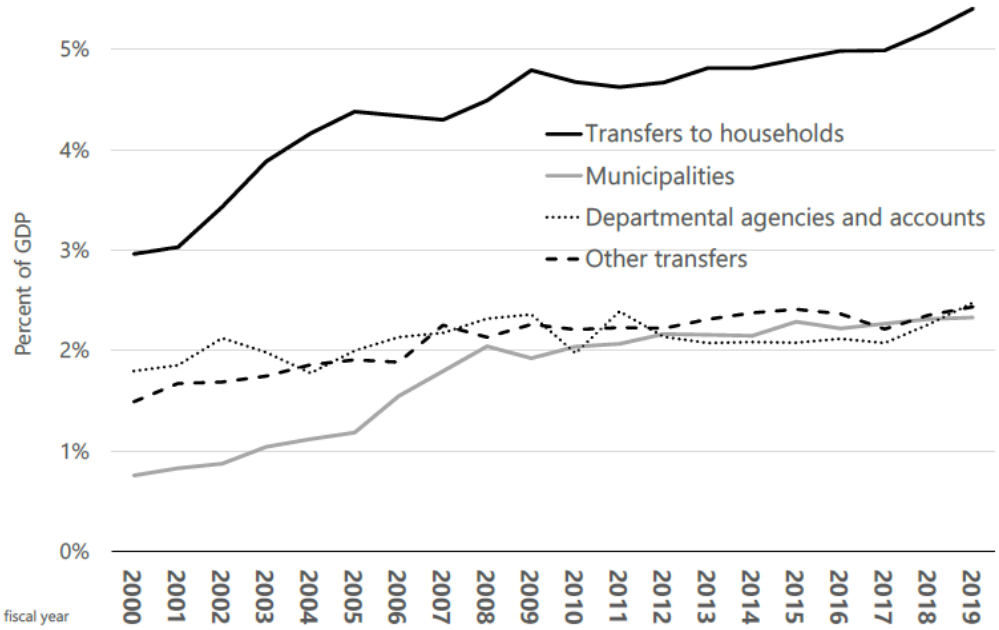


Figure 4-11: Transfers of the National Treasury (2000-2019)
Source: Sachs (2021)

To create fiscal space for increased core spending, debt as a percentage of GDP steadily dropped through to 2014. However, defence spending initially rose because of the ill-conceived and highly corrupt so-called 'arms deal,' but from the late 1990s it also began to drop (Figure 4-12).

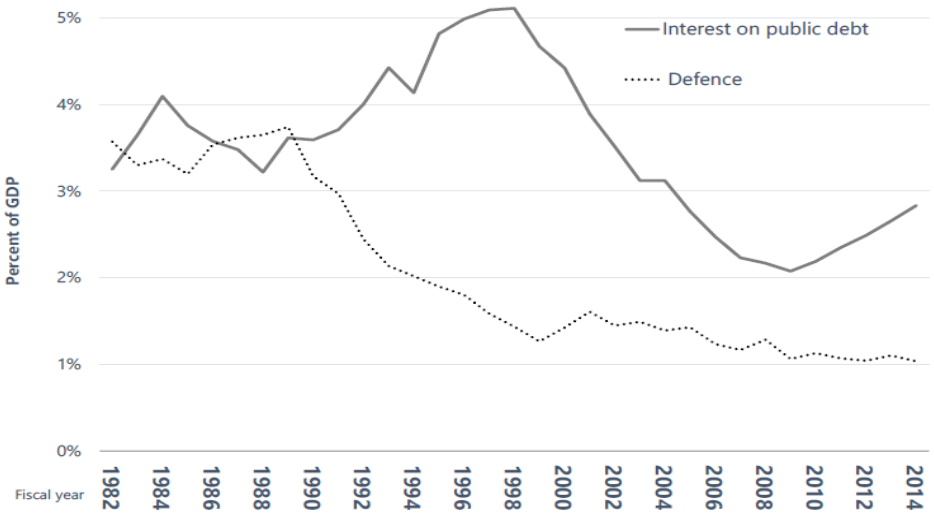


Figure 4-12: Spending on defence and interest payments (1982-2014)
Source: Sachs (2021)

From a purely fiscal ecosystem perspective (i.e. ignoring what was unfolding in the wider monetary architecture of the economy, particularly the unsustainability of debt-funded consumption-led growth over the long term), the first decade after 1994 looked promising: Revenues from exports were rising due to the global commodity boom, thanks to the SARB's interventions, macro-financial stabilisation stimulated increasing capital inflows, exchange rates were favourable, inflation was kept under control by the interest rates managed by the SARB, interest rates stabilised after the 1996 and 1998 crises as a result of these SARB interventions, bond yields were lower than growth rates, the debt-GDP ratio was dropping and budget surpluses were even being realised. Unsurprisingly, under these conditions, the financial deepening of the economy seemed to be working as GDP per capita growth steadily rose on the back of debt-financed consumption that significantly contributed to creating the much-needed multi-racial middle class.

However, two conditions changed: Global economic conditions changed from 2011 onwards, and the political dynamics that eventually led to full-blown state capture had started.[194] South Africa weathered the GFC fairly well due mainly to surging infrastructure spending and tight banking regulations, but when the economies of China and the European Union faltered in 2011, leading to a decline in commodity prices and exports, South Africa's economic growth decelerated.[195] The stage was set for full-blown state capture from 2014 onwards.

4.10 Summation

This section has studied the balance sheet configuration of South Africa's monetary architecture after the dawn of democracy. It has looked at the setup that had emerged by 1996, taking into account the three macrotrends of globalisation, financialisation/financial deepening, and neoliberalisation.

Our findings suggest that there were no fundamental balance sheet reconfigurations that could have overcome some of the deeply ingrained macro-financial structures of apartheid. The single biggest financial reform was the building of the NT, a Herculean effort that consumed much political capital.

One striking data point is the absence of a strategy related to off-balance-sheet fiscal agencies. On the one hand, the SOEs, designed over decades by the Afrikaner-led governments and in healthy financial shape, did not play a significant role in the policies adopted for the post-apartheid era. This may be attributed to the post-Cold War zeitgeist, which perceived SOEs as outdated constructs and therefore market-led development successes were favoured. In hindsight, SOEs could possibly have played a more significant role in bringing about infrastructure investments in underdeveloped former

[194] Sachs (2021)
[195] Sachs (2021: 8)

black areas, as well as in GFCF. On the other hand, the post-apartheid state inherited a number of development finance agencies that could have been well-positioned in fostering the development of a formal SME sector in former black areas. It is a noticeable paradox that the balance sheet configuration after 1994 did not pay greater attention to SOEs and DFIs.

It is also true that an important aspect of the post-apartheid settlement allowed the white elite to exchange losing political power to the black majority in return for the protection of their assets. Not only did this involve limited land reforms, but it also comprised several balance sheet reconfigurations that, in hindsight, cemented the enduring wealth and income inequality and contributed to a decline in domestic GFCF. For instance, the creation of pension funds (foremost the GEPF), which no longer had to invest domestically in government bonds or productive capacity; the globalisation of the capital market, which enabled the white elite to externalise its capital in the post-1994 period; the emergence of a bond-based financing scheme for firms, which would discourage re-investment of profits; or the emergence of more and more NBFIs, which undermined the traditional bank-based investment model that connected household savings with loans to the corporate sector.

This assessment through the lens of the monetary architecture framework fits the verdict of Mcebisi Jonas, the former Deputy Minister of Finance, who has argued that the post-1994 social compact was premised on a political settlement between black businesses, who were promised a stake in the economy via BEE; organised labour, who required the protections afforded by the Labour Relations Act; white businesses, who were assured that nationalisation would not take place; and the unemployed masses who were promised a welfare system.[196]

Missing from this political settlement was a bold strategic vision for how the governance of the monetary architecture of South Africa's financial ecosystem could be reconfigured to massively increase investments in GFCF (in particular, the infrastructures required for this purpose) and to reconfigure household balance sheets in ways that could have enabled inclusive economic growth.

As a result, there was no significant balance sheet reconfiguration of key financial institutions after 1994, which could have resulted in the redirection of capital to achieve developmental goals such as expanded employment, substantive asset redistribution, access to finance and productive investment.

The financial sector, specifically the SOEs, an expanding number of DFIs, banks, NBFIs and pension funds, was not coordinated in a way that could have mobilised South Africa's capital resources to achieve these goals. The focus, instead, was debt-financed

[196] Jonas (2019)

consumption-led economic growth enabled by policy and regulatory measures that resulted in the financial sector becoming the primary driver of growth.

5 Snapshot 3: South Africa's Monetary Architecture in 2014

This section studies the balance sheet configuration of South Africa's monetary architecture in 2014, which is captured in Figure 5-1. The year 2014 was an important inflexion point for South Africa's monetary and financial system. The credit boom of 2003–2013 was followed by a crash that illustrated South Africa's procyclical financial dynamics: Large foreign capital inflows fuelled rapid credit expansion, followed by a sharp contraction when flows reversed, which exacerbated systemic risks (Hollander & Havemann, 2021). Against this backdrop, four trends are significant: A strengthening of regional integration in Sub-Saharan Africa and the BRICS; the setting in of a major financial crisis that led to a consolidation of the banking system; completion of the switch from a neoliberal discourse to that of a developmental state; and the unfolding of state capture as Jacob Zuma entered the second term of his presidency. These four trends have played out as contradictory dynamics, further transforming the post-apartheid balance sheet configurations that were mapped in the previous section, yet without improving on the two core issues of alleviating poverty and inequality, or improving investments in GFCF.

First, regional integration in Sub-Saharan Africa and the BRICS: After the turn to democracy in 1994, South African firms massively expanded their business activity in the Sub-Saharan Africa region. In line with the post-1994 ideological commitment to reintegrate South Africa into the African region, there were substantive changes to the nature of South Africa's relations within the Southern African region in particular. At the same time, growing intra-regional trade after 1994 was conducted primarily via the USD. The USD is the key currency used not only for cross-border transactions, but also domestically in many African countries as a more stable alternative to domestic currencies.

In the 1990s and 2000s, the globalisation trends implanted in the post-apartheid settlement took off, and South Africa became entangled in the global financial architecture[197] at a remarkable pace.[198] Ever since the discovery of gold and diamonds, foreigners have held a substantial portion of South Africa's domestic assets. Between the 1950s and 1980s, the value of these foreign-held domestic assets averaged 50 per cent of GDP. By 2015, this value had risen to 137 per cent of GDP.

Nevertheless, there were counter-movements to globalisation. As a step towards further regional integration, the SADC founded the 'SADC Integrated Regional Electronic Settlement System' (SIRESS) in 2013. Largely driven by the regional operations of South African companies, SIRESS allowed banks in SADC countries to interact with each other

[197] Murau, Pape & Pforr (2021)
[198] Karwowski (2021: 1337)

using a real-time gross settlement system. The introduction of SIRESS may also be interpreted as a step towards reducing dependence on the USD as a global key currency in the Southern African region. Since SIRESS was operated on the balance sheet of the SARB as the hierarchically highest balance sheet and uses ZAR for settlement purposes, the setting up of SIRESS may also be seen as a step towards establishing the ZAR as a regional key currency and the proliferation of Eurorand (or offshore Rand) creation.[199]

At the same time, the period witnessed the emergence of the BRICS. Originally a business-driven 'pooling' of four countries, Brazil, Russia, India, and China (BRIC), the group slowly transformed into a geopolitical bloc. After the first BRIC summit in Yekaterinburg in 2009, South Africa joined in 2010 after a formal invitation from China. This gave rise to a new dynamic for the international connections of South Africa's monetary architecture. Traditionally, South Africa had been a 'province' of a London-based Pound Sterling system. Even though South Africa broke away from the Commonwealth in 1960 and established the South African Rand, the associations with British industry and finance have never fully dissipated. It was only after 1994 that South Africa fully integrated into the global dollar system. Inclusion into the BRICS formed an additional third centre of gravity that only began to emerge explicitly with the formation of the New Development Bank after the BRICS summit in Fortaleza in 2014 and subsequently after the Covid-19 pandemic, when 'trading in local currencies' became a key focus of discussion.

Second, financial crises and consolidation of the South African banking system: A dominant feature of the 1990s and 2000s had been the financialisation trend, largely connected to the rise of non-bank financial institutions and the increasing balance sheet complexity of banks, firms, and elite households. Financialisation did not only happen in South Africa; it was a global phenomenon connected to the U.S.-centric, USD-based financial system. The inflexion point, leading to a partial implosion of financial structures that had developed in the 1990s and 2000s, but with origins in the 1970s and 1980s, was the 2007-9 GFC, which peaked in September 2008 with the bankruptcy of New York-based investment bank, Lehman Brothers.[200]

Although the 2007-9 GFC resulted in a loss of nearly one million formal sector jobs as the upward trend on investment in GFCF since 2002 came to an end, the financial sector survived the crisis relatively well. The economic contraction in South Africa was more the product of external rather than internal drivers. The robustness of the banking system has often been ascribed to the strict regulatory system that the SARB had steadily put in place after 1994. Most South African banks and NBFIs were not as heavily exposed to the financial instruments that triggered the financial meltdowns in the USA and Europe. This, in turn, revealed that financialisation and financial deepening in South Africa were more

[199] SADC Banking Association (2017)
[200] Murau, Rini & Haas (2020)

about fairly pedestrian debt-funded consumption and less about the sophisticated complexities of the so-called 'financial innovations' that triggered the GFC.

Still, a major financial crisis hit South Africa in 2014, connected with the collapse of African Bank. [201] African Bank was established in the 1970s to support black entrepreneurs. It remained a minor bank until the 1990s, after which it expanded its unsecured lending book to support informal and micro-businesses. Figure 5-1 visualises how, by 2014, the South African banking system had undergone a substantial transformation after the 'small banking crisis' of 2002, which resulted in regulatory interventions that helped minimise the fallout from the 2007-9 GFC. The 2002 'small banking crisis' resulted in the closure of half the banking sector and led to a significant banking sector consolidation as the larger banks that were less exposed to derivatives swallowed up some smaller banks. The upshot was a banking sector that was highly concentrated and strengthened by 2014.

Third, the emergence of the developmental state narrative: This trend can be interpreted as a countermovement to the neoliberal policy approach, which had dominated the policy discourse at the end of the apartheid period, and which persisted in a deracialised form into the post-1994 period when the RDP was replaced with the GEAR strategy in 1996. However, this should not be overstated. The old institutional structures, specifically the SOEs and DFIs, were clearly path dependent. By contrast, the privatisation of Iscor, the 'corporatisation' of Eskom in 2001, and the partial privatisation of Telkom (after 1994) signalled the application of neoliberal ideas to segments of the SOE sector. Policy-makers in the 1990s and early 2000s saw investments in GFCF as primarily being driven by the private sector, with state-led investments in infrastructure as the key enablers.

This started to change in 2002 when narratives that originated in the MERG report resurfaced at the ANC policy conference of that year, resulting in the adoption of the 'developmental state' as a key framing of the role of the state in the economy.[202] This narrative gradually began to filter through into government policy documents in the years that followed, ultimately culminating in government adopting a weak developmental state approach called the Accelerated and Shared Growth Initiative for South Africa (ASGISA).

The 'developmental state' narrative emerged in response to a growing realisation that state- rather than market-led reforms were more likely to catalyse accelerated economic growth and, therefore, BEE. Underneath this lay an acceptance that debt-financed consumption-led growth was reaching its limits as household debt levels started levelling off. Infrastructure-led growth began to be seen as the alternative and became the centrepiece of the ASGISA framework adopted a few years later. What distinguished

[201] Havemann (2019)
[202] Swilling (2008)

the more market-oriented GEAR framework from the slightly more state-centric ASGISA framework was the latter's emphasis on 'binding constraints' as the targets of state interventions aimed at unlocking growth-oriented investments in GFCF. It was during the ASGISA years (2007 - 2011) that SOEs, the PIC and DFIs became increasingly significant elements of ANC-led government economic prescriptions.[203]

The initial 'developmental state' narrative that provided the ideological framing for ASGISA depicted SOEs and DFIs mainly as implementing institutions rather than core vehicles for capital mobilisation, strategic infrastructure development, and community-based development. The development package proposed by the New Growth Path (NGP), published in 2010 by the newly created Economic Development Department, headed by former trade unionist Minister Ebrahim Patel. re-iterated the emphasis on infrastructure-led economic growth (including 'green economy' investments) and prioritised state-led initiatives across a broad front of economic sectors. The NGP aimed to rebuild a progressive political settlement connecting the left wing of the ANC, COSATU, civil society organisations, SOEs, DFIs, SMMEs and key industrial sectors keen to revive production with state support.[204] COSATU, however, remained ambiguous, preferring to refer to the NGP as 'two steps forward, one step back.' Nevertheless, if Patel had achieved his goal of turning the 'developmental state' into reality, the NGP could have been the basis for a fundamental restructuring of South Africa's balance sheets, led and enabled by the state's SOEs and DFIs. Unfortunately, the outcome was very different: Exploiting the emphasis on state-led development, state capture resulted in the repurposing of the SOEs to serve the nefarious purposes of the Zuma-centred power elite.[205]

Fourth, incipient state capture: Jacob Zuma was elected President in 2009, which made it possible for him to become the linchpin of what became known as system-wide state capture.[206] The initial incipient state capture period (2009-2014) was when the Zuma-centred power elite consolidated its grip on key levers of state power via a set of strategic appointments of loyalists to key positions in the SOE sector, security and intelligence services, criminal justice system, key departments, the tax authority and lower levels of corruption that it did not directly control. The intentional implementation of fully-fledged state capture only really began in earnest after the 2014 general elections.[207]

The essential difference between the state capture years (2009-2018) and the preceding period was that, since 1994, the focus was on securing private sector funding to increase the shareholdings of the black elite in the corporate sector. It was slow and benefited a small handful of very rich black people, including a prominent group of wealthy black

[203] Swilling (2008)
[204] Tregenna (2011)
[205] Chipkin & Swilling (2018)
[206] Chipkin & Swilling (2018)
[207] Chipkin & Swilling (2018)

businesswomen. In parallel, the corporate sector adopted a 'shareholder value' approach to unbundling large integrated multi-sectoral conglomerates to avoid the threat of nationalisation and to increase returns to shareholders from newly unbundled listed companies, focused on their knitting'.[208]

After 2014, the focus shifted to using the procurement systems of the SOEs to create a black industrial elite.[209] Tenders were only awarded to those who were prepared to collude with shadow state operators, who extracted a cut from every contract for facilitating the allocation of the contract. These financial flows were then laundered via South African and international banks before they were divided up amongst the beneficiaries. This ambitious balance sheet reconfiguration created the opportunity for systemic corruption and fully-fledged state capture.[210] The banking institutions colluded with state capture, but years later started to act against suspected money laundering of the proceeds of state capture.[211]

After high rates of consumer-led economic growth started faltering, initially in the 2000s but significantly after 2008 through to 2011, South Africa's development challenge was narrowed to refer to the need to balance financial deepening on the one hand and the need for productive investments in the real economy to reduce unemployment, poverty levels and inequality on the other. Unfortunately, state capture not only hollowed out the SOEs that could have enabled infrastructure-led growth, but local and international investors avoided fixed investments in light of increasing concerns about rising corruption levels and the related breakdown of infrastructure networks.

The 2014 failure of African Bank highlighted the limits to credit-based poverty alleviation, and the failure of VBS Bank (formerly known as Venda Building Society, with a client base in the northern province of Limpopo) destroyed the savings of millions of poor people in favour of a politically well-connected, corrupt elite. At the same time, bank loans to SOEs and the private sector started to decline, and loans to the sovereign started to rise, which, in turn, catalysed rising sovereign indebtedness as economic growth went into long-term decline.

The remainder of this section traces how these four partly contradictory dynamics have played out across various parts of South Africa's monetary architecture and induced the balance sheet configuration depicted in Figure 5-1.

[208] Chipkin & Swilling (2018)
[209] Department of Trade and Industry (2014)
[210] Chipkin et al. (2018); Open Secrets (2020)
[211] Open Secrets (2020)

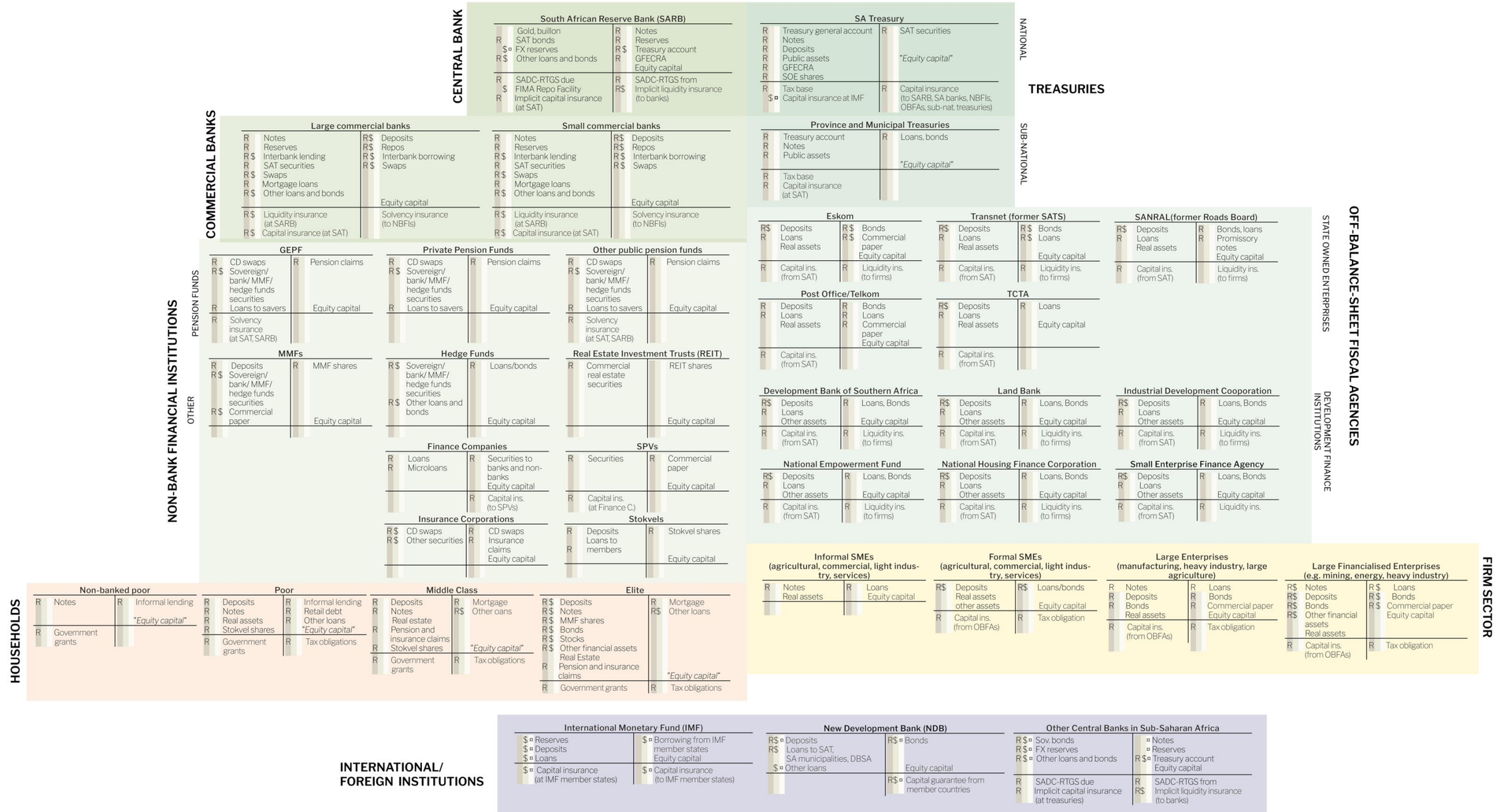


Figure 5-1: South Africa's monetary architecture in 2014

5.1 Households

The RDP boldly stated the following vision:

> The central objective of our RDP is to improve the quality of life of all South Africans and in particular the most poor and marginalised sections of our communities.

Translated into the monetary architecture framework, this must be interpreted as creating a middle-class society where the majority have access to financial services and have opportunities to own a decent stock of assets. This would mean shifting a significant number of people from lower household wealth categories into higher ones and eliminating asset and income poverty altogether. This vision, however, had failed to materialise twenty years after the end of apartheid.

The overall distribution of household wealth in 2014 was not significantly different to what it was in 1994. The overall progress to implement 'tax and spend' policies to address income inequality and limited asset strategies to address the apartheid legacies (subsidised housing, land reform and BEE) had not significantly transformed the monetary architecture of South Africa's households. In theory, this could have been addressed if the 'developmental state' narrative adopted by the ANC in 2002 was effectively translated into an actual programme of change that built on the gains made since 1994, the rise in 'core spending', and the gradual rise in GCFC investments between 2002 and 2008.

Poorer households, half of which were women-headed households, suffered most from state capture as fiscal transfers to the poor and infrastructure investments by SOEs and state departments declined. The Zuma-centred power elite talked about 'radical economic transformation' but paid little attention to the consolidation of the banking sector and related property boom, which helped to reinforce inequalities as the wealth of the richest households increased.

To cope with the impact of the 2007-9 GFC, as the disappearance of one million jobs worsened inequalities, South African households became more indebted: The poor became even more dependent on unsecured borrowing from banks and NBFIs; the very poorest households could only depend on grants and stokvels; and credit card debt levels of middle- and upper-income groups skyrocketed.

Two decades after 1994, general household wealth as a percentage of national income had recovered from its 2002 low of 250 per cent to 325 per cent, mainly due to a rise in the value of pension assets and residential property assets.[212] This, however, masks the fact that inequalities in 2014 looked very similar to what they were two decades earlier.[213] This is largely due to the fact that the focus of various welfare, labour market, affirmative

[212] Chatterjee, Czajka & Gethin (2020: 7)
[213] Orthofer (2016)

action, taxation and economic policies after 1994 was income inequality and not asset inequality. Not only was asset inequality largely ignored (except with respect to share ownership for the black elite, the land reform, and home ownership programmes), but the research base about asset inequality was also very weak during the first two decades of the democratic era, which reinforced income-related rather than asset-focused interventions to address poverty and inequality.

Compared to Figure 4-1, Figure 5-1 illustrates that overall, the balance sheet configuration of households did not change fundamentally over the two decades after democratisation in 1994. Instead, the household balance sheets that did best in relative terms were the top 1 per cent (mainly due to pensions and bonds) while 10 per cent of the 'chronic poor' (that made up half of all households with about 50 per cent headed by women) and 40 per cent of the transient poor (that comprised around 10 per cent of households) moved out of poverty (Figure 5-2). As the middle class deracialised, it maintained its living standards through massive increases in consumer debt levels (see below). In short, as reflected in Figure 5-1, the chronically poor (which includes the unemployed, most of whom were women) were largely dependent on government grants and some wage income; the middle class was dependent on wages, salaries and debt; and the elite was dependent on bonds, pensions, debt and rapidly rising property values.

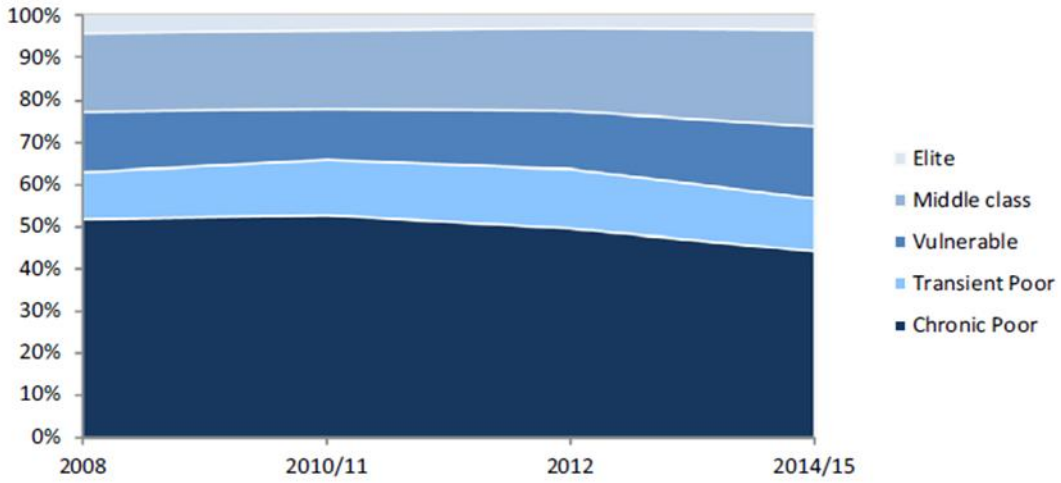


Figure 5-2: Class Sizes, 2008 to 2014/15
Source: Schotte et al. (2018: 96)

By 2014, the top 10 per cent accounted for 90 per cent of household wealth (5 per cent higher than in 1994), and the top 1 per cent accounted for over 50 per cent of all household wealth. The middle 40 per cent accounted for just above 15 per cent of household wealth, while the bottom 50 per cent had got poorer dropping from minus 2.5

per cent in 1994 to below 5 per cent in 2008, recovering a bit to around minus 2 per cent in 2014.[214] If these numbers are seen through a gender lens, the richest South Africans were white men, and the poorest were black women.[215]

While many infrastructural and social development policies (including interventions that addressed gender inequalities) were put in place after 1994 to improve the quality of life of the poor and marginalised (energy, education, health, welfare, etc), it was clear that the flow of finances through South African households had, by 2014, undermined the developmental goals of the RDP as well as the detailed goals of the NDP that was approved in 2012. In particular, the evidence suggests that these financial flows exacerbated class- and gender-based inequalities.

In a seminal study, Orthofer combined the University of Cape Town's National Income Dynamics Study (NIDS) data and personal income tax data to calculate inequality for a similar historical period (1993-2014).[216] Her results show that the top 10 per cent of the population accounted for 90-95 per cent of all wealth, and the share of the top 1 per cent was between 50-60 per cent of total wealth. Orthofer's definition of wealth was investment income (i.e. financial assets) and pension contributions (i.e. pension assets). However, her results had gaps: she excluded owner-occupied housing wealth (which Chatterjee, Czajka, and Gethin found to amount to as much as 28 per cent of household wealth in 2018); she applied one multiplier to all asset classes (i.e. bonds and shares) despite the fact that the returns are different; and she uncritically accepted the incorrect NIDS data that suggests the top 1 per cent owns 99 per cent of pension assets.[217] These gaps are addressed by Chatterjee, Czajka, and Gethin in their integration of tax data and the NIDS data (see the 2024 section on households).

Using household income data drawn from the NIDS rather than household wealth data, Schotte, Zizzamia, and Leibbrandt provide an overview of class formation between 2008 and 2014.[218] This reveals that nearly 20 per cent of the population can be classified as middle class, while the elite was consistently around 4 per cent of the population. By contrast, 14 per cent of the population can be described as vulnerable (i.e. on the edge of poverty), 50 per cent are chronically poor (unlikely to escape from poverty), while 13 per cent can be classified as the transient poor (in transition out of poverty).

The mean income of elite households in 2014 (comprising 3.7 per cent of the population) was nine times the mean income of chronic poor households (comprising 50 per cent of the population). During the 2008-2014 period, only 10 per cent of the chronic poor and 40 per cent of the transient poor moved out of poverty (Figure 5-3). Government grants,

[214] Chatterjee, Czajka & Gethin (2020: 38)
[215] South African Human Rights Commission (2017)
[216] Orthofer (2016)
[217] Chatterjee, Czajka & Gethin (2020)
[218] Schotte, Zizzamia & Leibbrandt (2018)

which included old age pensions, disability, child support, foster care, and care dependency grants, played a vital role in helping these households move out of poverty. Other income from the government included unemployment insurance funds and workmen's compensation. Unsurprisingly, the chronically poor were the most dependent on government grants as they derived half their total income from these grants. By contrast, grants made up 25 per cent of the income of the transient poor, 16 per cent of the income of the vulnerable and 6.8 per cent of the income of the middle class. Middle-class incomes were mainly derived from the labour market (wages and salaries).[219]

Finally, unsurprisingly, the chronically poor comprised almost entirely black Africans, with more poor households headed by women than by men. Coloureds were concentrated in the transient poor and middle class. The most significant change between 2008 and 2014 was that black Africans became the largest proportion of the middle class by 2014, which reflects the impact of debt-funded consumption-led growth. However, although black Africans made up 80 per cent of the population, they comprised only 50 per cent of the middle class. By contrast, while whites made up 10 per cent of the population, they comprised one-third of the middle class and 60 per cent of the elite, albeit gradually shrinking over the 2008-2014 period.[220]

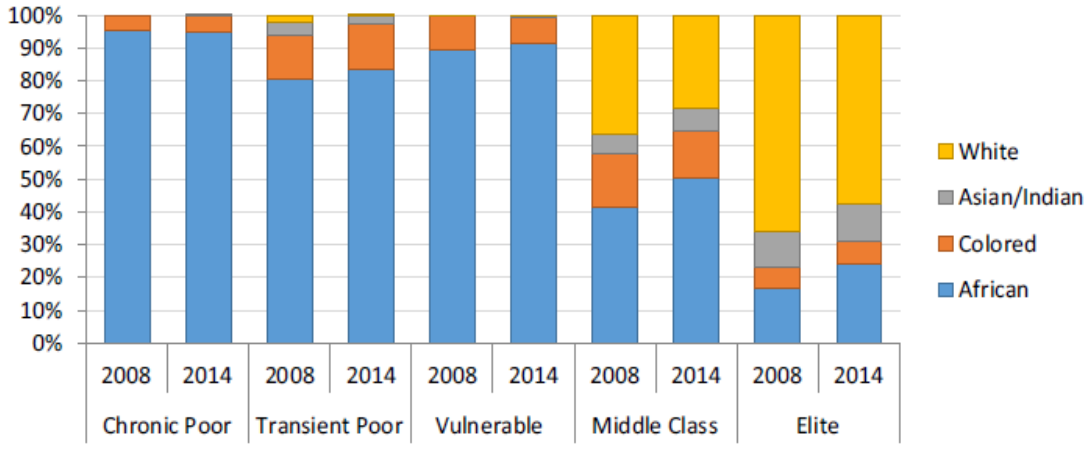


Figure 5-3: Racial composition of South Africa's five social classes, 2008 to 2014/15
Source: Schotte et al. (2018: 98)

[219] Schotte, Zizzamia & Leibbrand (2018: 97)
[220] Schotte, Zizzamia & Leibbrand (2018: 98)

To answer the question about why household inequality two decades after democratisation was not that different to what it was in the mid-1970s (if the changing racial composition of social classes is ignored), we need to understand the changing composition of debt. As capital markets liberalised after 1994, enabling NFCs to reduce their dependence on banks for debt, these banks redirected their private sector lending into households to purchase property and finance consumption. Total debt issued in 1990 was 60 per cent of GDP, rising to 90 per cent by the start of the GFC in 2008. As Karwowski demonstrates, given that half of this debt finance went into households, debt-funded household consumption growth accounted for 3 per cent of the average 4 per cent growth rate during the boom years that ended in 2008. The inevitable result was high levels of household indebtedness and dwindling household savings, turning negative by 2008.

Reflecting the rise in household debt, credit card debt doubled to over 1.5 per cent of GDP between 2000 and 2008. Rising debt levels, in turn, fuelled house price inflation, creating a vicious cycle of rising property prices catalysing rising indebtedness, which then reinforced rising property prices, in an upward spiral that benefited the rich. The numbers are clear: R130 billion worth of mortgages were issued in 1995, rising to R850 billion by 2007 (after which mortgage issuing plummeted) (Figure 5-4). The result was that mortgages as a percentage of GDP rose from 23 per cent in 1995 to 41 per cent in 2007. By 2016, the total value of issued mortgages was R1.3 trillion, equal to 30 per cent of GDP. Due to these factors, house prices in the most unequal society in the world rose faster than in the USA and UK in real terms over the same period during the years leading up to 2008![221]

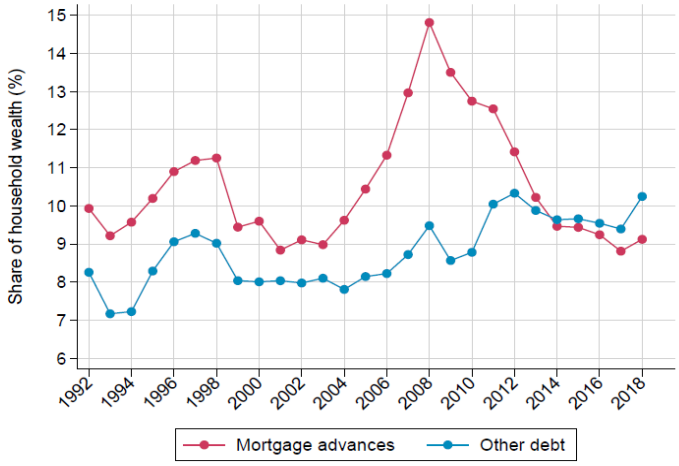


Figure 5-4: Share of debt as a percentage of household wealth, 1992-2018
Source: Chatterjee et al. (2021: 35)

[221] Karwowski (2021: 1329-30)

Counter-intuitively, unsecured debt continued to rise after 2008, culminating in the failure of the leading provider, African Bank (in 2014); and credit card debt amongst the middle- and higher-income groups mushroomed after 2008 as these households supplemented their incomes with higher levels of debt to sustain their consumption-led lifestyles.

While the shareholder value movement that transformed the corporate sector after 1994 resulted in a decline in returns to labour by 2010,[222] low-income households resorted to unsecured loans to sustain their subsistence-level consumption requirements. Unsurprisingly, therefore, between 2007 and 2012, unsecured lending (mainly by poorer households) tripled from less than R10 billion to almost R30 billion per annum.[223]

Whereas the pre-2008 upward debt-property price spiral further impoverished poor households, it worked in favour of wealthier property-owning classes. By 2014, the trend was clear: Not only did wealthier households own increasingly valuable properties, but they had also diverted a substantial portion of their financial savings from their bank accounts into financial assets, in particular pension funds, long-term insurers, and shadow banks. As a result, due to a growing gap between returns on savings in banks versus returns on savings invested in NBFIs, financial assets as a percentage of total household assets grew from 50 per cent in the early 1980s to over 70 per cent by the early 2000s. This, however, was by no means evenly distributed: 85 per cent of financial assets are held by the wealthiest households, comprising only 10 per cent of all South African households.[224]

In short, by 2014, the trends were clear: As overall debt levels rose as a percentage of GDP, so too did household debt levels. This, in turn, drove an upward debt-property price spiral that reinforced inequalities. Declining returns to labour as a percentage of total surplus (even during the boom years) supplemented by rising levels of unsecured debt created an increasingly desperate underclass of over-indebted households and induced institutional fragilities in the banking sector (viz., the African Bank failure in 2014). Women-headed households, with incomes lower than male-headed households and higher debt levels, carried the heaviest burden.[225] In parallel, wealthy propertied households improved their property wealth as house prices rose and shifted their savings into financial assets with better returns. In the meantime, the over-indebted black elite expressed their disappointment with the slow pace of debt-funded BEE by supporting Zuma's rise to power in 2008 because of the promise of returns from state procurement systems seemed a quicker route to debt-free wealth than the traditional dependence on white corporates was proving to be.

[222] Bond (2013) quoted in Karwowski (2021: 1331)
[223] Newman (2015) quoted in Karwowski (2021: 1331)
[224] Karwowski (2021)
[225] Wittenberg (2014)

5.2 Firms

Two decades after the birth of democracy in South Africa, over a decade after the adoption of the 'developmental state' narrative, and just past the peak of a period of fairly sustained economic growth, by 2014 the balance sheet configurations that underpinned the evolution of South Africa's economy were still not organised in accordance with what Zalk refers to as the 'virtuous 'profit-investment' nexus' that underpinned the success of rapidly industrialising economies elsewhere in the world. 'Across developing regions,' he argued that:

> [i]nternally generated revenues and reinvested profits are the primary source of funding for firm-level investment .... A virtuous 'profit-investment nexus' — where firms make profitable investments, funded through retained earnings, which underpin further investment — is thus especially important for industrial growth in these regions. This positive feedback mechanism was central to East Asia's rapid industrialisation, with the state intervening to accelerate productive capital accumulation .... High levels of fixed investment, which build industrial capabilities in sectors that provide increasing returns, lead to rising productivity, enhancing export competitiveness and alleviating the balance-of-payments constraint to growth .... [226]

Instead, he argues, South Africa locked itself into a development pathway characterised by 'inadequate investment in diversified industries, low profitability, a declining share of tradable sectors in value added, and dramatic declines in employment'. The outcome has been 'structural change' without 'structural transformation'.[227] As will become clear, the path dependencies of the balance sheet configurations that emerged after 1994 were such that, except for the brief period between 2002 and 2008, the necessary fixed investments in GFCF did not materialise.

In 2012, the government adopted the NDP, which included the 2030 goal of achieving a GFCF level equal to 30 per cent of GDP. By 2014, the market capitalisation of South Africa's listed companies was 244 per cent of GDP, and annual GFCF averaged 15.1 per cent of GDP for the 1994-2014 period.[228] Meanwhile, the average market capitalisation of listed companies in middle-income and upper-middle-income countries for 2019 was only 60.2 per cent of GDP, compared to at least 244 per cent in South Africa for the same year.[229] Furthermore, the average GFCF per annum for the 1994-2018 period for middle-income and upper-middle-income countries was 27.6 per cent and 28.1 per cent of GDP, respectively, compared to around 15.1 per cent in South Africa.[230] In addition, despite relatively low levels of GFCF, the average 'net markup' during the 2010-2014 period was

[226] Zalk (2021: 29)
[227] Zalk (2021: 29)
[228] Calculated from World Bank data reflected on website of Federal Reserve Bank of St Louis, https://fred.stlouisfed.org/series/.
[229] Andreoni, Mondliwa, Roberts & Tregenna (2021: 6). We can safely assume that market capitalisation as a percentage of GDP rose between 2014 and 2019.
[230] Andreoni, Mondliwa, Roberts & Tregenna (2021: 6)

actually high by international standards (see Table 5-1).[231] However, the net markup for manufacturing was the lowest, confirming the overall 'de-industrialisation' trend that many have observed.[232]

Table 5-1: Average 'net markup' 2010-2014

Industrial Sector	Net Markup
Agriculture/forestry/fishing	28.2%
Business services	33.2%
Catering & accommodation	21.6%
Communication	35.8%
Community, social, personal	23.9%
Construction	20.0%
Electricity, gas & water	41.2%
Finance & communication	37.3%
Manufacturing (diversified manufactured)	5.0%
Manufacturing (heavy industry)	0.6%
Mining & quarrying	35.6%
Transport & storage	35.1%
Wholesale & retail trade	46.3%

Source: Zalk (2021)

In short, given the way balance sheets evolved after 1994, by 2014 South African investments in GFCF were roughly half the size of South Africa's peers, and the market capitalisation of its listed companies was three times higher. This trend confirms Zalk's argument and is consistent with the overall trends for 1994-2019 observed by Andreoni et. al.[233]

Furthermore, as market capitalisation as a percentage of GDP continued to rise from its 1994-2014 average of 244 per cent to over 300 per cent of GDP in 2019, the total number of listed companies declined from over 800 at the end of the 1990s, to 485 in the early 2000s, to 375 in 2014, and 350 in 2019.[234] Not only did this mean that the market capitalisation of each company rose on average faster than the overall average market

[231] Zalk (2021: 31). Net markup is an industry's net operating surplus as a percentage of the sum of its intermediate inputs, wages, and capital depreciation. There is a debate about whether in fact listed South African companies are high compared to other countries and regions across all indicators of profitability. See debate about profitability of SA firms in the literature: Du Plessis, Katzke, Gilbert & Hart (2015); Fedderke, Obikili & Viegi (2018)
[232] Andreoni, Mondliwa, Roberts & Tregenna (2021)
[233] Andreoni, Mondliwa, Roberts & Tregenna (2021)
[234] World Bank (2022)

capitalisation of the JSE since the late 1990s, it also points to increasing concentration of South Africa's listed NFCs.

The bond market in 2014 was worth R2 trillion, of which 63 per cent were government bonds. This means non-government bonds in 2014 were valued at R742 billion, with corporates representing R101 billion, of which NFCs issued 30 per cent, i.e. R300 billion. While this is a significant increase from almost zero in 1994, corporates still sourced the bulk of their funding from local and international banks by 2014.[235] However, as argued in the section on the banks during the 2014 period, a small proportion of these loans was allocated for investment, which is, in turn, reflected in Figure 5-5.

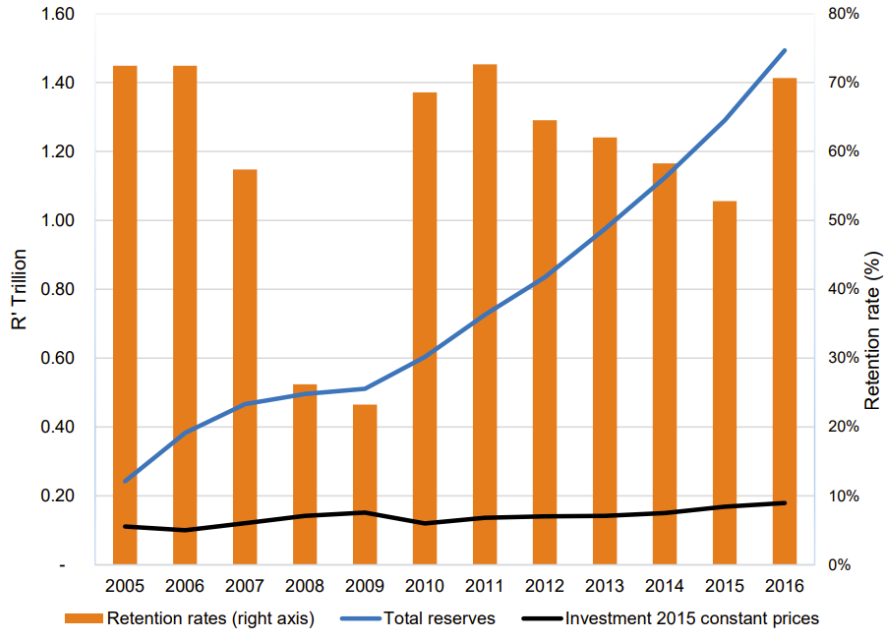


Figure 5-5: Reserves and investment (capital expenditure), 2005-2016
Source: Bosiu (2017)

NFCs make investments in productive capacity (i.e. GFCF) from the pool of reserves, which, in turn, increase or decrease depending on retention rates. In general, as reflected in the 2005-2009 period shown in Figure 5-5, declining retention rates suggest rising levels of investment in GFCF instead of the alternatives (e.g. dividend payments, spending on mergers and acquisitions, cash holdings, buy-backs, bonuses). During the period of significant economic growth leading up to the crash of 2008/9 when business confidence was improving, there is evidence of a gradual uptick in investment levels between 2005 and 2009 (roughly R50 billion) by the top 50 JSE-listed corporations (which

[235] World Bank (2022)

includes financial corporations) that corresponded to reduced retention rates and declining reserves (see Figure 5-5).[236]

It is clear from Figure 5-5 that the 2007-9 GFC had a negative impact on investment as NFCs responded to the crisis by more than tripling retention rates and reserves rocketed from around R500 billion to nearly R1.5 trillion (with a significant amount held in cash), a flow of finance that fuelled the growth of the shadow banking sector because they were needed to manage the circulation of an expanding set of financial flows. Under these circumstances, investment levels increased only marginally through to 2016. This helps explain a balance sheet configuration characterised by relatively low levels of investment in GFCF coupled to relatively high levels of profitability (as measured via markups).

Figure 5-6 represents the profitability levels of the top 50 JSE-listed companies according to sector.[237] Two measures are used: Return on assets (ROA) and return on equity (ROE).

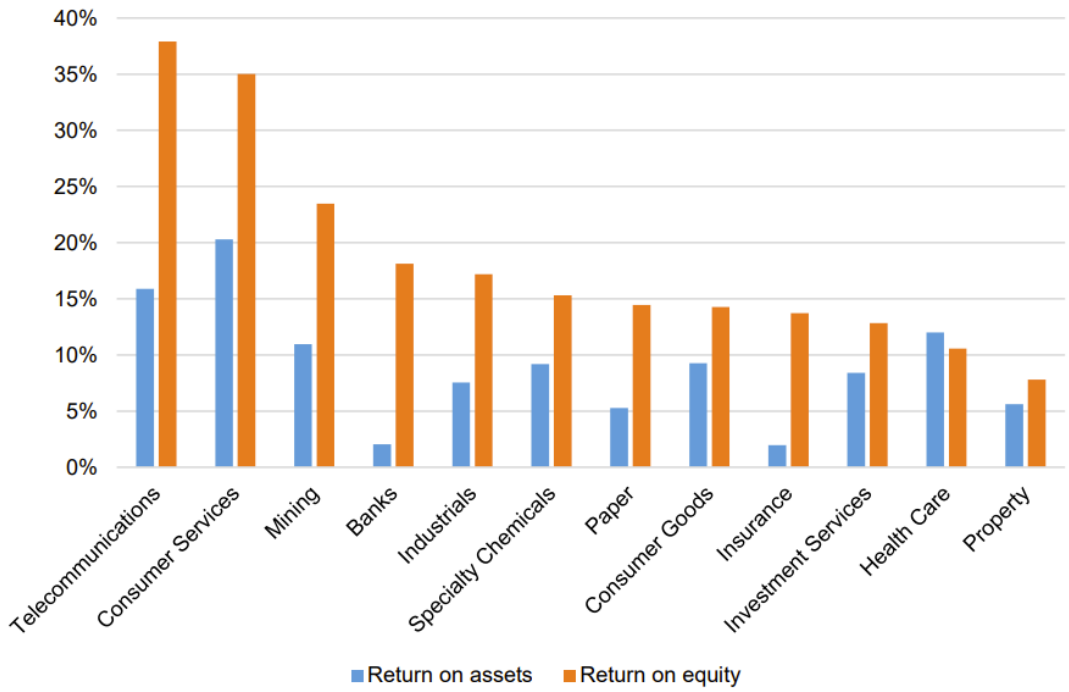


Figure 5-6: Sector average profitability, 2011-2016
Source: Bosiu (2017)

As Bosiu et al. point out, the difference between the two reveals the extent of dependence on debt to finance its assets (financial leverage). The greater the percentage difference between the two, the greater the dependence on debt. From a ROE perspective, telecommunications, consumer services and mining are the most

[236] Bosiu, Goga & Roberts (2017: 19)
[237] Bosiu, Goga & Roberts (2017)

profitable, while investment services, health care and property are the least profitable. From a ROA perspective, consumer services, telecommunications and health care are the most profitable, while banks and insurance are the least profitable. From a debt funding perspective, the most debt-dependent sectors (i.e. where the differential between ROA and ROE is the highest) are telecommunications, consumer services, banks and insurance, while the least debt-dependent are health care, property and investment services.

In parallel to the setting up of SIRESS with implications for the regionalisation of the ZAR, a remarkably rapid incorporation of South African firms into global financial circuits took place during the first decade after 1994.[238] While the value of foreign-held domestic assets averaged 50 per cent of GDP between the 1950s and 1980s, by 2015, the value of foreign holdings of South African assets had risen to 137 per cent of GDP, and most were largely portfolio investments on the JSE. Behind this lies the extremely rapid externalisation of South Africa-based companies that were allowed to list on foreign stock exchanges. JSE-listed equity began to be traded on the London and US stock exchanges. In parallel, foreign inflows into the bond market (both private and government) rose rapidly from the late 1990s onwards. Between 2003-2016, the non-resident share of South African bonds increased from 5 to 22 per cent. By 2016, foreign investors held a third of all government bonds.[239]

Dual and foreign listings of South African-based companies, the formation of BRICS, plus foreign investments in South African equities and bonds, have resulted in the gradual internationalisation of the ZAR.[240] While over 80 per cent of foreign debt was foreign-denominated in 1990, by 2010, non-residents held more ZAR-denominated debt than foreign-denominated debt. By 2013, no less than four-fifths of all trading in ZAR was undertaken in offshore markets, again, largely due to the foreign listing of large South African companies like Anglo-American. [241]

In relation to small businesses, empirical data provided by Stats SA on the small business sector indicates that it had significantly improved by 2014, thus making it easier to estimate the size of the sector and understand the various dimensions of the balance sheets of formal and informal small businesses. As summarised by Fourie,[242] according to official statistics, by 2013, there were 1.45 million firm operators/owner-managers who employed 750 000 people in the mainly women-led informal enterprise sector. Added together, this means the livelihoods of 2.2 million people (most of whom were women), equal to 15 per cent of the population at the time, depended on these informal, largely micro-level enterprises. There is no evidence that the sector had grown

[238] Karwowski (2021: 1337)
[239] Karkowski (2021)
[240] Karwowski (2021: 1337)
[241] Karwowski (2021: 1337)
[242] Fourie (2018: 133)

significantly in size over the previous decade, 2001-2013. However, a clear trend is that a significant number of informal enterprises that employed one or more people were established after 1994, while the overall number of owner-operator informal enterprises remained stagnant. It is estimated that the economic activities of the informal small business sector contributed 5.9 per cent of the GDP by 2013.

Significant sectoral changes took place between 2001 and 2013: Retail and wholesale trade activities remained dominant but declined from 70 per cent to 57 per cent of the sector's activities, followed by manufacturing activities that also declined during this period, while construction, services and transport activities all grew substantially. Informal enterprises providing financial services fluctuated, but the overall percentage was higher in 2013 than in 2001.[243]

Both the Trade and Industry Policy Studies (TIPS) research institution and the Bureau for Economic Research, using official statistics, estimated that in 2015 there were 2.2 million small businesses, of which 670 000 could be defined as 'formal' (i.e. registered in some way), compared to 1.5 million 'informal' enterprises. They contributed 14 per cent of total employment, and 21 per cent to Gross Value Added (GVA) (GDP before taxes and subsidies) in 2015.[244] The TIPS data shows that small formal businesses in 2015 employed 5.8 million people, compared to the 3.6 million employed by large businesses.[245]

The FinScope Surveys of small businesses (inclusive of formal and informal enterprises) since 2010 provide useful insights into small business balance sheets. Although the FINMARK Trust estimates that there were 5.9 million small businesses in 2010, contributing 11 million employment opportunities is probably not credible, given the much lower estimates by other studies, what is useful are the insights into the balance sheets of small businesses.[246] Their overall estimate is that in 2010 (without much change, we can assume, through to 2014) 46.9 per cent of small formal and informal businesses used formal bank products, 22 per cent used formal insurance products from formal sources (banks, other), and 8 per cent accessed credit from various formal financial institutions (banks, etc.). About 6.7 per cent of formal small business owners sourced credit from informal sources such as private money lenders, burial societies, savings clubs, stokvels and credit from stores, while 41.8 per cent of small businesses did not access financial products of any kind from formal or informal sources, other than loans from family and friends, or from personal savings. Of those who access formal institutions for financial instruments, 45.5 per cent use bank accounts transactionally (i.e. for deposits, transmitting, withdrawals), 5.29 per cent for savings, 24.9 per cent for

[243] Fourie (2018: 133-4)
[244] Bureau for Economic Research (2016)
[245] TIPS (2017)
[246] FINMARK Trust (2010)

insurance and 8.6 per cent for credit. Women-led small businesses were less likely to access formal financial products from formal financial institutions.

As far as assets are concerned, TIPS[247] estimated that the informal sector enterprises have negligible assets and contributed around 5 per cent of GVA. However, formal small businesses (which are generally larger) held at least a quarter of the total of all assets owned by South African businesses in 2020; it is assumed this was more or less true for 2014. Similarly, given that their contribution to GVA was around 20 per cent in 2020, it is assumed that little changed between 2014 and 2020. This excludes the 30 000 commercial farms, nearly all of which are SMEs, which contributed 5 per cent of the GDP.

In summary, while larger listed South African businesses expanded their balance sheets internationally during the first decade after 1994, they also increased their investments in fixed assets for a brief period between 2002 and 2008. Smaller formal and informal businesses expanded after 1994, contributing more jobs and more GVA than larger businesses. Although the data does not reveal the contribution made by small formal businesses to GFCF relative to larger businesses, this should not be underestimated in light of the relatively high GVA contribution. While small formal businesses helped alleviate inequality by creating large numbers of jobs and reinforcing a middle class, the largely women-led informal small businesses remained small and survivalist, thus mitigating extreme poverty but not necessarily inequality.

5.3 State-owned enterprises

The immediate post-1994 reform agenda was primarily preoccupied with streamlining the regulation of the myriad of SOEs inherited from the apartheid era. They only became strategically significant from an economic policy perspective after the 'developmental state' narrative was adopted by the ANC in 2002, followed thereafter by the incorporation of this narrative into the ASGISA and NGP policy frameworks.

The SOE sector depicted in Figure 5-1 has undergone several balance sheet reconfigurations compared to its post-1994 setup. The South African National Roads Agency Ltd. (SANRAL) was established as a corporate entity in 1998, taking over the assets of its predecessor, the South African Roads Board. Eskom was corporatised in 2001, fulfilling the pre-1994 recommendations of the De Villiers Commission. In 2006, Metrorail, a business unit within Transnet that was established to operate commuter rail services in major urban areas, was transferred to SARCC, which was later renamed PRASA. In 2009, other assets were transferred to PRASA, including Shosholoza Meyl, a division of Transnet Freight Rail that operated long-distance, intercity passenger rail services, and Autopax Passenger Services, a division of Transnet responsible for intercity bus services. In 1998, a 25.4 per cent shareholding in ACSA was sold to private

[247] TIPS (2023)

shareholders. Telkom was partially privatised in 1997, with the state retaining a 40.5 per cent stake in the company.

The new regulatory framework for SOEs was embedded within the PFMA in April 2000. The PFMA distinguished between five categories of SOEs (termed 'public entities' in the Act): Major public entities (Schedule 2), national government business enterprises (Schedule 3B), provincial government business enterprises (Schedule 3C), national public entities (Schedule 3A), and provincial public entities (Schedule 3D). The national and provincial public entities are distinguished from the government business enterprises by the fact that the NRF (PFMA 1999) fully or substantially funds them. In addition, municipally owned SOEs ('municipal entities') are regulated by the 2003 Municipal Finance Management Act.

The adoption of the ASGISA policy framework in 2006 resulted in a recognition of the potential role of SOEs in economic development. To realise this commitment, the various bits and pieces of infrastructure funding were combined into a 'national infrastructure budget' of R787-billion that amounted to 9.7 per cent of the GDP between 2009 and 2012. To implement this programme, the balance sheets of major SOEs like Eskom (electricity), Transnet (transport and ports), SANRAL (roads), Infraco (broadband), and ACSA (airports) were strengthened with substantial capital injections to stimulate infrastructure-led growth, with many of the commercial projects partially funded by the PIC.

The ASGISA framework presented a more favourable view of state intervention in the economy than GEAR, but it said little about how to effectively raise the levels of investment in GFCF. Despite an economic growth rate that topped 4 per cent in 2004, the fiscus was pushed into a deficit by a surge in government expenditure, overvalued exchange rates and low interest rates. [248] The government's big infrastructure investments during this time pushed up demand for imports relative to the value of exports, even though exports climbed to over 30 per cent of GDP in 2006, up from 21 per cent in 1994.[249]

Rather than an integrated development policy framework, ASGISA was a programme of growth-enhancing projects. There was a preference for sector-specific investment strategies where labour was concentrated and where opportunities for small business development and Broad-Based Black Economic Empowerment were available.[250] Since it was project-based, ASGISA depended on strong state capacity for effective government coordination of implementation, monitoring, and coherence, all of which were, in the view of The Presidency's performance report of 2008, inadequate.[251]

[248] The Presidency (2008)
[249] The Presidency (2008)
[250] Mosala (2015)
[251] The Presidency (2008), see also NPC's Ten Year Review (2023)

In 2014, the DTI published a policy document that marked a decisive policy shift concerning the balance sheets of SOEs (and to some extent DFIs). Referring to the procurement spend of SOEs (at around R200 billion per annum at that time) as a means for achieving 'radical economic transformation', the DTI advocated the building of a 'black industrial class' off the back of this procurement spend to lead the economic transformation of the South African economy.[252] Building on the ASGISA and NGP economic policy frameworks that emphasised the developmental role of SOEs, by bringing into focus the procurement spend of the SOEs, the DTI's 2014 policy framework unwittingly put in place the preconditions for systemic state capture and the repurposing of the balance sheets of the SOEs.[253]

The DTI document was significant because it brought into focus two contradictory dynamics at play at the time. On the one hand, if taken at face value, the DTI document reflected a more interventionist role for the state, more aligned with the developmental state perspective that was articulated in the NGP. To argue that the substantial procurement spend of the SOEs should be strategically targeted at supporting black businesses made a lot of sense from a developmental state perspective. However, on the other hand, when the context of state capture is taken into account, this approach was exactly what the shadow state operators needed to hear as they turned the DTI document to their own advantage.

In the years after the DTI document, more than R47.6 billion would be siphoned off SOEs and a DFI in just the top ten sites of state capture, not counting the opportunity and social costs.[254] When calculating in a wider range of actual and opportunity costs of state capture, the cost has been estimated to be as high as R1.5 trillion.[255] It is a dark irony considering Zuma's rhetoric of 'radical economic transformation' that the loot eventually lined the pockets of mainly white and foreign-owned businesses, including German software company SAP, Swiss-based Liebherr, T-systems, Brait, McKinsey, Deloitte, and Neotel, among them.[256]

The substantial evidence presented to the Zondo Commission of Inquiry into state capture has clearly revealed that state capture and the repurposing of SOEs were well underway by 2014. Emboldened by the positive election results of the 2014 general election, the Zuma-centred power elite intensified their extractive activities across a broad range of institutions. Appointed as Minister of Public Enterprises by Jacob Zuma in 2010, Zuma-loyalist Malusi Gigaba worked quickly to seize direct control of the SOEs via a succession of interventions that replaced Boards, CEOs and executive teams with people willing to do the bidding of the Zuma-centred power elite.

[252] Department of Trade and Industry (2014)
[253] Bhorat, Buthelezi, Chipkin et al. (2017)
[254] Shadow World Investigations (2021)
[255] Merten (2019)
[256] Swilling, Callaghan & Foley (2021)

Malusi Gigaba's first target was Transnet. He appointed former PIC CEO Brian Molefe as CEO of Transnet in 2011. By 2014, Molefe, assisted by the Gupta family, had concluded a corrupt deal with a Chinese company to supply Transnet with 1064 locomotives for R54.4 billion. Intermediated by the Guptas and enabled by two corrupt consulting companies, Regiments Capital and Trillion Capital Partners, the locomotive deal defined the modus operandi of state capture.

The role of Regiments Capital first emerged in 2012 when ACSA was caught up in allegedly corrupt interest rate swap contracts with Nedbank and Standard Bank. Regiments brokered the deal.

In 2014, Eskom's CEO, Brian Dames, resigned, together with a slew of senior executives. They had correctly interpreted the intentions of Minister Gigaba and wanted no part of what followed, in particular, the corrupt coal deals that Gigaba wanted to push through. This marked the start of years of leadership turbulence, governance failures and political interference at Eskom.

Gigaba appointed Colin Matjila to the Eskom Board in 2011 and ensured he headed the powerful Board Tender Committee. In April 2014, Gigaba appointed him interim CEO of Eskom until September of that year, when former Director-General of the Department of Public Enterprises, Tshediso Matona, was appointed as CEO. During his short tenure, Matjila acted quickly to deepen Gigaba's grip on Eskom's procurement processes. Matona lasted until March 2015, when he and several other executives either resigned or were suspended due to political interference and conflicts. His successor was Brian Molefe, who was appointed in 2015. Having done the locomotive deal for Transnet, he was ready to execute a series of now-famous corrupt deals on behalf of the Zuma-centred power elite. What followed has been well-documented, and the result was the financial crippling of Eskom, followed by nearly a decade of loadshedding. [257]

Of the SOEs discussed below, while there is little evidence that TCTA and Telkom were affected by state capture, Eskom and Transnet were the primary targets.

First, Eskom: Despite its many financial challenges, Eskom managed to post an EBITDA (earnings before interest, taxes, depreciation, and amortisation) of R25.2 billion for 2014/15 despite a 19 per cent increase in primary energy costs and rising indebtedness. As Table 5-2 shows, Eskom's total debt had ballooned from R50 billion in 2008 to R297 billion by March 2015. This reflected the financial impact of the decision in 2006 to build two new coal-fired power stations, namely Medupi and Kusile. The original budget was R160 billion for both, but the final cost has been estimated to be R460 billion. These extreme overruns were caused by a combination of corruption, managerial inefficiencies and incompetence.

[257] Swilling (2023)

Table 5-2: ESKOM balance sheet as of 2014-15

Borrowings	Mar-15	Mar-14	Currency
Local (SA) Bonds	112 103	102 080	ZAR
Promissory notes	40	35	ZAR
Commercial paper	7 531	14 635	ZAR
Eurorand zero coupon bonds	3 942	3 484	ZAR
Foreign bonds	48 670	29 100	USD
DFIs	62 447	49 256	Mixed
ECAs	28 488	31 506	Mixed
Sub loan from shareholder	26 621	24 393	ZAR
Other loans	7 592	331	ZAR
	297 434	254 820	

Source: ESKOM Annual Financial Statements, Rushton & Halstead (2024)

The delayed commissioning of these power stations, coupled with poor management of the existing power stations, as reflected in the declining Energy Availability Factor, resulted in more frequent loadshedding. To offset loadshedding, Eskom was authorised to increase the load factor of its expensive diesel generators, which significantly pushed up its operating costs. Municipal debt levels rose simultaneously as state capture weakened municipal governments. To make matters worse, the National Energy Regulator of South Africa (NERSA) refused to agree to a succession of Eskom's applications for cost-reflective tariffs. As a result, as reflected in Figure 5-7, the gap between revenues from tariffs and the Weighted Average Cost of Capital (WACC) really started to widen from 2013/2014. Under normal circumstances, these dynamics would have been hard to manage. However, the turning point came in 2014-2015 when the bulk of Eskom's competent executive capacity was decimated to clear away the last obstacles to full-blown state capture under the leadership of Brian Molefe.

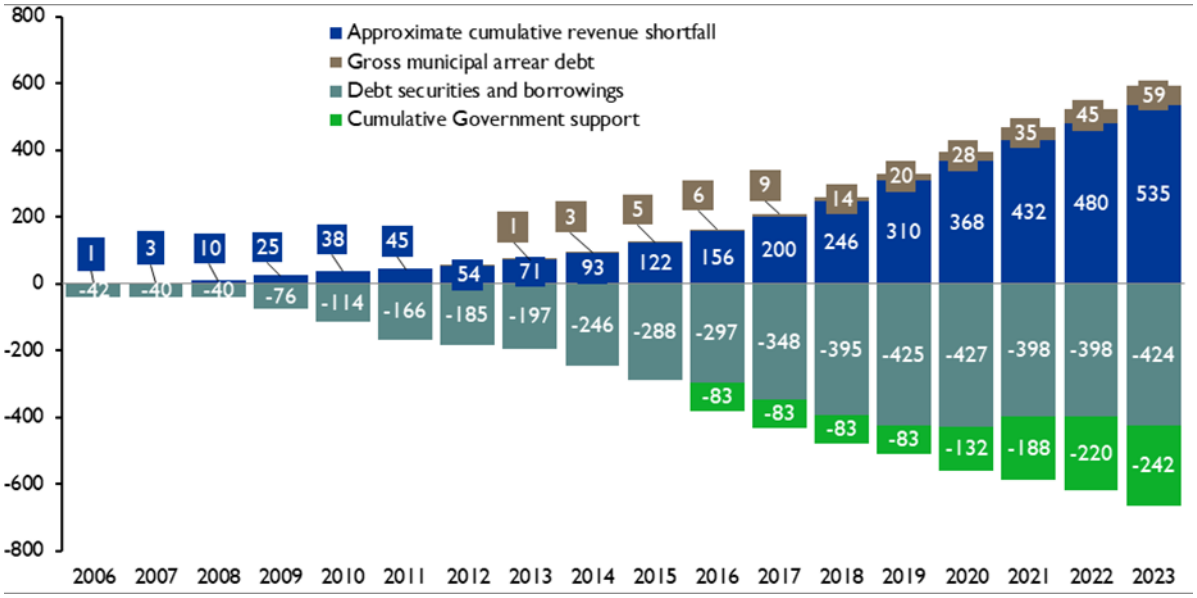


Figure 5-7: Growth in cumulative revenue shortfall and debt, R billion
Source: Eskom (2023)

Figure 5-7 reveals the consequences of decisions made by the regulator, NERSA. NERSA's aim was to minimise the cost of electricity for consumers and simultaneously prevent consumers from bearing the cost of inefficiencies and corruption. As a result, tariffs were approved that were consistently below WACC. As a result, what Eskom refers to as a 'revenue shortfall' (dark blue) corresponded to the growing size of the debt (dark green). As the situation worsened, equity injections by government became ever larger (light green). To make matters worse, as electricity prices increased, fewer consumers could afford to pay their municipal electricity bills (made worse by pervasive corruption at municipal level) (brown boxes), which Eskom then experienced as an additional revenue shortfall.

On 14 September 2014, the Cabinet announced what was to be the first of many 'rescue packages' for Eskom. The aim of this first one was to plug Eskom's R225 billion financing gap to avert a rating downgrade. The measures announced included an equity injection, increased borrowings, tariff increases and managed load shedding. Ironically, at a time when Eskom was losing skilled executives and increasing staff numbers, the Eskom leadership complemented the 'rescue package' by claiming it could raise R26 billion from reduced operating costs and manpower savings, and R60 billion from its Business Productivity Plan. Needless to say, the first equity injection of R83 billion became available during 2016.

As reflected in Table 5-2, the total debt, by March 2015, was R297 billion, R209 billion was in ZAR, and R176 billion was government guaranteed. The South African counterparties were mainly South African financial institutions holding bonds (R112 billion), promissory notes (R40 million), commercial paper (R7.5 billion), Eurorand zero coupon bonds (R3.9 billion), a loan from government (R26 billion) and various other ZAR-

denominated loans. In addition, there were foreign bonds (equivalent of R48 billion), loans from DFIs (R4.9 billion in USD, R7.6 billion in Euros and R49 billion in ZAR) and loans from ECAs (R3.8 billion in USD, R21.3 billion in Euros, R1.4 billion in Japanese Yen and R1.7 billion in ZAR).

Second, Transnet: The locomotive deal, plus various other deals executed by Brian Molefe while he was Transnet's CEO, was reflected in the near tripling of Transnet's borrowings from R36 billion in 2009 to R110 billion by March 2015 (Tables 5-3 and 5-4). Of this, R89 billion was in ZAR, and only R3 billion was government guaranteed. The counterparties were South African financial institutions, who were the holders of bonds (R41 billion) and commercial paper (R3.6 billion), foreign Rand Bonds (R8 billion) and foreign bonds (R21 billion in USD). Transnet also had a mix of secured and unsecured bank loans in a mix of currencies (ZAR, JPY and USD).

Table 5-3: Transnet balance sheet as of 2014-15 (millions)

Borrowings	Mar-15	Mar-14	Currency
Local (SA) Bonds	41 477	37 858	ZAR
Foreign Rand bonds	8 022	8 010	ZAR
USD Bonds	21 133	18 285	USD
Secured bank loans	4 145	4 594	N/A
Unsecured bank loans	31 729	19 711	N/A
Commercial paper	3 644	1 783	ZAR
Other borrowings	227	203	N/A
	110 377	90 444	

Source: Transnet Annual Financial Statements, Rushton & Halstead (2024)

Table 5-4: Transnet's borrowings 2008-2009 (millions)

Borrowings	Mar-09	Mar-08	Currency
Local (SA) Bonds	15 838	14 620	ZAR
Foreign Rand bonds	2 976	2 971	ZAR
Commercial paper	6 339	645	ZAR
Banks	10 515	3 142	ZAR
Promissory notes		2 451	ZAR
Other	750		ZAR
Other borrowings	129	220	ZAR
	36 547	24 049	

Source: Transnet Annual Financial Statements, Rushton & Halstead (2024)

Third, the TCTA: In 2000, TCTA's mandate was amended to enable it to finance other projects besides the LHDP. The TCTA's core mandate is to raise capital to build dams for state agencies. It is not the owner of the facilities, which means the assets built do not appear on its balance sheet. As of 2015, its balance sheet was R20 billion, including liabilities of R16 billion and equity of R4 billion. Its projects over the years included LHDP costing R40 billion (1980s through to 2027), Berg Water Project (BWP) costing R1.6 billion (2007), Vaal River System costing R2.9 billion (2008), Mokolo and Crocodile River Project costing R14.3 billion (2015 to 2026), Komati Water Scheme costing R1.7 billion (2012), Oliphants River Project costing R23.4 billion (completion in 2031).

More than 90 per cent of the financing was raised through bonds (and commercial paper) issued in the domestic capital markets, with the remainder comprising loans from both local and foreign banks. BWP was largely financed through loans from the DBSA, EIB, and ABSA (R1.1 billion in total), with some additional funding (R47 million) coming from commercial paper issuance. The Vaal River Eastern Sub-System Augmentation Project (VRESAP) was funded through loans from the EIB, and the domestic commercial banks (R2.2 billion), as well as commercial paper issuance (R86 million). Most of the financing for all three projects was long-term. In contrast to the financing for LHWP, the financing for BWP and VRESAP was not explicitly guaranteed by the government,[258] although the projects had a preferential claim over the revenues collected by the Water Trading Account at the Department of Water Affairs and Forestry, which had committed to make available funding to close any shortfall that might arise.[259]

Fourth, ACSA: The nine principal airports in South Africa[260] are owned and operated by ACSA, and since 1998, it has operated the Pilanesberg International Airport under a 30-year concession agreement with the North-West Province. In 1998, a 25.4 per cent shareholding was sold to private investors, but in 2005, the PIC purchased the 20 per cent foreign-held shareholding. The remaining 5.4 per cent was held by domestic institutional investors. In 1998, the company's liabilities were negligible. Major investments in the airports took place in the run-up to the 2010 World Cup held in South Africa. Between March 2009 and March 2015, its borrowings remained the same at R11 billion, against an asset base of R26 billion. All ACSA's debt was in ZAR as at 2015, including R7.5 billion from local bonds, R2.8 billion from DFIs, R750 million from banks and R1.5 million remaining from a loan from Southern Sun hotels.

[258] The guarantee for TCTA's borrowing amounted to R19.3 billion and there was a further R613 million relating to the Lesotho Highlands Development Authority.
[259] Around 2001/2002, TCTA was assigned the mandate to manage Umgeni Water back to financial health.
[260] OR Tambo International, Cape Town International, Durban International, Port Elizabeth International, East London, Bloemfontein International, George, Upington International, and Kimberley.

Table 5-5: ACSA's borrowings 2014-15

Borrowings	Mar-15	Mar-14	Currency
Local (SA) Bonds	7 549 286	8 239 364	ZAR
Other (Southern Sun)	1 500	1 500	ZAR
DFIs	2 875 764	2 979 403	ZAR
Banks	750 000	1 751 643	ZAR
	11 176 550	12 971 910	

Source: ACSA Annual Financial Statements, Rushton & Halstead (2024)

Fifth, SANRAL: SANRAL is responsible for managing the national road network, of which around 17 per cent is tolled. It procured the toll roads using a Build-Operate-Transfer balance sheet configuration that effectively harnessed a range of private sector balance sheets to raise the debt required to build the toll roads. SANRAL mainly raises debt funding for the maintenance and expansion of the toll roads, while the non-toll roads have been funded until recently through grants from the government (around R3,5 billion by 2008). The controversial Gauteng Freeway Improvement Project, which began in 2008, was funded from bonds issued in the South African capital market, including some CPI-linked bonds. As of 2014/15, SANRAL's total asset base was R325 billion. Total borrowings were R43 billion, all denominated in ZAR, and R35 billion was held by a range of South African bondholders. In addition, SANRAL had loans from EIB and an ECA (see Table 5-6).

Table 5-6: SANRAL Borrowings 2014-2015

Borrowings	Mar-15	Mar-14	Currency
Local (SA) Bonds	35 604 569	26 246 506	ZAR
EIB loan	1 130 218	1 146 702	ZAR
CPI Loan	625 965	597 986	ZAR
ECA	223 707	276 018	ZAR
Repurchase agreements	485 073	718 359	ZAR
Other	5 195 808	5 646 723	ZAR
	43 265 340	34 632 294	

Source: SANRAL Annual Financial Statements, Rushton & Halstead (2024)

Sixth, Telkom: In 2003, a portion of Telkom's shares were sold to private investors to raise the capital needed to modernise Telkom. By 2014, around half of Telkom's debt was raised in the domestic and international debt capital markets in the form of bonds and commercial paper (R6.9 billion). In contrast to earlier years, the company had also

secured additional funding through call borrowings (R2.6 billion), term loans (R3 billion) and the issuance of asset-backed securities (R500 million).[261] Telkom also had financial leases totalling R1.1 billion. Just over 80 per cent of Telkom's debt was in local currency. An amount of R141 million was guaranteed by the government, relating to legacy international borrowings by the company.

Although poorly understood at the time, with hindsight it is now clear that by 2014, state capture was already a threat to SOE balance sheets. This was clearest with respect to the rising debt levels on the Eskom and Transnet balance sheets. The DTI document that defined SOE procurement spend as a means for boosting the development of a black industrial class unintentionally created the conditions for state capture, in particular the rigging of tenders in favour of those networks associated with the Zuma-centred power elite. In the final analysis, conditions were in place for full-blown repurposing of SOE balance sheets during the remainder of Zuma's presidential term.

5.4 Banks

Figure 5-1 visualises how, by 2014, the South African banking system had undergone a substantial transformation after the 'small banking crisis' of 2002, which resulted in regulatory interventions that helped minimise the fallout from the 2007-9 GFC. The upshot was a banking sector that was highly concentrated and strengthened by 2014. A string of bank failures since 1990 enabled this high level of concentration and related financial deepening of the economy.[262] Bank failures continued after the failure of Saambou in 2002, a fairly old bank rooted in Afrikaner savings founded in the 1940s that the NT chose not to salvage (discussed further below), and the failures of African Bank in 2014, and VBS Bank in 2018 (discussed further below). The failure of African Bank was due to bad management and a liquidity crisis arising from consumer lending to low-income households (in line with the provisions of the 2004 Financial Charter), which made sense during the consumer boom but became unviable as economic growth faltered and state capture deepened.

By 2014, South Africa's banking system relative to GDP had become one of the largest in emerging markets. At just over 1x GDP, it was nevertheless substantially smaller than banking systems in advanced economies, which have banking systems ranging from 1.5x GDP in the United States all the way to 3.5x GDP in France (see Figure 5-8*)*.

[261] Vodacom entered a subscription agreement with Asset Backed Arbitraged Securities (ABACAS). Vodacom issued debt instruments in the form of two promissory notes to which ABACAS subscribed.

[262] Alpha Bank (1990, fraud), Cape Investment Bank (1991 and liquidated in 1993, fraud), Pretoria Bank (1991, bad management and corruption), Sechold Bank (1994, liquidity problems), Prima Bank (1993, liquidity problems), African Bank (1995, bad management/liquidity problems), Community Mutual Bank (1996, cost of loans to poor people was too high), Islamic Bank (1997, liquidated), FBC Fidelity Bank (1999, bad management/liquidity), Regal Treasury Bank (2002, negative audit report plus a run, liquidated), followed by the spate of 2002 failures referred to above starting with the Saambou failure.

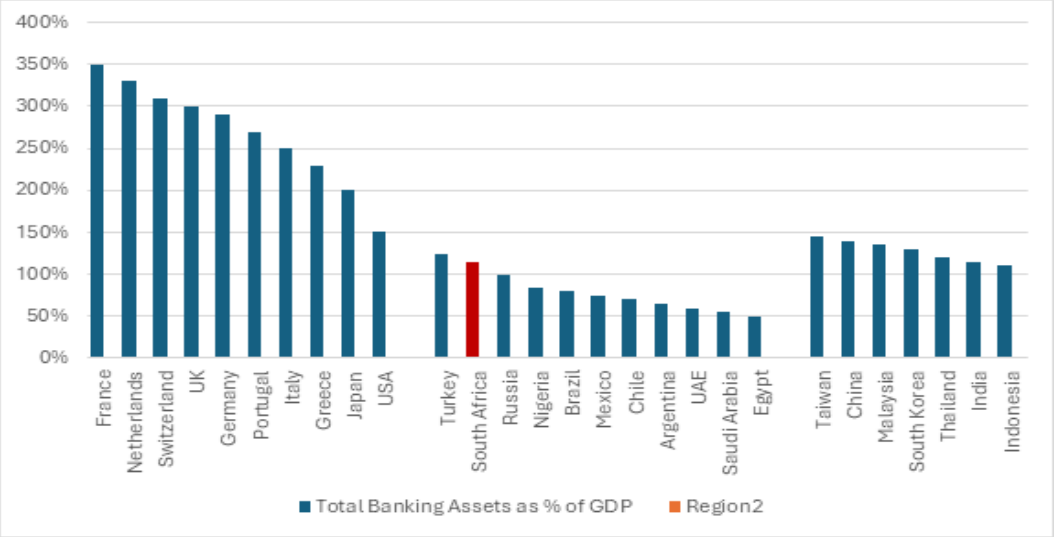


Figure 5-8: South Africa's banking system assets are large relative to other emerging markets, but below advanced economies
Source: BoA Merryl Lynch Analysis quoted in Havemann (2024: 5)

The liberalisation and deepening of the capital markets after 1994 affected the bank balance sheets because they could no longer assume that corporates would source all their large-scale debt finance from them. As a result, they re-oriented lending towards mortgages and consumer loans through the 1990s and well into the 2000s. The government attempted to prevent this redirection of capital into consumption rather than investments aimed at raising the levels of GFCF. By the late 2000s, NFCs had become net lenders to banks while households were in deficit, shouldering increasing debt. By 2014, banking loans to households for both property purchases and consumption were larger than loans to any other individual sector, followed by loans to the FIRE (finance, insurance, and real estate) industry. By contrast, bank lending to the manufacturing sector declined from 20 per cent of total lending in the late 1990s to a mere 7 per cent in 2016.

To understand the state of the banking sector in 2014, including the significance of the failure of African Bank, it is necessary to understand the adoption of the Financial Sector Charter (FSC) in 2004, following multi-stakeholder negotiations enabled by the National Economic Development and Labour Council. According to the Banking Association of South Africa,

> [t]he FSC was the first voluntary BEE Charter that represented a commitment from an entire sector of the economy to transform the financial services industry in line with the BBBEE Act to reduce inequalities that prevent people and South Africa from reaching its potential.

In short, the FSC envisioned a set of balance sheet reconfigurations which, if implemented together with the recommendations of the Bank Enquiry Report, would

have resulted in a developmental role for the banking sector. For this purpose, specific reference in the FSC includes the need to strengthen the relationships between the balance sheets of banks and a range of public financial institutions who, it was claimed, would play enabling roles, namely DBSA, IDC, PostBank, NEF, LBK, Khula, NHFC, the PIC, the Umsobomvu Fund, and the provincial development corporations.

A key outcome was a substantial increase in bank lending to poor and lower-middle-class households, particularly for housing. This, in turn, led to the mushrooming of unsecured lending during the period leading up to the failure of African Bank in 2014. While all the stakeholders who signed the FSC supported the call to bring banking services to the poor, the old established banks were too clunky to achieve on scale what the African Bank achieved, but eventually bungled. Capitec, however, which was set up by a group of Stellenbosch-based Afrikaner financial innovators in 2001, very successfully exploited the low-income mass market with their lean, IT-enabled low-cost products. With 21 million customers, it became the largest South African bank by customer numbers by 2024. Capitec shows that it is possible to 'bank the poor,' but it is debatable whether deepening the indebtedness of the poor can be described as 'developmental.' Numerous court cases brought Capitec's hawkish approach to bad debt remedies into the public spotlight.

The precursor to the consolidation of a centralised banking sector by 2014 was the so-called 'small banking crisis' in 2001 and 2002, which was triggered by the placement of Saambou into curatorship. This, in turn, resulted in the exit of 22 banks from the market, equal to half the number of banks before the crisis hit. After half of all South African banks had deregistered by 2003, the country experienced its second significant balance sheet reconfiguration since the start of the liberalisation of the sector in 1994.

The crisis began in February 2002 when the Minister of Finance announced that Saambou would not be provided with financial assistance. Instead of restoring confidence, this triggered a run on medium and smaller banks, starting with BoE, which was one of South Africa's oldest banks (dating back to the 1850s) and the fifth largest by 2002. Merrill Lynch, TA Bank, Cadiz, FirstCorp, PSG Investment Bank, and International Bank all then experienced runs. However, unlike Saambou, BoE did get financial assistance and was subsequently swallowed by Nedbank which more than doubled its market share overnight. In a subsequent wave of failures, the failure of Brait Bank was followed by the failure of Corp Capital, Old Mutual Bank, SECIB, and then UNIBANK, ING, African Merchant Bank and RMB (which survived by getting absorbed into First Rand). In January 2002, prior to the curatorship of Saambou, the big four banks (Nedbank, First Rand, Standard and ABSA) accounted for 62.4 per cent of bank assets. By January 2003, they accounted for 88.4 per cent of bank assets.

The reasons for these bank failures reveal the impact of the financial deepening of the South African economy, and the banking sector in particular. Significantly, Havemann's

analysis of this banking crisis reveals counter-intuitively that the banks that failed 'were better capitalised and more solvent than surviving banks.' Instead, he shows,

> failing banks had shorter-term, wholesale funding .... The types of liabilities differed significantly: failures [compared to surviving banks] had a higher proportion of short-term liabilities and a higher proportion of wholesale liabilities. This suggests that it was not a 'retail deposit' run [as assumed by the SARB], but rather a run by short-term wholesale funders.[263]

In other words, this banking crisis was triggered by investors in paper assets (mainly Collateralised Debt Obligations) who, in light of various market signals, decided to move these paper-based short-term assets into what were perceived to be safer, bigger institutions at a time when deposit insurance did not exist. Given that they were inherently well-capitalised and solvent, the authorities, Havemann argued, could have intervened to prevent the crisis when it began by, for example, providing Saambou with financial assistance at the start.

The South African banking system weathered the 2007/9 GFC well, in part because it was well capitalised, but also because the balance sheets of the major banks were not as exposed to the global USD-denominated repo market and the securitised products that landed up on the balance sheets of a vast number of mainly North American and European banks. The banking regulator had raised capital requirements after the 2002 'small banking crisis' to staunch excessive lending and exposure to securitised products. Moreover, countries with large, diversified banks had a 'good crisis' (Canada, Australia and South Africa), perhaps suggesting a trade-off between stability and competition. Nevertheless, the economy has never quite recovered from the 2008 crisis, in part because state capture followed shortly thereafter. That, however, did not seem to affect the banks. Indeed, compared to 2001 (i.e. prior to the 'small banking crisis' and the onset of full-blown state capture from 2014 onwards), the banking sector was stronger and more robust by 2019, when market share of the 'big five' increased from 74.2 per cent in 2001 to 89.5 per cent in 2019 and bank assets as percentage of GDP rose from 94.1 per cent in 2001 to 111.4 per cent in 2019.

The sources of bank funding (liabilities) in 2012 were the private sector (mainly NFCs) at R1.3 trillion, households at R638 billion, government at R299 billion, OFIs at R235 billion, and non-residents at R96 billion. Bank assets (loans and investments) reached R3.1 trillion by 2012, which included R2.3 trillion invested in the private sector, R375 billion in foreign investments, R332 billion with government institutions, R44 billion in inter-bank loans, and R7.4 billion in SOEs (see Table 5-7).

[263] Havemann (2021: 324)

Table 5-7: South African banks, two decades at a glance

	2001	2019
Bank assets(GDP %)	94.1	111.4
Loans and advances as a % of GDP	68.4	83
Mortgage assets (household and corporate sector) /total banking sector assets %	54	43
Bank deposits /GDP%	79.5	92.9
Registered banks	41	16
Mutual banks	2	4
Co-operative banks	2	4
Local branches of foreign banks	14	16
Market share of asses of the "big five" banks (%)	74.2	89.5
Return on assets (%)	1.2	1.3
Return on Equity	29	17
Source: South African Reserve Bank: Registrar of banks, Annual Reports		

Source: Hawkins (2021:1000)

Unlike the response to Saambou in 2002, the SARB and Ministry of Finance responded to the failure of African Bank with positive interventions that saved it from liquidation and prevented contagion.[264] Unlike other banks, African Bank did not rely on deposits but rather accessed funding from local and international markets for on-lending to consumers as unsecured credit at high interest rates. Ignoring the cultural differences between South African and Bangladeshi borrowers, African Bank managed to put a populist South African spin on the Grameen Bank-type narrative about the inherent bankability of the poor. Notwithstanding the promulgation of the National Credit Act in 2006 that forced credit providers to prove creditworthiness to counter growing cut-throat competition in the unsecured loans market, African Bank had aggressively expanded its loan book. However, when recessionary conditions kicked in after 2008, its non-performing loan book mushroomed in ways that contradicted the Basel Principles of Effective Banking Supervision. This was not just a threat to African Bank, but also to the financial system as a whole because of the OFIs that had invested in African Bank, namely ABSA, the PIC, Coronation and Liberty Life's Stanlib. Unlike in 2002 (and maybe learning from 2002), the SARB quickly stepped in to prevent contagion. SARB Governor, Gill Marcus, announced on 14 August that the SARB had put African Bank under curatorship. According to Marcus, the curatorship and resolution process was aimed at ensuring that the regular operations and collections of African Bank would continue effectively and efficiently. African bank was split into two, a 'good bank' and a 'bad bank.'

[264] Tjiane (2015)

Performing loans and positive assets worth R26 billion remained in the 'good bank', which was recapitalised with R10 billion underwritten by the PIC. The 'bad bank' was left with R17-billion in non-performing loans, R7 billion of which was bought by the SARB. The SARB remains a shareholder of African Bank.

The failure of VBS bank in 2018, however, highlighted the role of banks and bankers in state capture (referred to colloquially as 'banksters'). In a report released in 2018 by a watchdog NGO called Open Secrets, titled *The Bankers: Corporations and Economic Crime Report,* extensively documented how the banks colluded with state capture. It is worth quoting the report in full:

> Just as private banks were essential to the continuation of apartheid, there is increasing evidence that contemporary state capture in South Africa and the related looting of state-owned enterprises by Gupta-linked companies could not have occurred without the help of banks. Those networks that seek to profit from corruption and other economic crimes today need to obscure trails of money and keep real ownership secret in order to throw off their track investigators from the state and civil society. They could not have done so without banks helping them or turning a blind eye and ignoring their obligations to report suspicious transactions. As new evidence emerges, the number of banks implicated in the state capture allegations is increasing.[265]

The VBS, a small mutual bank located in the northern Limpopo Province, is a good example of a banking balance sheet reconfiguration that mirrored the repurposing happening at the time in the SOE sector. VBS grew because it was able to attract deposits from a Limpopo-based political network that included the provincial government, many local governments, local businesses and individual households. The VBS effectively looted the balance sheets of this province's poorest households, public institutions and small businesses and transferred around R2 billion into the hands of a corrupt political elite in the name of 'black economic empowerment'. KPMG were the auditors that corruptly signed off on the VBS balance sheet. Eventually, 32 people were arrested for their part in this provincial-level looting spree. However, very few were sentenced, and a few (including VBS auditors KPMG) who benefited from the fraud had enough money for expensive lawyers to secure out-of-court settlements. KPMG paid a R500 million fine to stay out of jail.

The argument thus far is that two balance sheet reconfigurations occurred within the banking sector after 1994: the first in response to the liberalisation of regulatory controls of banking to enable internationalisation and credit expansion without significant interventions to limit what the Competition Commission referred to as oligopolistic

[265] Open Secrets (2018: 21)

tendencies; and the second was in response to the 2002 'small banking crisis'. Neither of them was aimed at redirecting capital into GFCF.

In the midst of the GFC, the Competition Commission published the Bank Enquiry Report in 2008, which was the most significant review of the banking sector since 1994. The aim was to investigate whether the banks operated as a cartel or not. While the report strongly rejected the claim by the banking sector that banks vigorously compete with one another, the report concluded they may not be a cartel, but they do operate 'rather as oligopolists that maximise their profits by avoiding outright price competition where they can ..., and by taking advantage of the degree to which customers, once recruited, become locked into a particular bank'.[266]

Taking an in-depth analysis of how the banks operate the payment system, the Competition Commission report inquired into

> whether or not banks have significant market power in the provision of personal transaction accounts (PTAs) and related payment services – and, if so, what can be done to reduce it. Market power essentially means the ability of a firm to sustain its prices *above the level that would prevail in a competitive market*. .... We have concluded that the major banks (at least) do indeed have significant market power in the provision of PTAs and related payment services.[267]

Unfortunately, due to the preoccupation with surviving the GFC at the time, there was no appetite to address the Competition Commission's concerns about the negative impact of the market power of the banks on their various financial instruments.

Although the provision of loans by the big four banks to SOEs declined during the state capture years, it did not dip below R60 billion per annum. Given that these loans cemented together the balance sheets of the banks and SOEs and that this balance sheet configuration was complemented by a flow of corruptly acquired funds extracted from these SOEs back through these and other banks (and often outward into international financial circuits), it follows that the post-2014 period can be described as a period when banks, either intentionally or not, aided and abetted state capture. Most banks only closed the Gupta bank accounts as late as 2016, and FNB and Standard Bank continued to facilitate the financial transfers related to the Estina dairy scandal in the Free State despite many reports that revealed this as a corrupt scheme on a grand scale. It is, therefore, unsurprising that the report of the Zondo Commission of Inquiry into State Capture, released in 2022, included one hundred pages of evidence about the role the banks played in state capture. The Commission was provided with extensive evidence that revealed that R16 billion was laundered by the Guptas via South African banks.

[266] Hawkins (2021)
[267] Hawkins (2021)

Despite this, the Commission made very few recommendations about how to prevent banks from colluding with corrupt networks in future.

At a more fundamental level, it is necessary to ask whether banks provided loans that contributed to the raising of the level of investment in GFCF and therefore to the expansion of productive capacity to foster GDP growth. As revealed in Figure 5-9, Bosiu et. al. demonstrate that credit extension between 2004 and 2025 was mainly loans to households (to cover the costs of household consumption), loans to other non-banking finance companies that provided financial services such as sales credit, leasing finance, mortgage finance and other advances, as well as loans for what the SARB defines as 'community, social and personal services' (i.e. consumption). Loans for investment to expand productive capacity increased much more slowly than consumption loans to households between 2004 and 2015 (see Figure 5-9), even though overall investments by all public and private sectors in GCFC increased relatively rapidly between 2002 and 2008. This clearly reinforces the argument that the significant economic growth that took place during this period was largely debt-funded consumption-led growth, except, of course, for the 2002-2008 period, when rising investments in GFCF did occur.

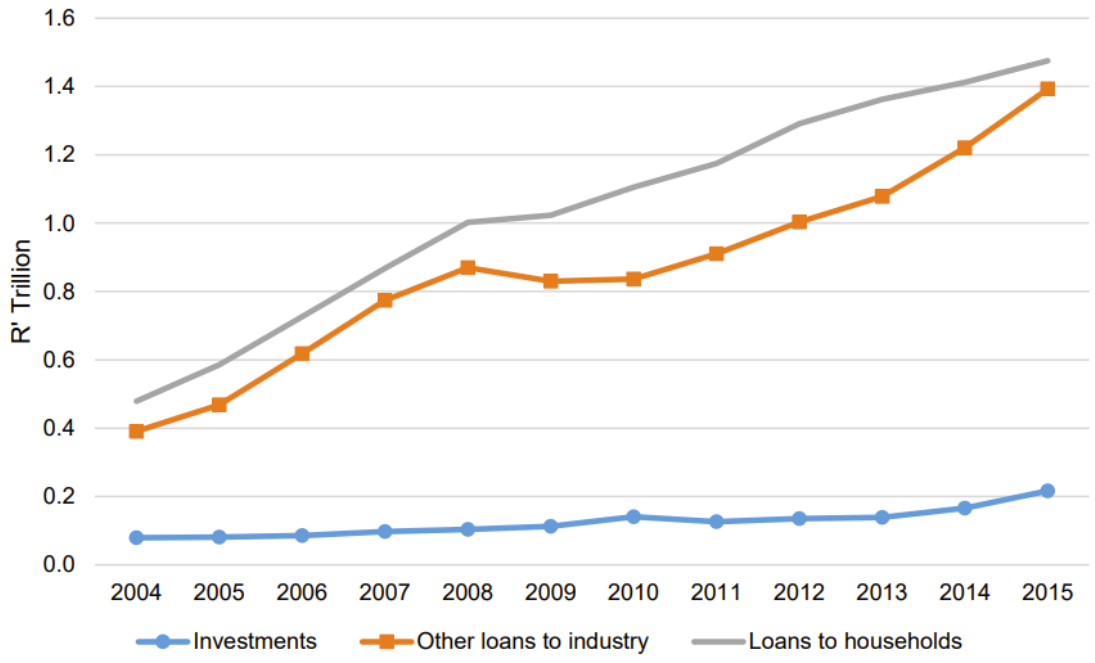


Figure 5-9: Extension of credit by South African financial institutions (2004-2015)
Source: Bosiu et al. (2017: 23)

To conclude, by failing to recognise that the 'small banking crisis' was not a conventional liquidity crisis and therefore worthy of intervention, the SARB unwittingly undermined competition within the banking sector. The benefits, however, were that together with the tighter regulations that followed, greater concentration within the banking sector enabled the banking sector to weather the 2007-9 GFC fairly well. However, the impact

of the GFC on employment and incomes resulted in the deepening of financialisation as household debt escalated after 2007/8 through to 2014, including the exponential growth in unsecured lending that led to the African Bank crisis. While rising debt levels contributed to the shift from (half-baked) neoliberal conceptions of limited state intervention to the 'developmental state' narrative, this initially seemed to produce results as investments in GFCF rose briefly during the 2002-2008 period but declined thereafter as state capture weakened the SOEs, which were the primary drivers of GFCF. Instead, the potentially promising shift represented by the 'developmental state' approach paved the way for state capture and the illegal financial flows that the banks enabled. The VBS case is one where unsecured lending to the poor and state capture converged to the detriment of the poorest people in the Limpopo Province.

5.5 Development Finance Institutions

The ideological shift to the 'developmental state' narrative, as reflected in two economic policy frameworks, namely ASGISA (2006) and even more so in the NGP (2010), was potentially good news for the DFIs. By 2014, there were already forty-one DFIs, but the most significant were still the three DFIs inherited from the apartheid era, namely the IDC, DBSA, and the LBK. There were great ambitions for the NEF when it was established in 2005 (including talk of it growing to rival the size of the major banks), but it was never sufficiently capitalised to realise these ambitions. Paradoxically, the balance sheets of the DFIs may have grown tenfold from R28 billion in 1994 to R263 billion in 2014, but because they never received substantial equity injections since 1994, they remained tiny relative to the size of the balance sheets of the commercial banks, shadow banks and pension funds. The more impactful alternative would have been to gradually increase annual equity injections into a smaller number of top-performing DFIs from the National Budget so that they could, in turn, leverage private sector funding into a wide range of development projects.

Although DFIs were not regarded as major policy instruments in the ASGISA framework, the NGP referred to them as essential tools for facilitating funding of projects with strategic developmental impacts that were unattractive to private sector investors. The role of DFIs was described as providing financial assistance for infrastructure projects, SME development, industrialisation, and support for sectors identified as crucial for economic growth and job creation. The NGP even suggested that DFI balance sheets get recapitalised to play their developmental roles more effectively. As a result, both the IDC and DBSA benefited from relatively small ad hoc equity injections: The IDC received R6.1 billion in 2010 to support the Industrial Policy Action Plans, and the DBSA received R7.9 billion between 2012 and 2015 R7.9 to strengthen a balance sheet that had suffered from a series of non-performing loans and bloated staff numbers. Although the IDC was given prominence in a series of Industrial Policy Action Plans that were aimed at implementing

the NGP, these Plans were relegated by the economic policymakers in the NT to the position of 'micro-economic policy' and therefore delinked from macro-economic policies that privileged monetary and fiscal policy.

In general, the three largest DFIs managed to escape state capture relatively unscathed. However, they were unable to avoid the slow-down of implementation resulting from corruption at the project execution level and the overflow of the impact of state capture on the funding sources for key SOEs. However, the Oakbay scandal that emerged during the early years of Zuma's Presidency (2010) did initially compromise the IDC (with negative effects running as far as 2016). Many of the provincial-level DFIs got caught up in state capture dynamics, in particular in the more corrupt provinces such as the Free State, Eastern Cape, Mpumalanga, Northwest and Limpopo Provinces. There is no real evidence linking Ithala Bank in KwaZulu-Natal Province to the state capture networks.

The IDC and DBSA benefited significantly from regionalisation. By 2014, both had established new units focused on investments in Sub-Saharan Africa and had already secured significant portfolios of projects in the industrial (IDC) and infrastructure (DBSA) sectors. Indeed, the DBSA mandate was extended overnight to the whole of Africa after Jacob Zuma met with Libya's President Gaddafi in 2011 and undertook, on the DBSA's behalf, to invest in Libya.

Unlike many DFIs, South African DFIs could not source significant funds from the fiscus (i.e. NRF) in the way that DFIs in China, Europe and the Middle East can. Furthermore, unlike in many Global South countries,[268]South African DFIs are not regulated by the Central Bank in the same way as all other commercial banks. Those that are regulated by the Central Bank in some Global South countries can often benefit from the liquidity that commercial banks can access when needed, which is not the case in South Africa. Both these conditions constrain the balance sheets of South Africa's biggest DFIs. Significant grant or low-cost debt is not available from the fiscus to leverage commercial debt; nor is it possible to significantly expand bond issues or borrowing levels without the backing and therefore the security of the Central Bank's balance sheet. As a result, South African DFIs source most of their funds from South African and international capital markets and international DFIs.

Over the 1994–2014 period, South African DFIs significantly increased their dependence on external grants, and concessional and commercial debt. However, the consolidation of the banking sector and the growth of the pension funds resulted in ready-made pools of capital that DFIs could tap into. The DBSA, for example, issues bonds on the JSE that are attractive to pension funds, and the DBSA borrows from South African banks. In 2015, the DBSA launched a Note Programme on the JSE worth R80 billion, while the IDC issued

[268] A term that is generally used to refer to countries in the global south, i.e. Africa, Latin America/Caribbean, and the poorer countries of Asia (usually including China).

its Note Programme worth R40 billion in 2018. The large bulk of this paper is held by pension funds.

South African DFIs, however, carry considerable risk arising from the fact that their core task is to convert Euros, USD and ZAR into investments in projects that are supposed to have a developmental impact in the most unequal society in the world. Inevitably, this raises questions about acceptable levels of risk and reward. Although not specific to 2014, the impact of the LBK crisis illustrates the fragility of the DBSA's balance sheet arising from the fact that the SARB does not regulate it. This applies to all the DFIs.

The Ministry of Finance regulates the DBSA. As the DBSA primarily invests in infrastructure projects, after shifting its focus away from funding the bantustan infrastructures after 1994, it became the largest lender to nearly all the 257 large and small local (now racially integrated) municipalities. However, the Ministry of Finance also regulates the LBK. When the LBK was faced with a liquidity crisis in 2020, which the Ministry of Finance did not immediately resolve, not only did the rating agencies downgrade it, resulting in the South African capital markets cutting off funding to the LBK, but they did the same to the DBSA arguing that if the Ministry of Finance does not back up the LBK how can it be trusted to back up the DBSA. Needless to say, it took four years to resolve the LBK crisis.

The DBSA was forced to increase its dependence on Euros and USD, which inevitably pushed up its cost of capital. That, in turn, meant it could no longer lend to its traditional municipal market at the same rates. Indeed, many municipalities realised they could source cheaper funding from conventional commercial banks. Furthermore, by 2014, the commercial banks had perfected the art of 'securitisation', which meant they could repackage their loans as Collateralised Debt Obligations and on-sell them in the secondary markets (usually pension funds after the projects are derisked), thus replenishing their capacity for further investments. As the DBSA could not compete with this, it decided to apply to the Minister of Finance and the SARB to fall under the regulatory authority of the SARB. After this was approved (with a two-year implementation plan), the DBSA realised that the restoration of trust within the South African capital markets may allow it to increase the size of its balance sheet by a factor of 4 without any changes to monetary or fiscal policy. When implemented, this would be a very significant balance sheet reconfiguration.

The 2007-9 GFC highlighted the countercyclical role of DFIs in the South African context, a role that helped mitigate the pro-cyclical effect of the shadow banking sector and the impact of state capture on SOEs. As indicated in Figure 5-10, disbursements reflected the impact of the GFC, but these rapidly recovered through to 2015.

By this time, issues of green resilience and inclusive growth had also been entrenched in DFI conversations and operations, enabling the countercyclical and crisis response

roles of DFIs to come naturally. Table 5-8 depicts the DFI balance sheet in 2014 and showcases the escalation in loans issued and investments made by DFIs, supported, to some extent, by some equity injections by the government.

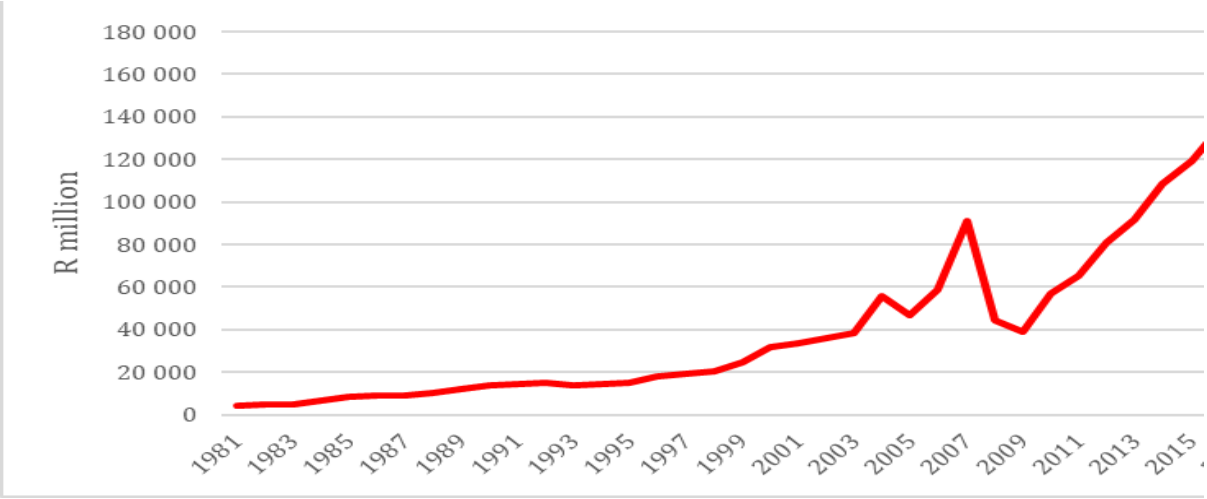


Figure 5-10: DFI stock of development loans, 1981 - 2015
Source: Nhleko (2024)

Table 5-8: DFI balance sheets in 2013/14

Assets	R million	Liabilities	R million
Currency and deposits	18 420	Loans	63 337
Investment securities	82 529	Equity	179 901
Development loans	108 604	Accounts payable	19 752
Equity investment	19 092	Other	148
Accounts receivable	13 573		
Other	20 918		
TOTAL	**263 138**	**TOTAL**	**263 138**

Source: Nhleko (2024)

As reflected in Table 5-9, DFI assets/liabilities were R263 billion by 2013/14. Assets in order of size included loans at R108.6 billion, securities at R82.5 billion, equity at R19 billion, currency/deposits at R18.4 billion, and accounts receivable at R13.5 billion. Liabilities in order of size were equity at R179.9 billion, loans at R63 billion and accounts payable at R19.7 billion.

By 2014, DFI balance sheets were interlocked with a much wider range of counterparties than in the 1990s. With respect to assets, the counterparties in order of size were national and local government at R108 billion (R12.7 billion in 1995), private corporates

at R62 billion (R6.1 billion in 1995), banks at R21 billion (R644 million in 1995), non-residents (mainly international DFIs) at R21 billion (R3 billion in 1995), households at R16 billion (R2.2 billion in 1995), SOEs at R15 billion (R2.2 billion in 1995) and NBFIs at R17 billion (R1.3 billion in 1995). Liabilities in order of size included central and local government at R179.9 billion (R14 billion in 1995), non-residents at R42 billion (including international DFIs) (R5.7 billion in 1995), banks at R37 billion (R8.2 billion in 1995) and NBFIs at R3.2 billion (R227 million in 1995). In short, DFIs sourced equity from the government and borrowed from banks and international DFIs to fund their loan book and portfolio of securities.

The IDC found itself entrapped in a shadow state web managed by the Gupta brothers on behalf of the Zuma-centred power elite. It granted a loan of R250 million to Oakbay, the Gupta family business set up to acquire the Shiva uranium mine. This acquisition was intended to service a fleet of nuclear power stations in the arrested nuclear deal with Russia. A further R90 million of IDC money was lost when Oakbay was delisted from the JSE in 2018 after the Guptas' grand plan started to unravel. The IDC's purchase of shares in Oakbay under suspicious conditions was revealed when the Gupta business struggled to pay back its loan.[269]

Table 5-9: Counterparties and Instruments

DFIs instruments	Non-residents			Banks			Non-bank financial inst.			Central & local govt.			Public corporates			Private corporates			Households		
2014 - R million	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB
Total financial assets (change = net acquisition)	**17 946**	**3 286**	**21 232**	**20 211**	**1 600**	**21 811**	**15 759**	**1 769**	**17 528**	**99 003**	**9 100**	**108 104**	**13 264**	**2 429**	**15 693**	**53 025**	**9 455**	**62 480**	**13 769**	**2 522**	**16 291**
Currency and deposits				17 413	1 007	18 420															
Investment (debt) securities										77 198	5 331	82 529									
Loans	17 946	3 286	21 232							10 143	1 858	12 001	13 264	2 429	15 693	36 672	6 716	43 387	13 769	2 522	16 291
Equity and investment fund shares/units																16 353	2 739	19 092			
Insurance, pension and standardised guarantee schemes							477	-12	465												
Financial derivatives and employee stock options				2 798	593	3 391															
Accounts receivable and other assets										11 662	1 911	13 573									
Property, equipment and land							15 282	1 781	17 063												
Total financial liabilities (change = net incurrence)	**36 870**	**5 947**	**42 817**	**32 395**	**4 740**	**37 135**	**2 744**	**541**	**3 285**	**160 967**	**18 934**	**179 901**									
Debt securities	6		5	14		13	73	-2	71												
Loans	27 202	5 734	32 935	22 494	4 741	27 235	2 616	551	3 167												
Equity and investment fund shares/units										160 967	18 934	179 901									
Insurance, pension and standardised guarantee schemes							56	-8	47												
Financial derivatives and employee stock options				225	-214	11															
Accounts payable and other liabilities	9 663	213	9 876	9 663	213	9 876															

Source: Nhleko (2024)

In summary, although the DFIs grew significantly in number and size between the mid-1990s and 2014, compared to the balance sheets of commercial banks, pension funds and shadow banks, they remained tiny. Without significant support from the SARB and

[269] Swilling et al. (2021)

the fiscus, they became increasingly dependent on the South African capital markets that were particularly cash-flush after the consolidation of the banking sector in the wake of the 'small banking crisis.' Their funding sources were also internationalised as they sourced capital from international DFIs (including the African Development Bank) and capital markets. Except for the IDC's entanglement with Oakbay and the Gupta family, the three largest DFIs have largely escaped state capture and benefited from the regionalisation of South African influence and power.

5.6 Pension funds

After 1994, the pension industry's aggressive marketing strategies had succeeded in convincing the wealthiest households to relocate a substantial portion of their financial assets into pension funds and life insurance policies. Furthermore, the trade union movement had succeeded in securing significant reforms that allowed their members to benefit from pension and insurance policies, including positions on Boards to influence investment strategies.

By 2014, pension assets had risen from R352 billion in 1994 to R3.6 trillion, with average growth of 11.3 per cent per annum. Growth rates following the impact of the GFC in 2008-2010 slowed, going negative in 2009 as unemployment levels rose. By 2009, total pension assets were at R1.8 trillion, which doubled over the next five years. Various policy reforms, changing corporate employment practices, and trade union pressure contributed to these remarkable growth rates, particularly in reaction to the GFC.

The strategic significance of the capital held by pension funds and invested on their behalf by asset managers has not escaped the attention of policymakers since 1994. The adoption of the 'developmental state' narrative reinforced this trend, including references to how the 'East Asian Tigers' consciously directed pension funds into strategic investments in their respective overall industrialisation strategies from the 1960s through to the 1990s. In response to these vague threats to follow these examples by re-introducing prescribed assets to direct pension funds into development projects, the pension industry responded by insisting on self-regulated implementation of an agreed set of standards. Media hype in their favour helped them win the public debate. The result was an amendment to Regulation 28 of the Pensions Act adopted in 2011, which essentially made it obligatory for pension funds to invest according to agreed ESG criteria. A key consequence of this reform was the adoption of the Code for Responsible Investing in South Africa (CRISA). It was established in 2011 by the Institute of Directors in South Africa, following global trends towards more sustainable and responsible investment practices. Taking advantage of the regionalisation of South Africa's monetary architecture, this Code included a requirement that pension funds increase their ESG-aligned investments in Africa.

Despite the emphasis on governance in the CRISA, the pension industry suffered reputational damage during the state capture years, mainly due to clear evidence of political interference in the way some public sector pension funds invested some of their funds. The largest asset manager in Africa, the PIC, was at the centre of these imbroglios. The most obvious was the PIC's decision to purchase 29 per cent of AYO Technologies, which became the subject of a Commission of Inquiry appointed by President Ramaphosa in 2018. This was preceded by the suspect investment in Camac Energy in 2013. By 2014, the PIC was already invested in Steinhof, a large, corruptly-managed international company run by South Africans that crashed in 2017. The PIC had also invested in the corrupt state-capture linked VBS Bank. The Commission of Inquiry, which reported in 2020, revealed a long series of governance failures and corrupt behaviours stretching back into state capture years before and after 2014. Significantly, Zuma-aligned Dan Matjila was appointed CEO of the PIC in 2014, replacing Elias Masilela, who was pushed out because he refused to collude with the Zuma-centred power elite. Several other senior executives who refused to collude either resigned or were effectively fired after questionable disciplinary proceedings.

The governance failures and corruption that afflicted the PIC during the state capture years cannot be separated from the fact that it was the largest investor on the JSE. Although poorly documented, it is not difficult to imagine how the deteriorating ethos of PIC behaviour negatively affected the asset management sector in a way that contradicted the intentions of the newly adopted CRISA. After all, a large part of the job of asset managers is about relationship-building and management. Some asset managers at the time informally admitted to an '*if you can't beat 'em, join 'em'* type ethos, often tainted with racial overtones about *'this is the way business is done in Africa'*. Unsurprisingly, since 2018, the re-establishment of sound governance has become a priority for both the pension industry and the government.

Despite the boom-bust pattern of household debt for the 2004-2014 period, funds managed by pension funds doubled between 2009 and 2014 (Table 5-10). This disjuncture between the boom-bust pattern of debt as a percentage of household wealth and the steady rise of pension assets as a percentage of household wealth needs to be explained. A clue to the answer lies in the unequal distribution of pensions. By 2017, although pensions comprised 32.5 per cent of household wealth, 94.7 per cent of all pension assets were held by the top 50 per cent of the population. However, although the top 1 per cent have consistently owned 80 per cent of all household wealth since 1994, only 14.1 per cent of total pension assets were held by the top 1 per cent by 2017. The top 1 per cent were more interested in other forms of wealth (in particular stocks and bonds). This suggests that the most significant growth in pension assets was amongst the middle and upper middle class (top 50 per cent minus the richest 1 per cent), who

held 80.6 per cent of pension assets.[270] The rapid growth in pension assets held by the lower middle class and employed working class can be attributed to trade union pressure and the marketing of affordable products by the pension and insurance industry.

Table 5-10: Assets under Management, 2001 - 2009 (R billions*)*

Assets in Registered Pension Funds [billions]	2001	2005	2009
Privately/Self-administered Funds	369.9	580.6	921.2
Underwritten Fund	188.5	224.1	229.2
GEPF			660.7
Officials Funds	238.7	426.6	No reporting
Transnet Fund	32.8		54.5
Telkom Fund*	0.18	0.21	0.24
Post Office Fund*	4.5	6.8	7.7
Industrial Agreements	0.61	27,00	No reporting
State Controlled Funds			
Foreign Funds	-		0.12
Total	**835.50**	**1 238.92**	**1 874.06**

Source: Moleko (2024), based on reports of the Financial Services Board (2001 – 2009)

Approximately half of the middle- and upper-middle-class pensions were managed by the largest pension fund, the GEPF, which mandates the PIC to invest the funds. The bottom 50 per cent held only 5.3 per cent of pension assets. In short, while the top 1 per cent accumulated wealth in the form of stocks and bonds and the bottom 50 per cent sank deeper into debt, the middle- and upper-middle class hedged against the uncertainties of the time by expanding their pension savings.

Table 5-11 reveals the investments made by pension funds from 2005 to 2012. From this table, it is clear that pension funds invested in the following assets: Property, bills/bonds/securities, debentures, loans, equities, unit trusts (which became CISs), insurance policies, deposits, Kruger Rands and foreign investments, with nearly half of all investments going into insurance policies. In short, the bulk of these investments were in liquid assets rather than assets that could have raised the levels of GFCF in the South African economy. This had much to do with the fact that infrastructure was not defined as a legitimate asset class for pension funds until much later.

[270] Chatterjee, Czajka & Gethin (2020: 20)

Table 5-11: Investment Portfolio of Funds (% of Total Pension Fund Assets)

	1. Immovable property	2. Bils bonds or securities	3. Debentures	4. Loans	5. Shares in companies/* Equities[3]	6. Collective Investment Schemes	7. Unit Trusts	8. Insurance policies	9. Deposits and Krugerrands	10. Foreign Investments	11. Other assets
2005	0.60	8.60	0.10	0.10	23.30	5.50		47.60	4.30	7.80	2.10
2006	0.50	8.00	0.50	0.10	22.00	5.20		47.30	4.80	9.90	1.70
2009	0.70	7.40	1.10	0.10	18.00	7.30		48.	6.20	9.50	1.70
2010	0.70	7.10	1.20	0.10	19.00	7.60		46.40	6.30	10.00	1.60
2011	0.70	7.50	1.10	0.00	18.80	7.90		45.90	5.10	11.80	1.20
2012	0.70	8.10	0.50		18.00	8.40		44.80	5.00	13.00	1.50

Note: Until 2005, the Financial Services Board reported on 'unit trusts' but then switched to reporting them as 'Collective investment schemes'

Source: Moleko & Ikhide (2017)

In summary, the remarkably rapid growth of pension funds over the two decades since 1994 confirms the trends observed in the household balance sheets, namely that middle and upper-middle-class households moved their savings into pension funds after 1994. Given that pension funds consistently grew much faster than GDP per capita (except for the dip caused by the GFC) and given the concentration of pension assets in middle- and upper-income households, it follows that the absolute value of these pension assets significantly increased the wealth of this group over the period to 2014. If the pension funds had invested the bulk of their funds in fixed assets (such as infrastructure) rather than liquid assets, then this vast accumulation of wealth could have had a positive impact on the economy. This was not the case. Compared to Organisation for Economic Co-operation and Development countries, South African pension funds are the lowest investors in infrastructure (less than 5 per cent compared to 40 per cent in Canada).[271] Indeed, at most 10 per cent of pension funds were invested in the 'real economy', in general, and GCFC, in particular.

5.7 Shadow banking

As Figure 5-1 shows, the liberalisation of the banking sector, which began before 1994 and was completed after 1994, resulted in a proliferation of a wide range of so-called 'shadow banks.' By 2014, they had consolidated their role as the enablers of the increasingly large financial flows that were not being reinvested in GFCF. They either enabled the circulation of finance within the South African economy, or they facilitated the outward and inward flows of finance on behalf of NFCs, banks and international investors.

Using the narrow definition of OFIs used by the FSB by 2016, the ZAR value of the assets of the shadow banks was R2.2 trillion. If the wider definition of shadow banks is used, the total value of their assets in 2016 is estimated to be R3.3 trillion.[272]

[271] Sachs (2021: 7)
[272] Kemp (2017)

Significantly, between 2008 and 2016, the ZAR value of assets of shadow banks tripled from R1.1 to R3.3 trillion, with average annual growth rates of 14-17 per cent. By 2016, the largest sub-sector of the shadow banking sector was CISs (otherwise known as unit trusts), popularised, for example, by firms like Allan Gray, Ninety One, Momentum and Coronation. If MMFs, HF and private banking services are excluded, then the assets within the various CIS schemes were worth R2 trillion by 2014, followed by assets in REITs at R357 billion, MMFs at R293 billion, finance companies at R265 billion, brokers at R83 billion, HF at R68 billion, trust companies at R60 billion, securitisation schemes at R58 billion, stokvels at R49 billion, PBSs at R1.3 billion and peer-to-peer lending at R78 million.[273] Added together, even if only 20 per cent of the R3.2 trillion these institutions keep in circulation went into GFCF, this could be a substantial contribution to filling the infrastructure investment gap.

Over the two decades between 1994 and 2014/16, the shadow banking sector grew faster than the commercial banking sector. By 2014/16, shadow banks were half the size of the banking sector, but the value of their assets (and therefore liabilities) was equal to 50 per cent of GDP.[274] This explains why the SARB became increasingly concerned by 2014 about the systemic risk posed by shadow banks.

First, the rapid rise of the shadow banks was directly related to the regulatory response to the 'small banking crisis' of 2002 and the consolidation of the banking sector that followed. Following this crisis, regulators imposed stricter requirements on traditional banks. This included more stringent capital adequacy standards, tighter liquidity requirements, and increased scrutiny on lending practices to ensure financial stability and prevent a repeat of the crisis. This reduced the flexibility of banks and created a space for the less-regulated shadow banks to step into the vacuum that was created.

Shadow banks could operate with more leverage and engage in riskier lending without facing the same regulatory scrutiny as commercial banks, making them attractive to certain borrowers and businesses. The existence of shadow banks was justified in terms of their roles in enhancing credit and liquidity provision, strengthening market efficiencies by reducing market rigidities, and promoting risk and innovation. The underlying assumption, of course, is that significant increases in the velocity of financial flows through an economy are systemically self-reinforcing because greater liquidity was equated with more efficient markets, an assumption that has been questioned since the 2007-9 GFC.[275] However, because they operate outside of regulation, regulators became increasingly concerned about the risk they may pose for financial stability. Hence, the SARB report by Esti Kemp entitled *Measuring Shadow Banking Activities and Exploring its Interconnectedness with Banks in South Africa*.

[273] Kemp (2017: 13). CIS: Collective Investment Schemes; MMF: Money-Market Funds; PBS: Private Banking Services for high net worth individuals.
[274] Kemp (2017: 18)
[275] Tooze (2018); Turner (2015)

While Kemp accepts the basic neoliberal premise that shadow banks are a healthy part of the financial ecosystem, questions began to be raised in 2014 by Kemp and others about systemic risk in light of the high degree of 'interconnectedness' between the regulated commercial banking sector and the shadow banks. In simpler terms, this refers to the way commercial banks work around regulatory constraints by channelling funds through shadow banks.

Second, the 'developmental state' narrative did not refer directly to shadow banks, but those who called for structural transformation envisaged tighter regulation of the financial sector and interventions to influence capital allocation. By contrast, those who wanted to use state institutions to enrich a black industrial elite (that eventually led to state capture) found it useful to use certain shadow banks as intermediaries.

Third, instead of the greater transparency as called for in the NGP, collusion between the Zuma-centred power elite and the financial sector resulted in greater opacity. The level of this collusion has been well documented by Open Secrets in their report entitled *The Enablers*. There is, however, significant evidence that shadow banks were used in various ways to enable state capture.[276] These included the following:

- Facilitation of illicit transactions.
- Opaque financial pathways that enabled the concealment of the source and destination of funds.
- Offshore connections for channelling funds through multiple bank accounts (otherwise known as 'layering').

One specific bank, Bank of Baroda, was used by the group of companies owned by the Gupta family to channel money via a complex web of 'inter-company loans'.[277] Although obliged to report these irregularities to the Financial Intelligence Centre in accordance with their banking license, these 'alerts' were largely ignored by the staff. It is estimated that R4.5 billion was processed by the Gupta family via Bank of Baroda accounts between 2007 and 2017, accounting for around 40 per cent of the bank's total loan business. This is what 'capital flight' looks like: The ultimate destination of this money was a set of bank accounts in Dubai and Hong Kong. A leaked list of these transactions reveals the complex web of banks, shadow banks, consultancies and front companies in tax havens that were used to channel the proceeds of state capture. After operating in South Africa for 21 years, this bank closed shortly after paying a surprisingly small fine of R400 000 for failing to adhere to Financial Intelligence Centre requirements.

The R4.5 billion processed by the Bank of Baroda was only a small proportion of the total capital flight[278] for the 1995-2014 period. Aboobaker et. al. estimate that total capital

[276] These general trends are drawn from Open Secrets (2020), Alence & Pitcher (2019), and various reports by Shadow World Investigations (2021).
[277] Aboobaker, Naidoo & Ndikumana (2022)
[278] Capital flight refers to the illegal flow of finance out of the country via various mechanisms.

flight for the 1995-1999 period was USD14,9 billion, rising to USD 77,9 billion for the 2010-2014 state capture period.[279] None of this would have been possible without a network of colluding banks, shadow banks and various compliant professionals (lawyers, accountants, etc).

Finally, shadow banks rapidly regionalised their sphere of operations. These firms often financed projects and acquired stakes in businesses, contributing to infrastructure, telecommunications, energy, and other industries across the African sub-region. Such investments allowed these entities to operate outside the regulatory constraints of traditional banks, providing more flexibility in financing and investment structuring. Examples include micro-lenders and other specialised credit providers, tax-friendly REITs and other property investment firms, and various investment funds that usually join consortia to fund large-scale infrastructure projects (e.g. power plants and transport infrastructure).

Figure 5-11 provides a summary of the size and composition of the shadow banking sector from a SARB perspective. According to Kemp, all the wedges in Figure 5-11, except the red one, pose risks because of the way these shadow banks get involved in high-risk liquidity creation, inflated leveraging, and maturity transformation arrangements that can go wrong. CISs comprise 80 per cent of the instruments deployed by shadow banks (all the blue wedges). For Kemp, these are all rated as EF1, which means they are regarded as 'susceptible to runs.'[280] However, as Kemp observes, by 2014, there was 'no regulation mandating a regulator to conduct macroprudential supervision' of this specific set of shadow banks.

Finance companies make up 12 per cent of shadow banking activities and are rated as EF2 by Kemp. While the National Credit Regulator (NCR) regulates these companies, they compete with banks but are less regulated. This, Kemp argues, 'could result in regulatory arbitrage.'[281]

As far as HFs are concerned, Kemp estimates they are 4 per cent of shadow banking activities and are rated EF3. Rated lower risk than CISs and finance companies because although they take risks when covering short positions of businesses or providing loans so that businesses can leverage larger loans, this risk is against the HFs portfolio of assets.

Credit insurance is only 1 per cent of shadow banking activities and was provided by companies supervised by the FSB, hence rated EF4. Finally, securitisation represents 2 per cent of shadow banking assets and is classified as EF5 because these activities are regulated according to the Banks Act and managed by the JSE.[282]

[279] Aboobaker, Naidoo & Ndikumana (2022: 152)
[280] Kemp (2013: 17)
[281] Kemp (2017: 17)
[282] Kemp (2017: 11)

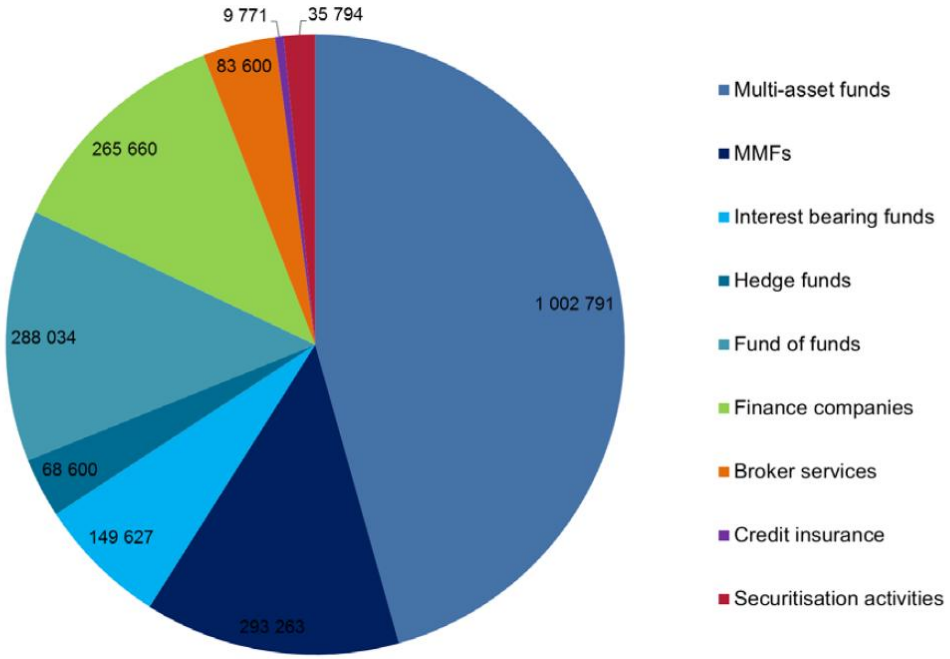


Figure 5-11: Shadow banking activities/entities, September 2016 – R millions

Note: Blue areas indicate activities/entities that can be classified into EF1 according to the Financial Stability Board approach; green indicates EF2; orange indicates EF3; red indicates EF4; and purple indicates EF5.

Source: Kemp (2017: 17)

The rapid growth of the less-regulated shadow banks during the two decades leading up to 2014, as well as their growing 'interconnectedness' with regulated commercial banks, i.e. the balance sheet configuration of assets and liabilities that Figure 5-1 depicts in an ideal-typical way, has been identified as the potential cause of systemic risk in the policy and academic literature.[283] As the right-hand panel in Figure 5-12 reveals, the financial assets of the OFIs (which include shadow banks) grew faster than any of the other financial sectors between 2002 and 2016. This is due to significant flows into shadow banks from institutional investors (pension funds, insurance corporations, etc) and from international investors searching for higher yields in an international environment characterised by increased liquidity due to QE and very low (even negative) interest rates.[284]

[283] Kemp (2017); Mashimbye (2023)
[284] Kemp (2017)

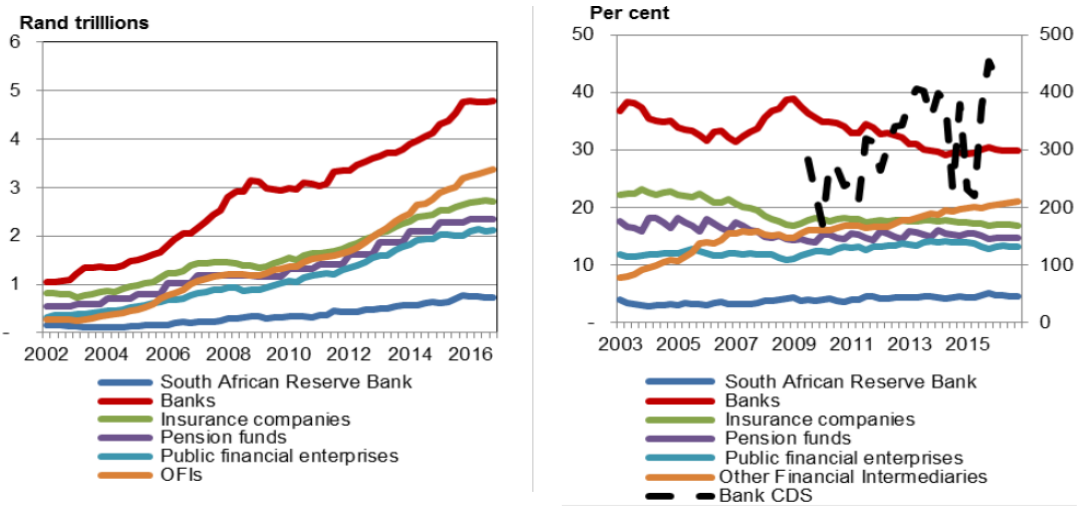


Figure 5-12: Financial assets held and distribution of financial assets between financial intermediaries in South Africa.
Source: Kemp (2017: 12)
Note: CDS = credit default swaps

What contributes to the systemic risk associated with shadow banking structures is their opacity. Due to data limitations, different forms of systemic risks can potentially remain unnoticed. These systemic risks include regulatory arbitrage, transferring credit risk to less-regulated financial institutions and the weakening of consumer protection. More seriously, as shadow banks expand, the SARB's monetary policy transmission mechanism will weaken because shadow banks cannot access loan facilities at the repo rate. The upside of certain shadow banks is that they may facilitate greater inclusion by making credit available at a lower cost than banks. [285]

The more interconnected shadow banks are within the wider monetary architecture, the greater the systemic risk becomes.[286] By 2014/16, OFIs (i.e. the wider definition of shadow banks) were providing South African banks with funding equal to 15 per cent of the assets of these banks. Compared to the rest of the world, a global survey by the FSB found that OFI funding of banks in South Africa was the third highest in the world.[287] This points to a high degree of interconnectedness in the South African monetary architecture and thus a high potential for systemic risk.[288] A closer look at the key shadow banks reveals the extent of this risky interconnectedness.

MMFs, which made up 12 per cent of shadow banking by 2016, invested 90 per cent of their assets in instruments created by the five largest banks. This represented 5.4 per cent of bank assets in 2016. By this time, MMFs had also invested in instruments underwritten by

[285] Kemp (2017: 7-8)
[286] Mashimbye (2023)
[287] Quoted in Kemp (2017: 20)
[288] Kemp (2017: 20). See also the overall conclusions reached by Mashimbye (2023)

non-banks (2 per cent), government entities, SOEs (2 per cent), securitisation schemes (2 per cent), listed REITs (less than 2 per cent), plus various smaller entities.

If MMFs, HFs and public benefit services are excluded from the cluster of CIS assets, then 37 per cent of the assets of the remaining CISs were invested in equities by 2016, 13 per cent in domestic bonds, and 18 per cent were invested in other domestic funds. Around 18 per cent of CIS assets were invested in instruments that were either created by or underwritten by banks, which represented, in turn, 8 per cent of bank assets in 2016.[289] The assets of finance companies expanded rapidly from around R25 billion in 2001 to over R250 billion by 2015. They sourced the bulk of their funding from non-banking financial institutions, particularly from fixed-interest securities and loans from non-banks, which were by far their largest source of funding.[290]

While ownership of shadow banking instruments was predominantly a feature of elite households, stokvels continued to be the noticeable exception. They are a type of non-bank financial institution that was also accessible for lower-income households and was led almost entirely by poor black women. Supported by the largely men-led NASASA, the women-led stokvel movement grew from strength to strength during the two decades through to 2014.[291] Although they continued to play a key role in poorer communities, over the two decades since 1994, it became increasingly common for women who moved into the middle class to continue to build high-end stokvels. Most participants in stokvels tend to have incomes (from jobs or their own small businesses) and therefore have disposable income. It was estimated that by 2017, the savings in stokvels had grown to R49 billion.[292] The survey by African Response Research published in 2012 found that 40 per cent of South Africans belonged to a stokvel. Significantly, this survey found that the majority of stokvel members in 2012 were in LSMs 5 and 6, and nearly all had bank accounts. About 78 per cent of members were between the ages of 25 and 49.

In summary, not only did the shadow banking sector grow faster than the banking sector during the two decades to 2014 to the point that their collective assets equalled 50 per cent of GDP, but the deepening interconnectedness between the less-regulated shadow banks and the highly-regulated commercial banks started to raise concerns about systemic risk. This became a concern for the SARB because, as the balance sheets of the shadow banks expanded, the effectiveness of the SARB's monetary policy transmission mechanism to stabilise the currency weakened. Like in the case of the pension funds, the beneficiaries of shadow banking assets are the richer households, and there are very limited investments in fixed assets by shadow banks. Their primary role is to manage the expanding flows of finance that were not being reinvested in GFCF. By contrast, the large majority of poorer and lower middle-class households (but not the very poor) were

[289] Kemp (2017: 23)
[290] Kemp (2017: 24)
[291] Gwamanda (2019)
[292] Gwamanda (2019)

members of mainly women-led stokvels that together had a balance sheet of R49 billion by 2017. These funds were deposited in accounts in the main commercial banks.

5.8 Central bank

Figure 5-1 reflects the growing stability of the SARB as its asset base grew and advances to commercial banks declined. The strategic choice that was made to abandon exchange controls to focus on inflation and capital flows contributed to the strengthening of the asset base, which, in turn, underpinned the stricter regulation of the banks following the twin crises of 2002 and 2007/8. Four dynamics stand out to characterise the institutional evolution of the SARB up until 2014.

First, the SARB updated its Monetary Policy Implementation Framework and gradually converged with international conventions regarding the separation of monetary and fiscal policy.[293] From the late 1980s, it modernised its various systems: In 1998, a repurchase-based refinancing system was introduced;[294] the manually operated inter-bank settlement system was replaced with a new automated system;[295] and selected private bankers were appointed as primary dealers in government bonds.[296] These solutions aligned the SARB's systems with Central Bank practices in Western countries, particularly in the context of European monetary unification.[297]

The SARB's response to the 1998 currency crisis helped legitimise its role as the stabiliser of the currency. Following a dramatic depreciation of the ZAR, the SARB increased the repo rate from 15 per cent in May 1998 to just under 24 per cent by June. Simultaneously, it borrowed foreign currency in the forward market, which was then sold on the spot market. Consequently, the net open foreign position (net international reserves minus the central bank's forward liabilities) decreased by USD 10 billion between April and September 1998.[298]

In 2000, the SARB introduced the inflation-targeting framework with a consumer inflation target of 3-6 per cent (discussed in more detail in the 2024 section). Trade unions opposed this policy, as they argued that it retarded economic growth and, therefore, was inappropriate in a high-unemployment environment. Even leading businessmen agreed.[299]

Supporters of the 'developmental state' narrative within and beyond government policy circles were critical of inflation targeting. This was reflected in mild tones in the NGP

[293] Cf. McNamara (1998)
[294] SARB report of 2020 quoted in Naidoo, Meerholz & Lehmann-Grube (2024) "The SARB creates a liquidity requirement (or shortage) in the money market, which banks refinance at the repurchase (repo) rate – a fixed policy interest rate determined by the MPC."
[295] Van Der Merwe (1999)
[296] Van Der Merwe (1999)
[297] Murau & Giordano (2024); Murau, Goghie & Giordano (2025)
[298] Bhundia & Ricci (2005)
[299] Power (2024)

published in 2010. While supportive of monetary policy and inflation targeting, the NGP suggested that monetary policy should be more flexible and should consider the trade-offs between controlling inflation and job creation by promoting economic growth. It also called for lower interest rates and improved oversight to ensure that the financial sector's investment strategies align with its goals.

Second, as already discussed, the SARB played a central role in the 'small banking crisis' of 2002, which led to the consolidation of the banking sector. However, by misdiagnosing the problem as a conventional 'liquidity' crisis rather than a crisis that affected well-capitalised banks with large short-term liabilities,[300] the SARB's response resulted in the halving of the number of banks and the exiting of smaller banks that were generally regarded as more responsive. Capitec, founded in 2001, stepped into this vacuum with hi-tech solutions that enabled it to provide more innovative solutions than the mainstream banks.

The GFC marked a turning point in the SARB's approach to prudential regulation and saw the use of monetary policy tools to address the associated financial and economic fallout. To counteract the effects of the GFC, between December 2008 and July 2012, the SARB dropped the repo rate from 12 per cent to 5 per cent.[301] Since the South African economy was largely insulated from liquidity disruptions thanks to the controls introduced after 2002, no unconventional monetary policy measures such as QE were introduced.[302]

The so-called Twin Peaks model was introduced with the signing of the Financial Sector Regulation Act into law on 21 August 2017.[303] The Twin Peaks model gave effect to three important changes to the regulation of the financial sector. Firstly, it gave the SARB an explicit legal mandate to maintain and enhance financial stability. Secondly, it created a prudential regulator, the PA, within the administration of the SARB. Thirdly, the Financial Sector Regulation Act established a market conduct regulator – the Financial Sector Conduct Authority (FSCA).

Since the adoption of the Twin Peaks model, the PA has worked on developing '…strong and effective relationships with the FSCA, other financial sector regulators such as the NCR and the Financial Intelligence Centre, and stakeholders in general'.[304]

It is very clear that the SARB understood its role as counteracting the inflationary pressures that state capture unleashed. It also took strong anti-corruption actions. This included beefing up capacity for anti-money laundering and counter-terrorism finance measures. This included reinforcing the capacity of the Financial Intelligence Centre to enforce anti-money laundering and counter-terrorism finance controls. The SARB also

[300] Havemann (2021)
[301] SARB report quoted in Naidoo, Meerholz & Lehmann-Grube (2024)
[302] Shikwane, De Beer & Meyer (2020)
[303] SARB report of 2021 quoted in Naidoo, Meerholz & Lehmann-Grube
[304] SARB report of 2021 quoted in Naidoo, Meerholz & Lehmann-Grube (2024)

imposed so-called 'administrative sanctions' on banks deemed to have weak control measures. Furthermore, the SARB has, from time to time, launched special investigations to deal with corruption.

Fourth, the SARB contributed to managing South Africa's interface with a globalising international financial architecture. For instance, the SARB played a key role in setting up SIRESS in 2013. Largely driven by the regional operations of South African companies, SIRESS initially enabled banks to interact within South Africa, Namibia, Lesotho, and Swaziland (now Eswatini). Over time, additional SADC countries joined the system, broadening its reach and enhancing financial integration within the region. SIRESS allowed banks in participating countries in SADC to interact with each other using a real-time gross settlement system denominated in ZAR. The introduction of SIRESS may be interpreted as a step towards reducing dependence on the USD as a global key currency in the Southern African region. Since SIRESS was operated on the balance sheet of the SARB as the hierarchically highest balance sheet and uses ZAR for settlement purposes, the setting up of SIRESS may also be seen as a step towards establishing the ZAR as a regional key currency. As a precursor to the BRICS-plus initiative on local currency trading later on, in 2015, the SARB and the People's Bank of China announced the signing of a bilateral swap agreement that enables the exchange of local currencies between the two central banks, with a limit of up to RMB 30 billion (approximately ZAR 57 billion).[305]The currency swap arrangement was renewed in 2021.

The following five time series figures visualise several key dynamics on the SARB balance sheets. In the period before and after the GFC, the SARB had a constantly expanding balance sheet (Figure 5-13). While this spiked slightly in 2008, it plateaued from 2009-2010 and then continued an upward trajectory. The balance sheet grew from R 247.1 billion in 2007 to R 550 billion by 2013.

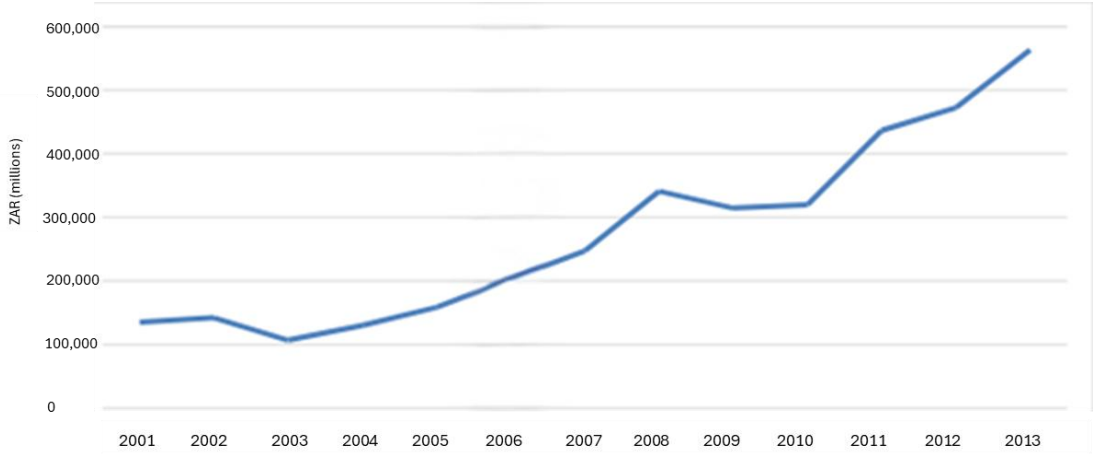


Figure 5-13: Total Assets 2001-2013
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

[305] SARB report of 2015 quoted in Naidoo, Meerholz & Lehmann-Grube (2024)

The South African economy experienced increasing stability between 2000 and 2014. Figure 5-14 shows the expected trend of a steady contraction in advances to stabilise financial conditions.

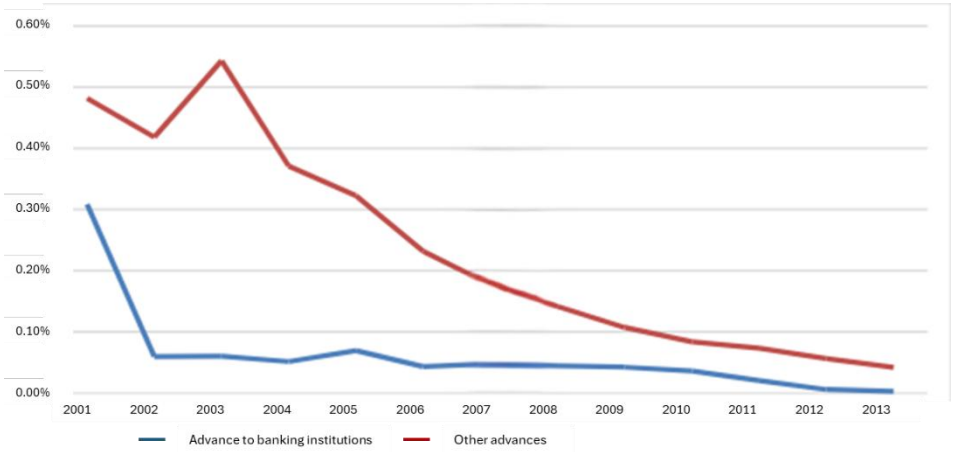


Figure 5-14: Advances provided (as a % of Total Assets) 2001-2013
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

As Figure 5-15 indicates, the period up to 2008 saw a large increase in foreign-denominated deposits by the government held by the SARB. Only from 2009 did foreign-denominated deposits rapidly rise through to 2011 before stabilising until 2013. ZAR-denominated deposits were on a downward trend after 2007. This may reflect a preference for foreign currency-denominated deposits, as they have higher resilience to global systemic financial shocks than domestic currency. Foreign currency government deposits increased from zero in 2008 to ZAR 80.7 billion in 2013.

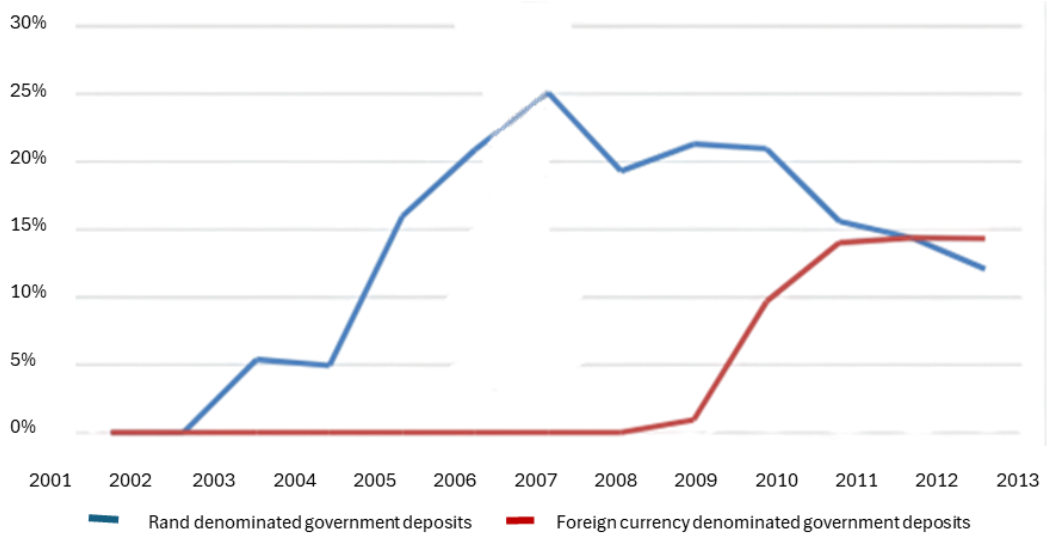


Figure 5-15: Government deposits (as a % of Total Assets) 2001-2013
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Figure 5-16 reveals an upward trend in liquidity ratios, including an upward spike in government bonds and foreign reserves during the crisis period, dipping immediately afterwards and then recovering its upward trajectory. This is similar to the response of the liquidity ratios in the post-1994 period, which indicates a correlation between economic stabilisation measures and increased liquidity. As the SARB increases liquidity during crisis periods, this provides further insight into how it does this, as well as increases the elasticity space of the financial architecture in times of instability, and then contracts the elasticity space, through the repurchasing of liquid assets.

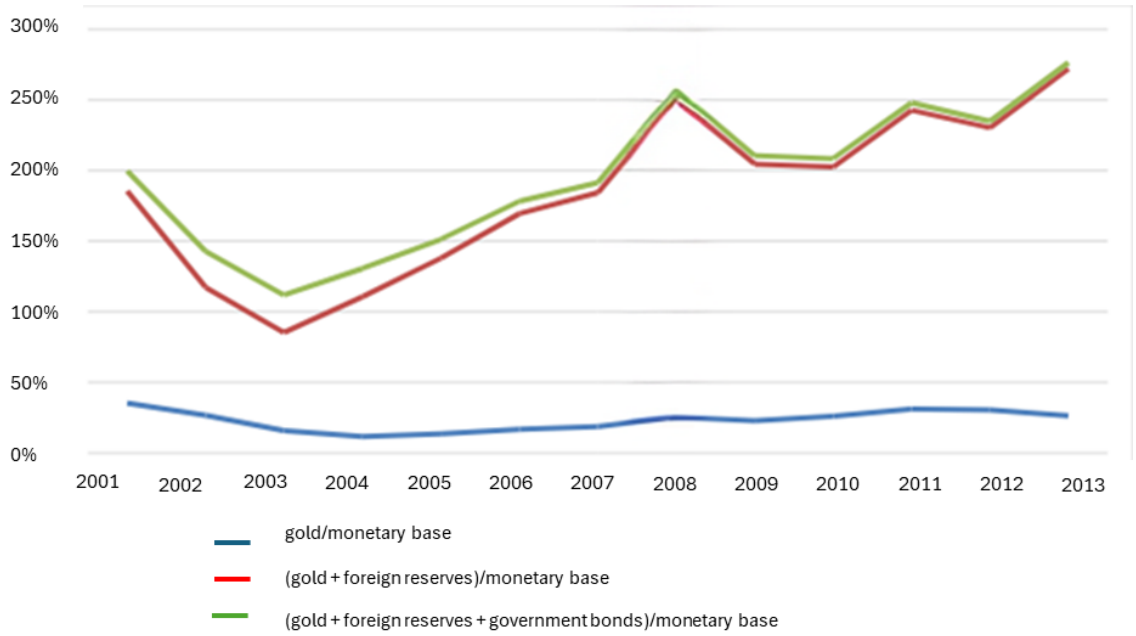


Figure 5-16: Liquidity Ratios 2001-2013
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Figure 5-17 shows a steady increase in foreign deposits during the period of economic stabilisation (2001-2007), followed by a dip in foreign deposits in 2008, with a recovery and stabilisation after the GFC.

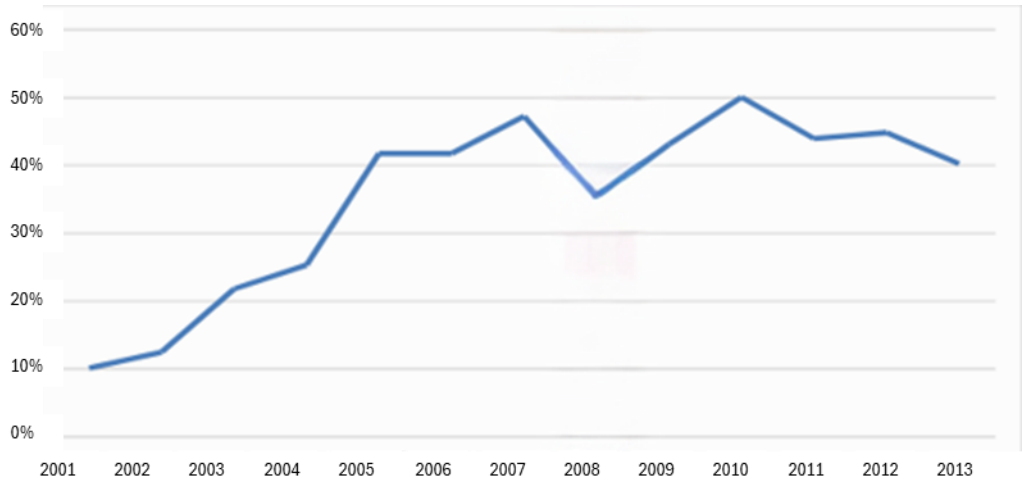


Figure 5-17: Foreign deposits (SARB Liability) as a % of Total Liabilities 2001-2013
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

During the 1996-2014 period, the SARB consolidated its position as a strong and capable manager of monetary policy. It significantly strengthened its balance sheet, introduced the Twin Peaks model to manage the entire monetary system more effectively, modernised its systems, formalised inflation targeting and took strong action against corruption.

5.9 National Treasury

As demonstrated below, 2014 marked an inflexion point for the NT. From a GFCF perspective, although the real decline in investments in infrastructure started in 2014, this was consistent with an underlying longer-term trend between 1994 and 2008, when there was a reduction in public debt-to-GDP. As Burger et al. (2015) point out, this may have created fiscal space, but investment in public infrastructure declined.

Four trends are significant, elaborated in detail below:

- First, it is when the NT started implementing pro-cyclical austerity measures in response to low growth levels triggered by the GFC and reinforced by state capture thereafter.
- Second, the impact of state capture on the SOEs was reflected in a steady decline in the capital spending of the SOEs from 2014 onwards.
- Third, the rise of industrial policy thinking within a wider 'developmental state' narrative from the early 2000s contrasted with, and some would even say resisted by, the NT's commitment to fiscal conservatism as reflected in a decade of 'austerity budgets' starting in 2012.

- Fourth, the NT and the various Ministers of Finance had become strong supporters of the regional integration strategies driven by the Department of International Relations and the DTI.

First, despite strong objections from the trade unions, the South African Communist Party, local governments and left-wing intellectuals, the NT was determined to avoid raising debt levels to fund fiscal expansion. Instead, it implemented a series of pro-cyclical austerity measures as growth faltered. From 2012 through 2014 to about 2018, core spending and transfers to poorer households plateaued. Jacob Zuma's decision to grant free university tuition in response to the nationwide *#feesmustfall* protests and the expansion of health spending in preparation for the introduction of National Health Insurance contributed to rising debt levels. The bulk of the growing budget deficit of 4-5 per cent was devoted to financing the interest on debt. Although employment growth ended in 2012, the turning point came in 2016 when the budget balance went negative as economic growth slowed and tax income fell.[306]

As panel (a) in Figure 5-18 shows, from 2009/11 onwards, the NT allowed taxes on capital, wealth and corporate income as a percentage of GDP to decline in the wake of the GFC, while personal income tax and taxes on consumption steadily rose. Panel (b) reveals the widening gap since 2012 between the rising income of employees (which explains rising personal tax, mainly from the wealthier households) and declining GVA, which Sachs attributes to the ending of the commodity boom.

Underlying these trends is growing inequality; as Sachs put it: 'It may be that affluent South Africans sustained real gains in compensation – driving up tax collections – even as growth slowed, and unemployment surged among unskilled and low-income workers who fell below the tax threshold'. Given that there are more women-headed households amongst the poorest 50 per cent of the population, this trend reinforced socio-economic and gender-based inequalities. Exacerbating this was the fact that rising consumption taxes (mainly VAT and fuel levy), which are the largest source of government revenue, affected the poor more than the wealthier groups. Research has also shown that VAT tends to have more negative effects on women compared to men.[307] To make matters worse, the fiscal authorities were of the questionable view that there was no fiscal space to effect transfers to poor households to offset the negative impact of rising unemployment. Instead of taxing wealth to subsidise the poor, wealth taxes such as estate duty, transfer duty and property taxes are a small share of government revenue, which means corporate income tax is the only really significant tax on capital.

[306] Sachs (2021:18)
[307] Valodia, Smith & Budlender (2001)

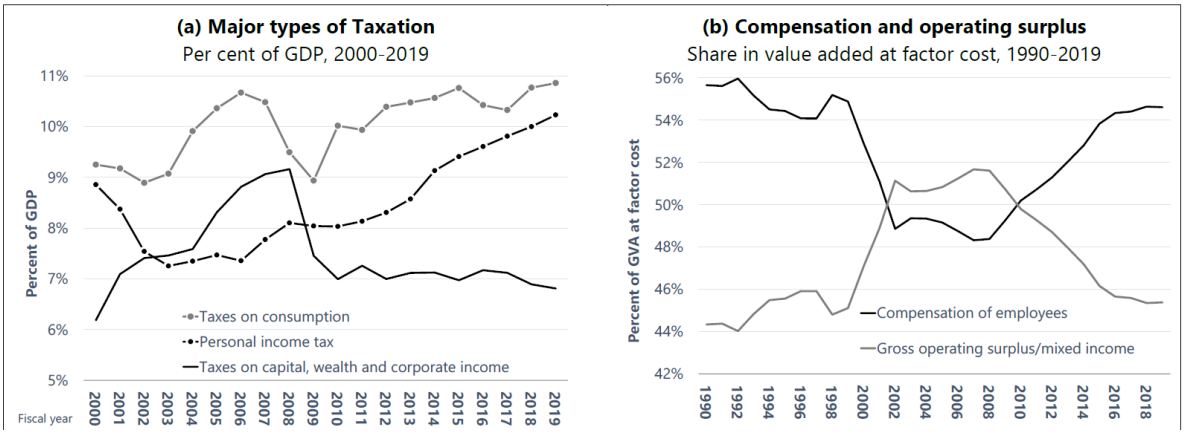


Figure 5-18: Taxation, GDP and the Functional Distribution of Primary Income
Source: Sachs (2021)

While poor households suffered the effects of rising consumption taxes without an increase in transfers during recessionary times, wealth taxes have effectively gone down, even though wealthier households are better able to cope with downturns.[308] In short, poor and working-class households carried a greater relative burden than wealthier households as the effects of state capture and recessionary conditions took their toll. These dynamics have, of course, reinforced the pre-existing subordinate position of poorer and lower middle-class women whose main source of support is civil society organisations, certain welfare grants, and their own collective savings formations.

As Figure 5-19 indicates, South Africa's fiscal position after 2014, leading up to the Covid-19 crisis, could not have been worse. As far as national and provincial government balance sheets were concerned, interest payments were growing faster than all other spending, with no end in sight. Capital spending across all levels of government collapsed from 2014 onwards, while goods and services spending increased marginally. The free university education commitment by President Zuma to bring a halt to the *#feesmustfall* mass student protests drove up transfers to universities and forced budget cuts across other sectors.

Budget cuts imposed from above and above-inflation wage settlements from below forced departments to cut capital spending and maintenance budgets. The result was a decline in the quality of all government services and infrastructures across the board, but particularly the health, education, and policing departments, which affected the poorest households and vast swathes of women the most [309] compared to wealthier households, who use private education, private health care and private security services.

[308] Sachs (2021: 20-21)
[309] Sachs (2021: 19)

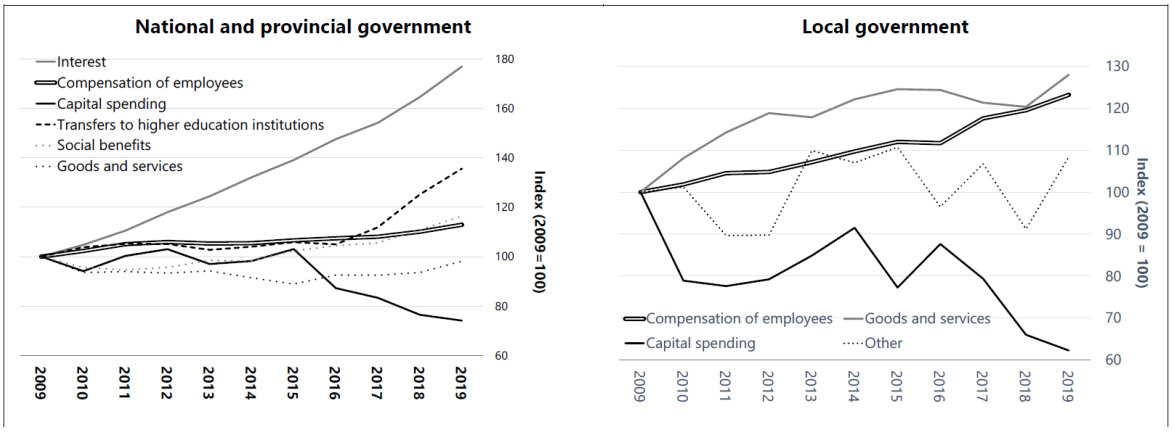


Figure 5-19: Trends in the economic classification of the expenditure (selected items)
Source: Sachs (2021: 19)

Second, the 'developmental state' narrative became a binding theme for a broad range of state and non-state actors opposed to fiscal austerity. Indeed, budget cuts driven by the NT may have put the squeeze on the national and provincial governments but spending by partially off-balance sheet public sector institutions not directly controlled by the NT continued to expand. This includes those institutions with their own sources of income, namely local governments with their own tax bases, the 150 SETAs, whose funding comes from skills levies payable by employers, plus various other national and provincial extra-budgetary institutions engaged in welfare, small business funding, and provincial development projects. These institutions were able to sustain rising consumption spending levels for a while as national government spending decreased.

This was the origin of the current local government debt crisis. The original intention was to create a counterweight to the provincial and national government that reflected grassroots interests, which was officially referred to as 'developmental local government.'[310] In reality, over time, most were hijacked by corrupt local leaders who had no interest in developmental action.

Third, the impact of state capture on the SOEs was reflected in a steady decline in the capital spending by the SOEs from 2014 onwards (Figure 5-20). This reflected the twin impact of state capture and tighter fiscal policies to limit rising debt. It took a few years before the capex of municipalities and provincial governments followed suit.

[310] Van Donk et. al. (2007)

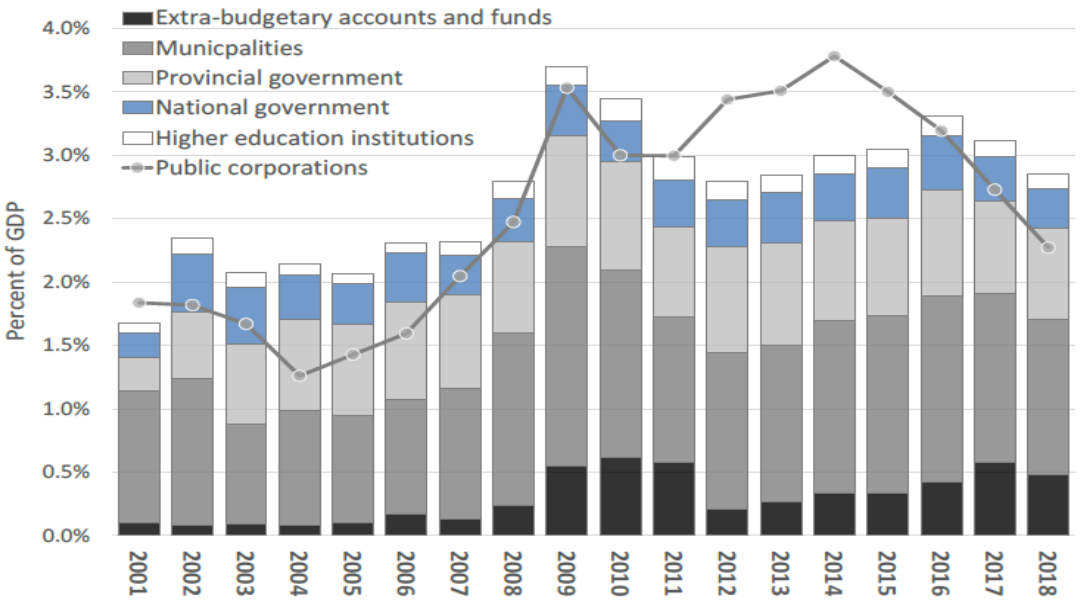


Figure 5-20: Capital Spending by Public Sector Institutions (2001-2018)
Source: Sachs (2021: 6)
Note: A distinction is made between spending financed largely out of general taxation and utility charges (bars) and those financed on the balance sheets of state-owned enterprises (the line). Extra-budgetary accounts and funds in this (Stats SA) dataset include public utilities operation, passenger rail, national roads, and water infrastructure.

Figure 5-20 reveals the dramatic drop-off in capital spending by SOEs from 2014 onwards (grey line). However, the drop-off in capital spending by all the other government departments combined only really started in 2016. After 2014, the role of the SOEs declined dramatically, reflecting the negative impact of state capture on their respective balance sheets. Until then, to ensure improved infrastructure delivery, SOEs received funding from lenders and via the budget with respect to major capital projects, including the 2010 World Cup, Gautrain, Eskom's build programme, and Transnet. DFIs were expected to be self-financing balance sheets.

Finally, every year the NT increased its support for regional integration. This was reflected most clearly in the annual budget speeches of the Minister of Finance. He referred to regional infrastructure development in 2012, trade and South Africa's financial contributions to the African Development Bank in 2014, investing in regional transport and energy networks in 2016, the need for inclusive growth in 2018, and a commitment to the African Continental Free Trade Area (AfCFTA) in the 2020 speech.

5.10 Summation

This section has studied the balance sheet configuration of South Africa's monetary architecture as it was by 2014. By tracking the emergent trajectory of the monetary

architecture that was in place by 1996, this section considered four macrotrends: regional financial integration, banking sector consolidation, the rise of the developmental state narrative, and state capture.

As the 2002-2012 growth period came to an end, the Zuma-centred power elite that coordinated state capture from 2009 onwards attempted to exploit the growing frustration with the apparent inability of the post-1994 government to overcome persistent inequalities and weak economic growth. State capture was a failed attempt to fundamentally reconfigure South Africa's public sector balance sheets in the name of 'radical economic transformation.' The political project may have failed, but the damage was done. Capital investments by SOEs started to collapse from 2014 onwards.

As the developmental limits to dollarisation and financial deepening became increasingly clear, alternatives such as mild regional financial integration via SIRESS, intra-African trade via the AfCFTA and orientation towards the BRICS began to shape South Africa's external positioning.

Tight monetary policy, the internationalisation of many of South Africa's listed NFCs and the absence of deposit insurance made it nearly impossible for policy makers to influence the domestic investment decisions of NFCs, banks and pension funds. This was a missed opportunity to develop a banking and non-banking financial system more prone to domestic investment. However, if such a system had been established, the integrity of the banking system may well have been compromised by state capture.

The logic of the old bank-based financing model inherited from the apartheid era had largely broken down as the corporate bond market took off and more and more wealth of mainly elite households was stored in the NBFI sector. Without mechanisms for ensuring these NBFI-managed funds and bank lending were re-invested in gross fixed capital formation, economic growth inevitably remained very weak. The growth of shadow banking was required to facilitate the increasing scale and velocity of the resultant liquidity, a phenomenon that the SARB began to worry was a systemic risk.

The state capture years during Jacob Zuma's presidency amplified these negative macro-financial dynamics. As international and domestic investors lost confidence in South Africa's markets and increasingly compromised balance sheets, retention levels went up as fixed investments declined. Pro-cyclical austerity budgeting from 2012 onwards in response to rising debt levels and declining tax revenues reinforced these negative trends. Furthermore, tight monetary policies to constrain inflationary pressures meant that relatively high interest rates pushed up the cost of capital, thus further retarding growth-inducing investments.

Various policy initiatives were introduced to address the economic challenges, including the NGP (2010) and the NDP (2012). However, none of these policy frameworks was matched by a corresponding set of balance sheet reconfigurations to redirect the flow of

capital. A path-dependent monetary architecture evolved that contradicted the logic of a raft of positive developmental policy frameworks. Unsurprisingly, as the data on the inequalities of household balance sheets, the cash-starved small business sector and the worsening socio-economic position of women reveal, inequalities, poverty and unemployment deepened under these conditions.

What was missing was a macro-financial governance framework for governing South Africa's interlocking balance sheets in ways that redirected capital flows to reinforce national developmental policies such as the NGP and the NDP. Ironically, the Zuma-centred power elite had, in their confused and misguided way, grasped this reality to some extent. Their obsession with the reconfiguration of SOE balance sheets was, indeed, about unlocking new flows of finance for, of course, a highly corrupt purpose. Unsurprisingly, therefore, they perceived the Constitution as an obstacle in the way of 'radical economic transformation.' Unless a democratic version of macro-financial governance is found, state capture could happen again. Hence, the importance of this report.

6 Snapshot 4: South Africa's Monetary Architecture in 2024

This section depicts the balance sheet configuration of South Africa's monetary architecture as it had evolved by 2024, depicted in Figure 6-1. South African politics has been shaped by state capture during Jacob Zuma's first and second terms in office (ending in 2018), followed by attempts during the first presidency of Cyril Ramaphosa to manage the fallout while simultaneously dealing with the Covid-19 pandemic. The elections in May 2024 have led to a second term for Cyril Ramaphosa, now heading up a 'Government of National Unity' as the ANC, for the first time since 1994, lost its absolute majority. This signals that the South African voters became increasingly frustrated with the persistent failure to reduce inequality, create more jobs, and provide better public services. On an international level, major 'tectonic shifts' have taken place, resulting in the emergence of a 'multipolar world', which reflects the relative weakening of the hegemony of the 'Global North' and further strengthening of the BRICS. At the same time, climate change and the perceived need for decarbonisation have received greater salience on a global scale.

Despite a succession of economic policy frameworks since 1994, South Africa had still not found a socially inclusive economic growth path by 2024. Persistent inequalities and sustained under-investment in GFCF have undermined efforts to achieve the goals of the NDP.[311] Numerous reports confirm that massive investments are required to address infrastructure backlogs and prepare for future growth.[312] However, as the ten-year bond yield continues to rise relative to declining nominal GDP growth, the interest on public debt has started to diverge from nominal growth rates in ways not seen before.

It is time, therefore, to adopt a new approach to the macro-financial governance of South Africa's monetary architecture. The traditional approach, premised on the distinction between public and private sector financing, is no longer useful. Nor is it useful to assume that the only creators of value are the private sector.[313] Given that the financial ecosystem can be understood as a web of interlocking balance sheets, it follows that the macro-financial governance of the monetary architecture of this ecosystem has now become a strategic necessity.

The 2024 moment brings into relief five key trends that have shaped South Africa's monetary architecture throughout the last decade: the collapse of SOEs, constrained fiscal spending, low levels of economic growth, climate change and loadshedding, as well as tectonic shifts in a multipolar world.

[311] National Planning Commission (2023)
[312] Development Bank of Southern Africa, National Treasury, National Planning Commission & Presidential Climate Commission. (2025a, 2025b, 2025c). World Bank (2023)
[313] Mazzucato (2018)

First, the implosion of SOEs and the breakdown of public utilities provision: The looting of the SOE balance sheets by state capture forces, with the collusion by big private sector companies (including Deloitte, SAP, KPMG, McKinsey, law firms and various banks), exacerbated the impact of adverse economic conditions.

Second, over-extension of the Treasury balance sheet and the consequent pressures on the central bank. In an influential 2024 report, titled *Macro-Economic Policy: A Review of Trends and Choices,* [314] the NT concludes that 'perhaps the most important macroeconomic trend of the period under review is the rapid rise in the debt stock [on South Africa's balance sheets] in both absolute terms and in comparison to GDP'. The Report observes the cause as the widening of the gap between tax revenues and expenditure. No solution, however, is provided other than austerity, i.e. reduce expenditure. The income side is largely ignored.

Third, stagnation in an overly-financialised economy. The rising debt burden with low growth rates and declining levels of public and private investment contrasts with the state of the financial sector: South African banks remained highly profitable, and the highly liquid NBFI sector was not under pressure to redirect investments into GFCF. While GFCF declined, 'the total value of financial assets in the economy increased from roughly 675 per cent of GDP in 2010 to about 803 per cent of GDP in 2021'.[315] As already indicated, this financial deepening was reflected in the growth of the asset base of NBFIs from about 198 per cent in 2010 to 242 per cent of GDP by 2021, with liabilities (households, pensions) growing from 193 per cent to 248 per cent of GDP over the same period.[316] In parallel, what the SARB refers to as the Rest of the World (RoW) assets (South African liabilities to foreigners) increased from 98 per cent to 123 per cent of GDP from 2010-2021, while the RoW liabilities (South African claims on foreigners) increased from 74 per cent to 137 per cent of GDP.[317] Without macro-financial governance of this monetary architecture aimed at the redirection of capital into GFCF guided by industrial and infrastructure policies, stagnation is likely to persist.

Fourth, prolonged high levels of loadshedding came to an end in 2024 as the energy availability factor of the existing coal-fired power stations improved, large quantities of renewable energy came online, and demand remained low due to poor economic performance. At the same time, due to the way finance is moving away from investments in coal because of climate change and the rising costs of coal, government has accepted that future energy demand will be met in part via renewables plus backup (batteries and gas). This has led to the gradual breakdown of the mineral-energy complex that has been the foundation of the South African economy since colonial times. The fact that nearly

[314] National Treasury (2024)
[315] Hadji-Lazaro et al. (2025)
[316] Hadji-Lazaro et al. (2025)
[317] Hadji-Lazaro et al. (2025)

90 per cent of climate finance stems from South African private sector sources reflects how quickly new balance sheet configurations can fall into place.[318]

Fifth, tectonic shifts in an increasingly multipolar world have affected South Africa's positioning. This is not just about rising geopolitical conflicts in Ukraine, Gaza and Sudan that have all resulted in international actions by South Africa. It is also about the enlargement of the BRICS club from its original members (Brazil, Russia, India, China, South Africa) to include Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates. This enlarged group accounts for 45 per cent of the world's population and 35 per cent of global GDP (measured at purchasing power parity). This has implications for the New Development Bank that was established in 2014 by the BRICS to reduce dependence on USD loans from international Multilateral Development Banks. By 2022, it had a balance sheet of USD 28 billion and had started making loans in local currencies. The enlarged BRICS is exploring ways of trading in local currencies to reduce dependence on the USD.

South Africa also provided leadership in setting up the AfCFTA, which it signed in March 2018. AfCFTA accounts for 1.3 billion people and a GDP of USD 3.4 trillion. South Africa has strongly supported proposals for a Pan-African Payment and Settlement System to facilitate transactions under the AfCFTA. Moreover, South Africa was the first country to propose a Just Energy Transition – Investment Plan, which articulated South Africa's investment requirements to achieve the levels of carbon reduction required by its Nationally Determined Contributions under the Paris Agreement to reduce greenhouse gas emissions.

The remainder of this section discusses these five trends with respect to the various parts of South Africa's monetary architecture. It provides a candid assessment of the status quo in the country's monetary and financial system that helps us understand the current position with the two overarching challenges that motivate this report: ongoing inequality and persistent underinvestment in GFCF.

[318] Climate Policy Initiative, GreenCape & Presidential Climate Commission (2023)

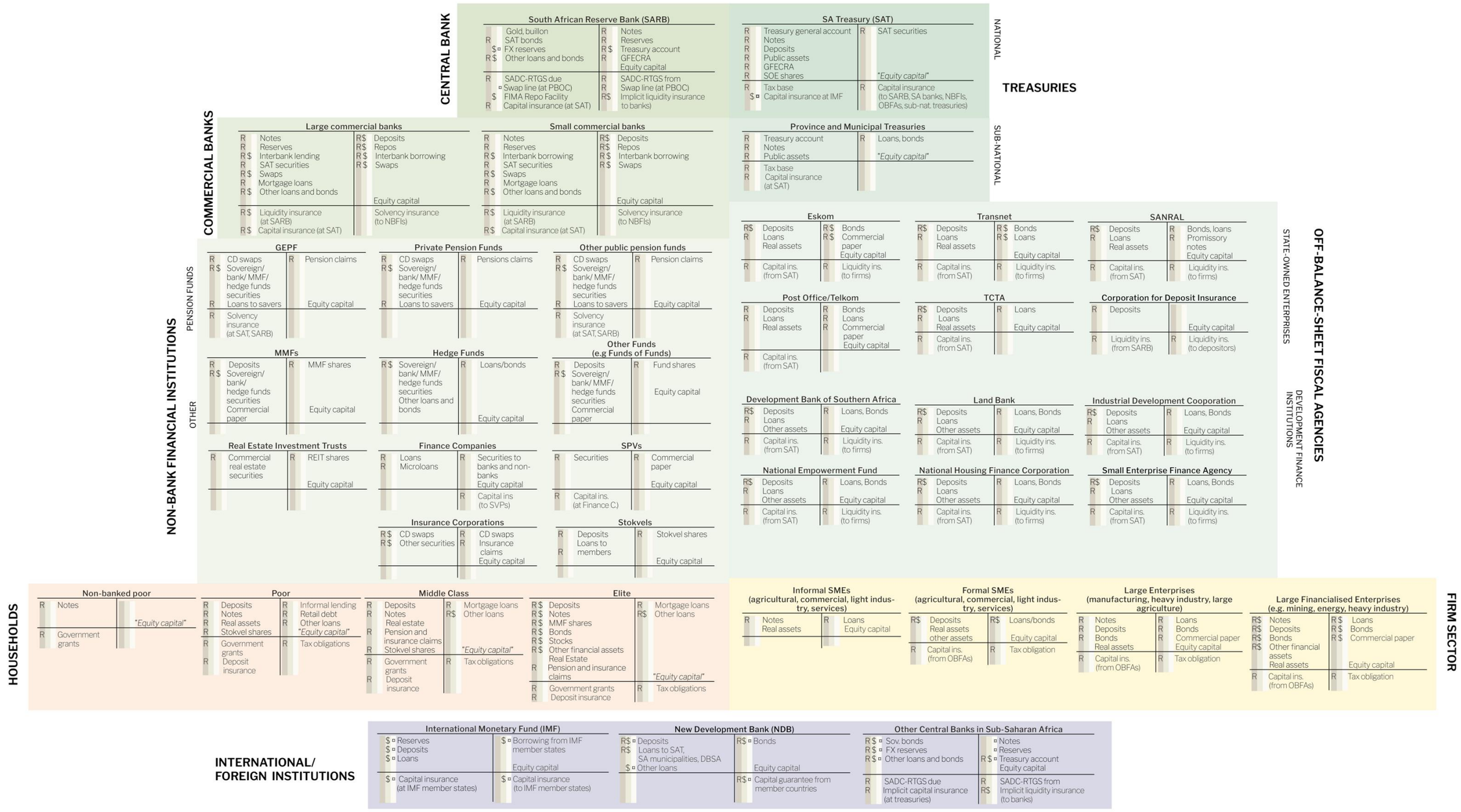


Figure 6-1: South Africa's monetary architecture by 2024

6.1 Households

The household sector depicted in Figure 6-1 still comprises the same four types of balance sheets as in the previous sections: non-banked poor, banked poor, middle class, and elite households. The structure of instruments broadly follows the previous trends of increased complexity and diversity of assets and liabilities on elite household balance sheets, while the balance sheets of the poorer classes remain much simpler.

In recent years, new research based on household surveys and recently accessible tax data has revealed what was not empirically apparent back in the 1990s, namely, asset as opposed to income inequality.[319] From a 'tax-and-transfer' perspective, while 10 per cent of the population contributes 72 per cent of all taxes, nearly 60 per cent of government spending benefits the poorest 50 per cent.[320] Arguably, this is the most significant social democratic achievement of the post-apartheid era. Designed in the 1990s, this balance sheet configuration was informed by the need for policies to redress income inequality. However, as revealed in the sections on household balance sheets, the failure to fundamentally restructure the apartheid monetary architecture from an asset inequality perspective has resulted in three decades of financial flows that reinforced the accumulation of wealth by 0.1 per cent of the population (i.e. 35 000 individuals), which is equal in value to the wealth of 90 per cent of the population.[321] Asset-based policies such as land reform, housing development for the poorest families and support for black share ownership have not shifted this deeply ingrained path dependency.

This approach, however, masks the intra-household gender relations. Given that the richest households tend to be white and headed by men, much of this wealth is controlled by white men. Even land has not been substantially redistributed in favour of the poorest rural households, nearly 50 per cent of which are headed by women. In short, from a gender perspective, white men control the bulk of South Africa's household wealth, while poor black women head up South Africa's poorest households.

To determine the composition of the various instruments held by households, Chatterjee, Czajka and Gethin offer a granular analysis that combines tax data and NIDS data. As Table 6-1 indicates, they consider non-financial and financial assets as well as mortgage and non-mortgage debt. Moreover, they include consideration of offshore wealth. For the various instruments, the table indicates an aggregate market value as well as the share of national income and wealth. Their finding is that the distribution of these instruments between different household categories continues to reflect persistent wealth inequality that has not been significantly reduced since the end of the apartheid era. They argue that:

[319] Orthofer (2016); Chatterjee, Czajka & Gethin (2020)
[320] Sachs (2021)
[321] Chatterjee, Czajka & Gethin (2020)

The extreme degree of wealth inequality that we observe is in large part driven by the relative exclusion of poorer wealth groups from any form of wealth accumulation, and by the concentration of all forms of assets at the top end of the distribution.[322]

Table 6-1: Level and composition of household wealth in South Africa by 2018

	Market value (R billion)	% of national income	% of net wealth
Non-financial assets	4,504	111.4	42.4
Owner-occupied housing	3,020	74.7	28.4
Tenant-occupied housing	988	24.4	9.3
Business assets	497	12.3	4.7
Financial assets	8,294	205.1	78.0
Pension assets	2,944	72.8	27.7
Life assurance assets	1,412	34.9	13.3
Binds and interest deposits	1,798	44.5	16.9
Currency, notes and coins	87	2.2	0.8
Corporate shares	2,053	50.8	19.3
Total liabilities	2,170	53.7	20.4
Mortgage debt	1,022	25.3	9.6
Non-mortgage debt	1,148	28.4	10.8
Net household wealth	10,629	262.9	100.0
Of shore wealth	575	14.2	5.4
Net wealth incl offshore wealth	11,204	277.1	105.4

Source: Chatterjee, Czajka & Gethin (2020:10)

Note: the table shows the level and composition of household wealth in South Africa in 2018. The market value of each component is expressed in current billion rands.

Table 6-2 provides an empirical estimate of wealth inequality in South Africa by 2017. It is assumed that little had changed by 2024. The categorisation of class types that they adopt is broadly commensurable with the monetary architecture framework. Accordingly, the national average wealth was R326 000 at purchasing power parity, which is three times higher than the average national income per adult (R110 000 per annum). The bottom 50 per cent (17 million adults) have negative net wealth; their debts are higher than the market value of their assets. The middle class is small and weak; the middle 40 per cent (14 million adults) have a net household wealth equal to R138 000, which is nearly 60 per cent lower than the national average. The average household wealth of 90 per cent of the population is four times lower than the national average, while the household wealth of the top 10 per cent is nine times the national average. The top 1 per cent of South African adults (350 000 people) own 55 per cent of aggregate personal wealth. The wealth of 0.1 per cent is twice the wealth of 90 per cent of the population: They owned 29.8 per cent of the wealth in 2017, compared to the 14.4 per cent owned by 90 per cent of the population. Their personal wealth is 1 500 times higher than average household wealth, and 6 000 times the bottom 90 per cent.[323]

[322] Chatterjee, Czajka & Gethin (2020: 20)
[323] Chatterjee, Czajka & Gethin (2020: 20)

Table 6-2: Distribution of personal wealth in South Africa in 2017

	Number of adults	Wealth threshold	Average (2018 rands)	Average (2018 PPP$)	Wealth share (%)
Full population	35,400,000		326,000	52,200	100
Bottom 90% (p0p90)	31,860,000		94,100	15,100	14.4
Bottom 50% (p0p50)	17,700,000		-16,000	-2,600	-2.5
Middle 40% (p50p90	14,160,000	27,700	138,000	22,000	16.9
Top 10% (p90p100)	3,540,000	496,000	2,790,000	447,000	85.6
Top 1% (p99p100)	354,400	3,820,000	17,830,000	2,860,000	54.7
Top 0.1% (p99.9p100)	35,400	30,350,000	96,970,000	15,540,000	29.8
Top 0.01% (p99.99p100	3,540	146,890,000	486,200,000	77,920,000	14.9

Source: Chatterjee, Czajka & Gethin (2020: 30)

Notes: The table shows the distribution of household wealth in South Africa in 2017. The unit of observation is the individual aged 20 or above. Wealth thresholds are in 2018 rands.

Table 6-3 provides an overview of the assets of household balance sheets. It indicates that the top 10 per cent own 62.7 per cent of currency, 59.6 per cent of business assets, 58.8 per cent of housing, 63.8 per cent of pension or life insurance, as well as 99.8 per cent of bonds and stock. The top 1 per cent still held 95.2 per cent of these bonds and stocks. This indicates how financialisation has only asymmetrically benefited the elite households and not the lower classes.

Table 6-3: Share of total assets held by wealth group by asset class, 2017 (in %)

	Currency	Business assets	Housing	Pension life insurance	Bonds and stock
Bottom 90% (p0p90)	37.3	40.4	41.2	36.2	0.2
Bottom 50% (p0p50)	9.7	1.4	14.	5.3	0.0
Middle 40% (p50p90	27.7	39.1	27.2	30.9	0.2
Top 10% (p90p100)	62.7	59.6	58.8	63.8	99.8
Top 1% (p99p100)	10.6	41.9	27.8	14.1	95.2
Top 0.01% (p99.99p100)	1.5	13.4	8.5	2.1	62.7
% of total assets	0.6	3.6	28.8	32.5	34.6

Source: Chatterjee, Czajka & Gethin (2021: 20)

Notes: The table shows the share of different types of assets held by specific wealth groups in 2017. The unit of observation is the individual adult aged 20 or above. In 2017, the top 1 per cent of South Africans in terms of net worth owned 95 per cent of the bonds and corporate shares in the economy. Bonds and shares represented 34.1 per cent of total household assets in the economy at this date. Figures may not add up due to rounding.

The fact that absolute wealth inequality has remained largely consistent despite the shifting demographic composition of the middle- and upper-income groups since 1994 indicates the absence of a household balance sheet perspective that could have brought into focus the need for asset inclusion of the poorest households within a deracialised monetary architecture. Chatterjee, Czajka, and Gethin observe that the very rich got even

richer compared to the remainder of the top 1 per cent: Between 1993 and 2017, the top 1 per cent increased their share of the wealth from 54 per cent to 57 per cent of national household wealth, and the top 0.1 per cent from 22 per cent to 31 per cent. This, they suggest, is due to the rising share of non-pension financial assets (especially property) from 19 per cent to 24 per cent of total household wealth (which, of course, benefits the rich the most), and to the increase in wage inequality.[324]

This would explain another key characteristic of South African wealth, namely the way the rich after 1994 transferred large chunks of their wealth into trusts (Figure 6-2), thus contributing to the growth of the shadow banks, which were required to manage the growing savings pool that remained liquid rather than flowing into GCFC Over half of interest-bearing and dividend-earning financial assets are held in trusts. Trusts, housing mutual funds and various other tax-avoidance vehicles are widely used by South Africa's richest families.[325]

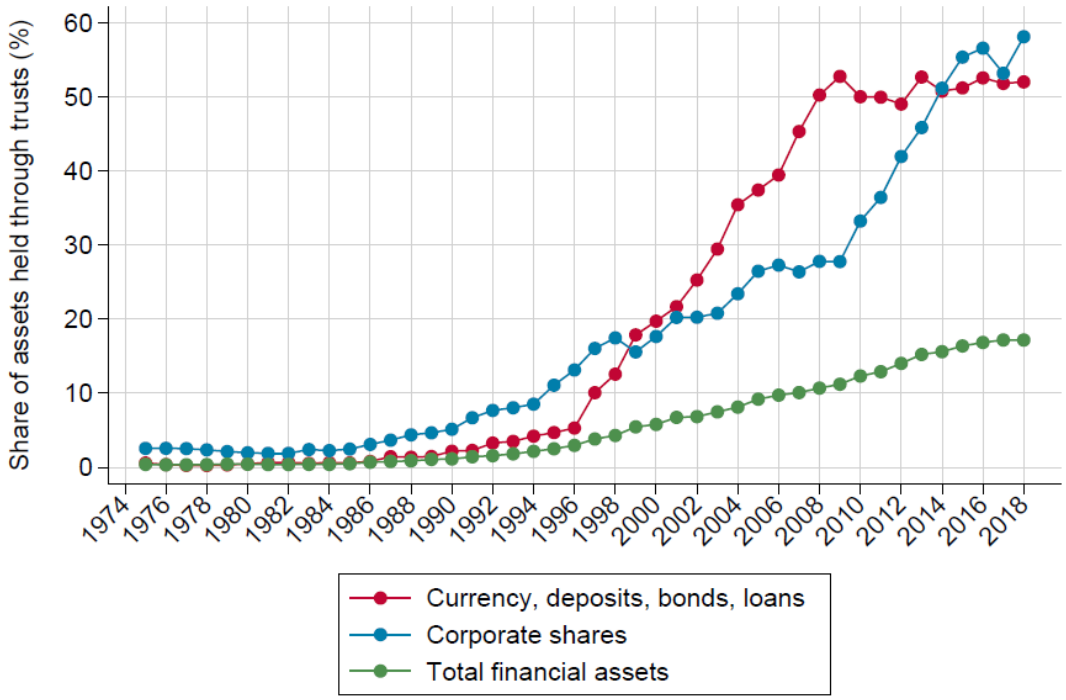
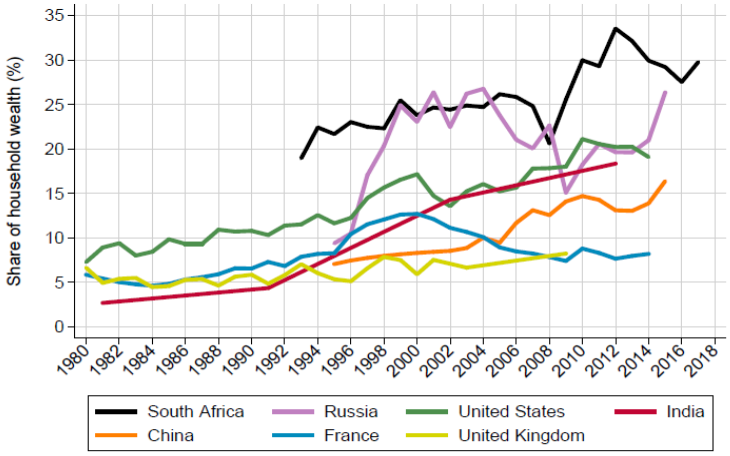


Figure 6-2: Share of financial assets held through trusts, 1975-2018
Source: Chatterjee, Czajka & Gethin (2020:14).

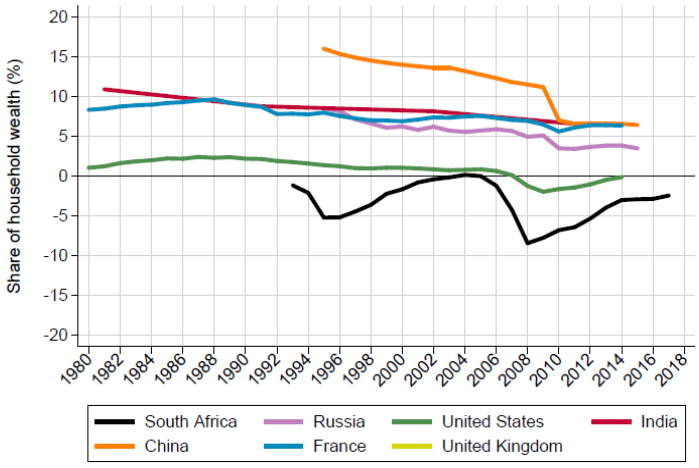
The level of South African wealth inequality is among the highest in the world. As Figures 6-3 and 6-4 indicate, South Africa has both the highest wealth share of the top 0.1 per cent and the lowest wealth share of the bottom 50 per cent.

[324] Chatterjee, Czajka & Gethin (2020: 25)
[325] Chatterjee, Czajka & Gethin (2020: 14)



Notes: the figure compares the top 0.1 per cent wealth share in South Africa to that of other countries. The unit of observation is the individual adult aged 20 or above. Wealth is individualized (South Africa) or split equally among adult household members (other countries).

Figure 6-3: South African wealth inequality in comparative perspective
Source: Chatterjee, Czajka & Gethin (2020: 34)



Notes: the figure compares the bottom 50 per cent wealth share in South Africa to that of other countries. The unit of observation is the individual adult aged 20 or above. Wealth is individualized (South Africa) or split equally among adult household members (other countries).

Figure 6-4: Bottom 50 per cent of wealth share in international comparison
Source: Chatterjee, Czajka & Gethin (2020: 34)

In summary, after 30 years of democracy, South Africa's wealth remains as unequally distributed as it was under apartheid. The biggest change has been the racial composition of the middle class and, to a lesser extent, the elite. The women who head up the poorest households have no wealth, and with rising debt levels, they are getting poorer as their liabilities grow faster than their little assets. A commitment to a Just

Transition means making sure that these inequalities are addressed as part of a wider commitment to investing in sustainability-oriented GFCF.

6.2 Firms

By 2024, four broad balance sheet configurations were firmly entrenched. Firstly, there were the balance sheets of the large internationalised dual-listed South African companies that sourced capital from South African capital markets for investing elsewhere. Secondly, there were the balance sheets of what we call the 'real South African listed companies'; they sourced capital locally, most of their operations were local, and they distributed dividends to mainly South African shareholders. Thirdly, there were the small formal businesses with established balance sheets that struggled to access capital, employed large numbers, and generated significant returns on their relatively limited assets. By 2023, black people owned 60 per cent of these firms. Finally, there was the large number of essentially survivalist, mainly women-led, small, informal enterprises with negligible balance sheets, constrained capacity to grow, and limited capacity to employ people beyond the owner-operator.

Despite limited support from public and private institutions, the small business sector was doing better than the corporate sector in 2023. According to TIPS, for the three years from 2019 to 2021, '[s]mall formal business generally reported a higher rate of return on assets than large firms both overall and within industries, although they lagged medium-sized enterprises'.[326] Formal SMEs reported a 5 per cent return on assets, compared to 2 per cent for large companies and 7 per cent for medium-sized enterprises. It is not possible to reliably estimate the earnings of the informal enterprises, which comprise the majority of the SME sector. In recognition of the limited support that small businesses get from both the public and private sectors, in his State of the Nation address in February 2025, the South African President announced that a new R100 billion fund to support small businesses would be established. This will be the largest public sector intervention since 1994 to support small businesses.

In relation to large businesses, by the end of 2024, the market capitalisation of the JSE was just over R10 trillion, 30 per cent higher than it was by the end of 2023. The general election in May 2024 ended the overall three-year decline to just over R7 trillion in May 2024. The price-to-earnings ratio of the JSE was just over 13 by the end of 2024, higher than its three-year average of 10.9. This, despite the fact that average earnings have been nearly flat over the past three years. In short, there was bullish sentiment amongst investors in listed equity after the 2024 general election despite constrained earnings. This bullish sentiment is partly based on confidence that the high underlying net markup

[326] TIPS (2023)

levels across most sectors will continue and eventually translate into higher earnings as the overall economy improves as a result of well-supported economic reforms driven by the Presidency. It also reflects the fact that nearly half of the top 50 listed companies derive the bulk of their revenues from outside South Africa.

From a demographic perspective, although the racial and gender profile of the executive and non-executive directors of corporations has gradually been changing since 1994, the majority were still white males by 2023.[327]

As Figure 6-5 indicates, the JSE is shrinking while its market capitalisation as a percentage of GDP continues to rise way above levels found in almost all other economies in the world.

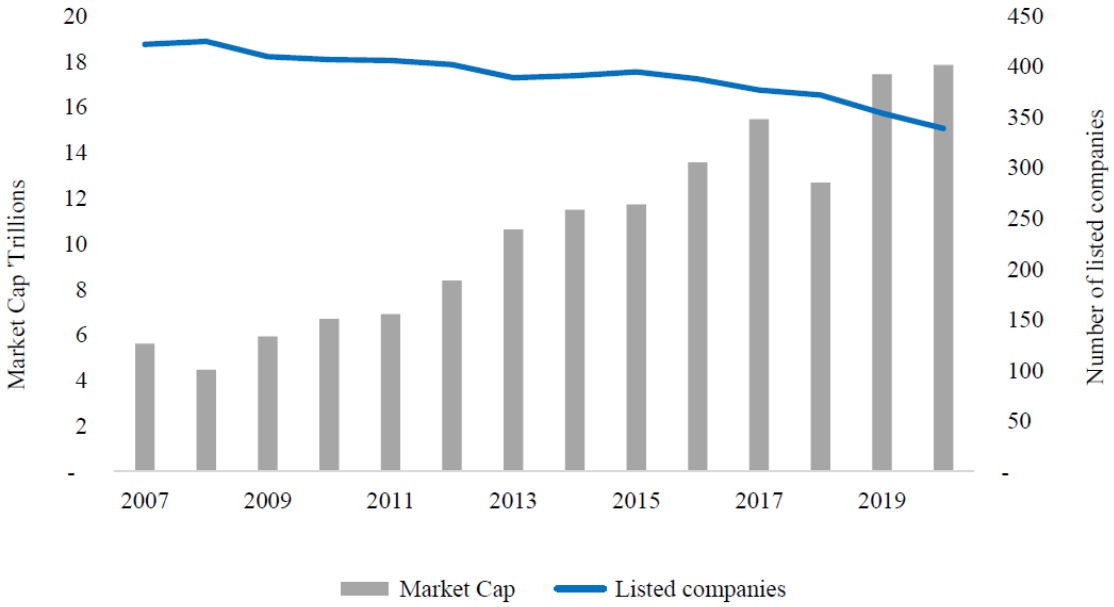


Figure 6-5: Listings and market capitalisation of the JSE, 2007-2019
Source: Bosiu (2017)

The number of delistings averaged around 11 per annum since 2014. This does not explain the decline in listings. Rather, what declined significantly was the number of new listings because of the overall low economic growth rates. In short, existing businesses did not need to raise capital to expand in a low-growth environment, and rising opportunity costs disincentivised new business formation.

The total value of the underlying assets (i.e. not market capitalisation) owned by the top 81 firms listed on the JSE for which complete information exists was R12 trillion in 2024.[328] By way of comparison, the total value of the assets owned by the top 139 firms listed on the

[327] Department of Employment and Labour (2024); Spencer Stuart (2023)
[328] Data provided by Kate Rushton.

JSE for which complete information exists (at nominal prices) was R8.6 trillion in 2014, and the assets of the top 80 in 1994 were valued at R539 billion in 1994. Given that the total number of listed firms declined, while overall asset values increased, this means the average value of assets of each firm increased from R2.4 billion in 1994 to R62 billion in 2014, and to R156 billion in 2024 (at nominal prices).[329] Obviously, the average market capitalisation of each firm also increased substantially as the total number of listed firms declined, while the total market capitalisation of the JSE rose as a percentage of GDP to one of the highest levels in the world.

A key feature of South Africa's large business sector has been the high levels of concentration. According to Bosiu et. al., while the top 100 listed firms accounted for 95 per cent of the cumulative market capitalisation of the JSE in 2017, the top 50 accounted for 86 per cent, the top 20 accounted for 71 per cent, and the top 10 accounted for 58 per cent.[330] By 2017, only two companies (both in the consumer goods market) accounted for 35 per cent of the JSE's total market capitalisation, namely SAB (alcohol) and British American Tobacco (BAT) (tobacco). By 2024, the top 40 accounted for 80 per cent of the JSE's market capitalisation, and the top ten accounted for approximately 35 per cent of a shrinking stock exchange (half of which was accounted for by BAT and AB InBev, after buying out SAB). The market capitalisation of the top ten in 2017 as a percentage of the total was higher than the top ten on the S&P500, which together accounted for 25 per cent of the S&P500 in 2017, rising to 31 per cent in 2024, which is still lower than the JSE.

As reflected in Zalk's calculations for the 1994-2019 period, the net markups for nearly all sectors have been consistently high, except for heavy industry and manufacturing (Table 6-4).[331] By contrast, the compound average growth rate of investments in GFCF has been consistently low for the same period. The agricultural sector is the extreme case: High net markups, the lowest investment in GFCF and high job losses. Job losses are also evident in the communication, mining and manufacturing sectors. The job creators were the transport, wholesale and retail, and business services sectors.[332]

[329] Calculated from data provided by Kate Rushton.
[330] Bhoratet al. (2017: 5).
[331] According to Quantec, net markup is an industry's net operating surplus as a percentage of the sum of its intermediate inputs, wages, and capital depreciation. It factors in capital intensity, to an extent, as more capital-intensive industries are likely to have higher depreciation levels.
[332] Zalk (2021)

Table 6-4: Comparative Average Growth Rates of GFCF, Net Markup and Employment

Sector	CAGR of GFCF (%) 1994-2019	Average Net Markup 1994-2019(%)	Employment CAGR 1994-2019
Communication	11.5	42.6	-0.4
Construction	7.0	17.1	2.0
Transport & storage	6.7	31.7	4.5
Electricity & gas	6.1	23.7	1.0
Community, social personal	5.9	21.2	1.2
Wholesale & retails	5.3	41.17	2.9
Mining & quarrying	4.7	28.8	-0.9
Finance & Insurance	2.8	32.3	1.0
Heavy industry	2.6	8.0	-0.7
Business services	2.3	34.9	3.4
Catering & accommodation	2.0	15.5	1.4
Diversified manufacturing	1.9	7.0	-0.4
Agriculture, forestry ,fishing	0.6	33.3	-0.9

Source: Zalk (2021)

Note: This table is a reconfiguration of the data provided by Zalk.

Based on data from Stats SA, the DBSA has estimated that GFCF dropped from around 18 per cent of GDP in 2014 to less than 15 per cent of GDP by 2022, which is less than half the NDP target of 30 per cent of GDP. As is revealed in Figure 6-6, the long-term rise in investment in GFCF after 1994 ended with the GFC in 2008 but failed to recover during the state capture years (2009-2018). Instead, it got worse as the Covid-19 pandemic hit in 2020, without signs of significant recovery. Indeed, despite an upward blip after the pandemic in 2022, investment in GFCF in 2024 declined by a further 3.6 per cent compared to 2023.[333] Investment in the infrastructure component of GFCF declined to 5.3 per cent of GDP in 2022.

[333] National Treasury (2025)

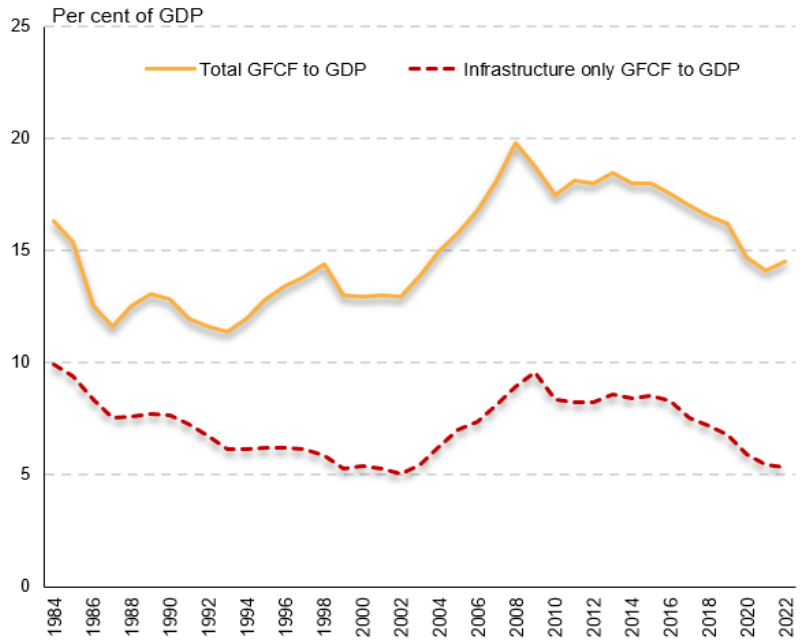


Figure 6-6: Fixed investment as per cent of GDP
Source: Development Bank of Southern Africa (2023)

As net markup levels continued to rise into the 2020s, overall investment in GFCF continued to decline from its high point in 2008. As reflected in Table 6-7, by 2023, South Africa had the third-lowest level of investment in GFCF compared to a selection of other upper-middle-income countries. Only Equatorial Guinea and Guatemala had lower levels of investment in GFCF, while other African countries, like Algeria, Gabon and Botswana, had higher levels.

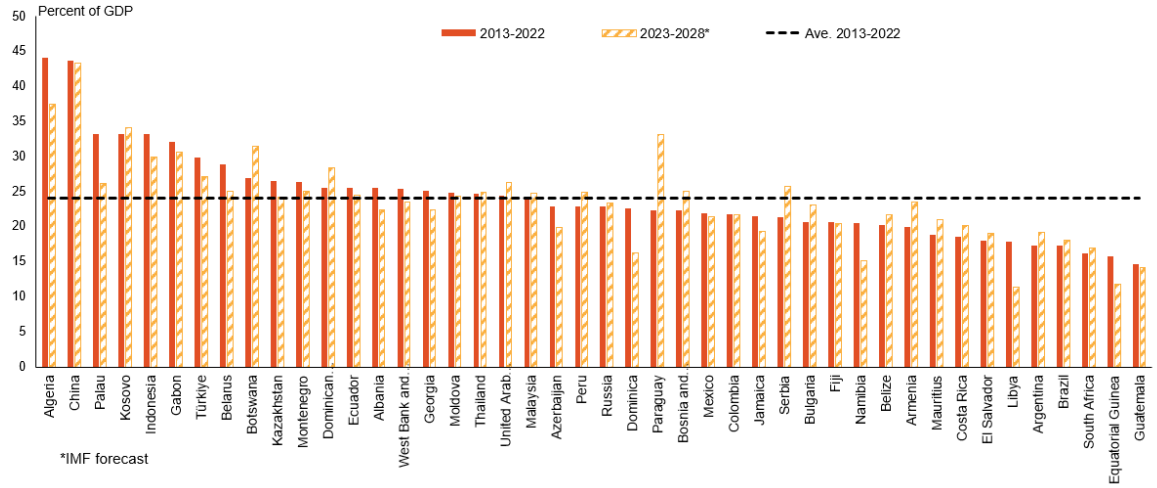


Figure 6-7: Gross-fixed capital formation as per cent of GDP by country
Source: IMF data quoted in Development Bank of Southern Africa (2023)

The SARB data on 'who-to-whom' financial flows reveal the degree to which the balance sheets of NFCs were increasingly internationalised over the 2010-2021 period.[334] NFCs hold assets in four financial instruments, namely equities in foreign currency issued by the RoW; currency deposits in domestic currency issued by local commercial banks; debt securities issued by the RoW, and employee stock options issued by NFCs.

The value of financial assets held by NFCs grew from R1.6 trillion in 2010 to R4.7 trillion in 2021. SARB's data on 'who-to-whom' financial flows illustrates that there was a shift in the holdings of NFC assets between 2010 – 2021. Currency deposits issued by local commercial banks were the second largest asset class, going from R900 billion in 2010 to R1.7 trillion in 2021. At R168 billion, debt securities issued by the RoW became the third largest asset class. The RoW claims on South African assets were R7.6 trillion in 2021 (120 per cent of GDP).[335] The growth in equities and debt securities issued by the RoW confirms the extent of participation of NFCs in foreign markets. A number of factors explain this outward flow of capital, including a drop in investor confidence arising from intensifying load shedding, the after-effects of state capture, and dilapidated economic infrastructure.

Listed NFCs made substantial financial incentives available to senior executives. SARB data shows that there was a 1472 per cent growth in employee stock options during this period, increasing from R2 billion to R32 billion. This may be because, for NFCs to internationalise, they have benchmarked executive compensation at international rather than South African levels.

In terms of liabilities, the SARB data shows a fairly diversified portfolio of liabilities valued at R9.6 trillion by 2021 (excluding payables). The liabilities consist of (a) debt securities and loans held by banks, NBFIs and the RoW; (b) equities held by banks, households, government and the RoW. Equities issued to households (R2.7 trillion) and the RoW (R0.8 trillion) remain the largest liability of NFCs, followed by loans in domestic currency (R2.5 trillion), debt securities in domestic currency (R559 billion), and loans in foreign currency (R282 billion), representing a small proportion of NFC liabilities. The growth in NFC investments in financial assets on foreign markets was larger (R3 trillion) than the RoW purchases of NFC equities (R2.8 trillion). The flow, therefore, was outward rather than inward.

As financial assets as a percentage of GDP grew (i.e. financial deepening) during the period leading up to 2024, NFCs did not increase their debt or equity funding as a percentage of GDP. NFC liabilities relative to GDP decreased from 196 per cent in 2010 to 172 per cent in 2021.[336] However, NFCs sharply increased their holdings of financial

[334] Hadji-Lazaro et al. (2025)
[335] Hadji-Lazaro et al. (2025: 17)
[336] Hadji-Lazaro et al. (2025)

assets, in particular equities. NFC holdings of equities (particularly foreign equities) rose from 23 per cent to 46 per cent of GDP.[337] As Hadji-Lazaro et. al. put it,

> NFCs were leveraging less and investing more in financial instruments. This suggests a financialization of corporate balance sheets …, where firms increasingly engage in financial investments (e.g., holding stocks or other financial assets) and possibly prioritize shareholder payouts, rather than channelling funds into new capital formation in their core businesses.[338]

What is worrying is that an increasing number of firms (particularly property firms) are listed on the JSE but have no operations in South Africa.[339] For them, South Africa is merely a source of capital. A number of the biggest dual-listed firms derived a small proportion of their revenues from local South African operations in 2024: Naspers derived only about 3 per cent of its revenues from local operations; for Richemont it was 8 per cent (from all of Africa and Middle East combined); for BAT only 20 per cent was derived from the entire APMEA region (Asia-Pacific, Middle East, and Africa), which means South African operations are tiny; South32 was 10 per cent, and for Anglo-American it is estimated at 25 per cent. This means that these companies are not significant when it comes to fostering investment in GFCF within South Africa. Instead, these firms, as well as the firms without South African operations, are using the JSE to source South African capital for investing in operations elsewhere.

If firms without South African operations and the dual-listed firms are excluded from the top 50, the remainder of the top 50 firms accounted for only 20 per cent of total JSE market capitalisation in 2017.[340] This percentage had only slightly increased by 2024. This reveals how central the JSE has become as an enabler of the internationalisation of the retained earnings of South African companies and investment funds. However, and by contrast, non-internationalised JSE-listed companies (i.e. companies without dual listings, but possibly for a few with some international operations) accounted for at most 35 per cent of the JSE market capitalisation in 2017,[341] increasing to around 45 per cent by 2024 (including the small businesses listed on the Alt X exchange). They are effectively South Africa's *real companies*, i.e. they source South African capital on the JSE and distribute earnings to their mainly South African shareholders. These smaller, less internationalised large and medium-sized businesses are strategically significant for two reasons: They are best placed to increase investments in GFCF, and it is where black ownership matters most because it is these companies that have the greatest potential to enlarge the wealth pool of the elite beyond its current white family holdings.

[337] Hadji-Lazaro et al. (2025)
[338] Hadji-Lazaro et al. (2025)
[339] Bosiu, Goga & Roberts (2017:11)
[340] Bosiu, Goga & Roberts (2017:11)
[341] Bosiu, Goga & Roberts (2017:11)

Black ownership of listed companies remains low at around 10 per cent, although if ownership by black people at the subsidiary level is considered, as well as institutional investors investing on behalf of black people, this goes up to around 23 per cent.[342] As already indicated, men comprise most of the executive and non-executive directors.

In short, after thirty years of democracy, the top 50 listed companies had balance sheets that did not reflect significant black ownership in line with BEE goals; nor was it part of their corporate strategy to use their balance sheets to redirect a significant portion of their reserves into productive investments that could boost GDP growth. The bulk of their capital expenditure goes into replacement rather than expansion.[343] Their high net markup levels and rising market capitalisation are what they prioritise rather than the allocation of capital to ensure inclusive growth and development of the South African economy.

The large and medium-sized businesses with the greatest potential for BEE-oriented transformation and increased investment in GFCF are less internationalised, derive most of their revenues from South African operations, source the bulk of their capital locally and are mostly owned by South Africans. These are the *real South African companies*. Interventions that expand their balance sheets could have the greatest impact in future on investments in productive capacity, employment creation and wealth expansion beyond the white elite.

With regard to SMEs, by 2022, there were 710 000 formal small businesses, up from 590 000 in 2010 and 680 000 in 2019. The estimated number of informal businesses increased to 1.75 million compared to 1.5 million in 2015. Nevertheless, compared to its peers amongst the upper-middle-income countries, South Africa's small business sector is small: The number of owners of formal small businesses comprises only 6 per cent of the working population, compared to an average of 20 per cent for South Africa's peers. Expanding the number of small business owners could significantly strengthen the middle class. However, reflecting the deracialisation of the middle class in general, the proportion of formal small businesses as a percentage of the total now owned by black people has risen to 60 per cent compared to 40 per cent in the early 2000s. Unsurprisingly, black people own 95 per cent of all informal enterprises. Although they increased in number, most are still essentially survivalist and therefore do little to increase the levels of wealth of the poorest people in society.[344]

For the first time, the data on South Africa's micro, small, medium and large businesses is adequate enough to provide a comparison of size, value added and contribution to total employment relative to the public sector (see Figure 6-8).[345] Contrary to the perception that it is large businesses that are the mainstay of the economy, small formal businesses directly generate a third of value added in South Africa, compared to informal

[342] Business Leadership South Africa (2024)
[343] Bosiu, Goga & Roberts (2017: 26)
[344] TIPS (2023)
[345] TIPS (2023)

enterprises that only contribute around 5 per cent. Furthermore, in 2020, small formal firms held at least a quarter of total business assets. This once again confirms the importance of small formal businesses in enlarging the size of the middle class. More importantly, small businesses were more labour-intensive than larger businesses. In addition, formal small businesses generated a better return on assets than larger businesses. However, when it comes to the informal sector enterprises, there is no way of knowing the extent of their assets or profits. It can be assumed, though, that their profit and asset levels are negligible.

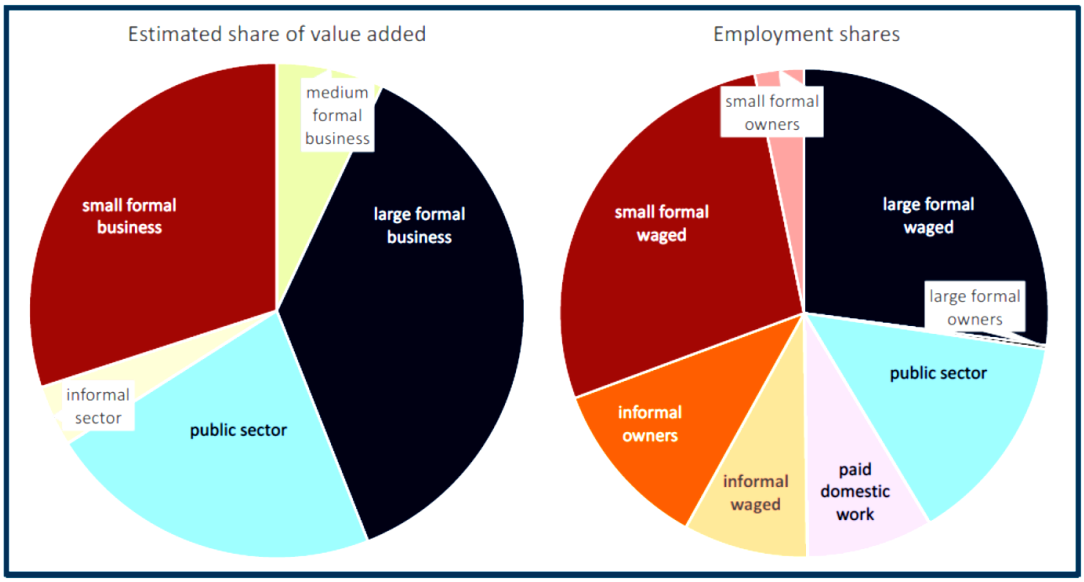


Figure 6-8: Indication of shares in national value added and in employment by size of business, sector and ownership
Source: TIPS (2023)

The number of people who derived their livelihoods (including employed wage labour) in the small business sector by the fourth quarter of 2022 included 4.2 million in the formal small business sector (mainly wage labour), and 2.5 million in the informal sector (mainly self-employed owners of the business). In other words, despite the limited support from public and private financial institutions for small businesses (particularly the informal ones), a total of 6.7 million South Africans depend on the small business sector for their incomes, compared to 4.1 million who derive their incomes from large businesses.[346]

The number of people employed by the formal small business sector fell from 35 per cent of total employment in 2010 to 30 per cent in 2022, mainly due to the impact of the Covid-19 pandemic. The number of informal small businesses accounts for over three-quarters of all small businesses (informal and formal). Four out of five of the 1.7 million informal enterprises were operated by the owner with no employees; the remainder had four or fewer employees.

[346] TIPS (2023)

As far as balance sheets are concerned, it can be assumed that most formal small businesses have bank accounts, while most of the informal enterprises do not. It is highly likely that the growth of Capitec, the newly created low-cost high-tech bank catering for those who need convenient low-cost banking, has to do with the expansion of the small business sector, particularly the large number of smaller formal small businesses (many of whom most likely transitioned from informal to formal businesses as they grew). Most of the funding for formal and informal small businesses comes from savings (37 per cent), salaries of founders or partners (14 per cent), family and friends (9 per cent), inheritance (8 per cent), stokvel payout (8 per cent), money from spouse (7 per cent), business partner (7 per cent), business loan (7 per cent), retrenchment package (5 per cent), pension/retirement policy (5 per cent), personal loan (5 per cent), money from another business (4 per cent), government grant (4 per cent), loan on house (3 per cent), and church group (2 per cent). In short, only the business loan, government grant and the house loan (a total of 14 per cent) can be regarded as funds sourced from a formal external institutional source.[347]

Overall, these numbers make it very clear how disconnected the balance sheets of small businesses really are from the rest of South Africa's balance sheets. The balance sheets of many of the poorest households are dependent on these small formal and informal businesses. This may also explain to some extent why the bottom 50 per cent of South African households have such weak balance sheets, while the elite households that depend on stocks, bonds, property and pensions have been getting richer.

In summary, the fundamental dynamics of the balance sheet reconfigurations that emerged during the first decade of 1994 have persisted into the early 2020s. Large corporations have high net markups, high retention ratios (except for the 'good years' 2005-2009), investments in GFCF have been consistently low (except for the uptick during 2005-2009), market capitalisation of the JSE as a percentage of GDP has been one of the highest in the world, and most of the largest listed companies have been internationalised with detrimental consequences for investments in GFCF within South Africa. To grow the middle class, it will be necessary to grow the number of *real South African listed companies,* increase the number of people who own businesses, provide formal small businesses with affordable credit, and strengthen the informal small business sector in many different ways.

6.3 State-owned enterprises

By 2024, the SOE sector had not recovered from the looting of their respective balance sheets that characterised the state capture years (2009-2018). This is reflected in the NT's Budget Review (Figure 6-1*)*. Given that their collective balance sheets are equal to a

[347] FINMARK Trust (2024)

third of South Africa's GDP, it is unsurprising that there are strong calls to privatise them emanating from certain business and mainstream media circles. If implemented, privatisation on this scale would weaken public ownership and amount to a fundamental balance sheet reconfiguration of the SOE sector.

Instead of enabling government policies aimed at restoring growth through increased investment in GFCF, they remain a drain on the fiscus, and many even allow infrastructures to degrade through poor maintenance. In his 2023 budget speech, the Minister of Finance announced a debt relief programme for Eskom worth R254 billion over three years. South African Airways (SAA) was allocated R10.5 billion in 2020, SAPO R3.8 billion in 2024, Transnet was provided with guarantees, and the LBK defaulted in 2020. Between 2009 and 2020, the SOE sector received bailouts and recapitalisations totalling R252 billion. Further, the sector borrowed R630 billion during this period, which was 8 per cent of GDP. By 2024, the results of these financial injections were disappointing.

According to the 2024 Budget Review, despite concerted efforts by the Department of Public Enterprises, there are no signs of financial recovery in the SOE sector (see Table 6-5).

Table 6-5: Combined balance sheets of state-owned enterprises, 2018-2023

R billion/per cent growth	2018/19	2019/20	2020/21[1]	2021/22[2]	2022/2[3]
Total assets	1 269.0	1 313.4	1 251.9	1 283.4	1 276.3
	0.5%	*4%*	*-5%*	*3%*	*-1%*
Total liabilities	927.0	960.7	871.7	864.4	868.9
	2.9%	*3.6%*	*-9.3%*	*-0.8%*	*0.5%*
Net asset value	342.0	352.7	380.2	419.0	407.4
	-5.5%	*3.1%*	*7.8%*	*10.2%*	*-2.8%*
Return on equity(average)	*-8.0%*	*-9.9%*	*-13.1%*	*-2.6%*	*-7.7%*

1.State-owned companies listed in schedule 2 of the PFMA, excluding development finance institutions

2. Numbers may differ from earlier publications due to restatement or error.

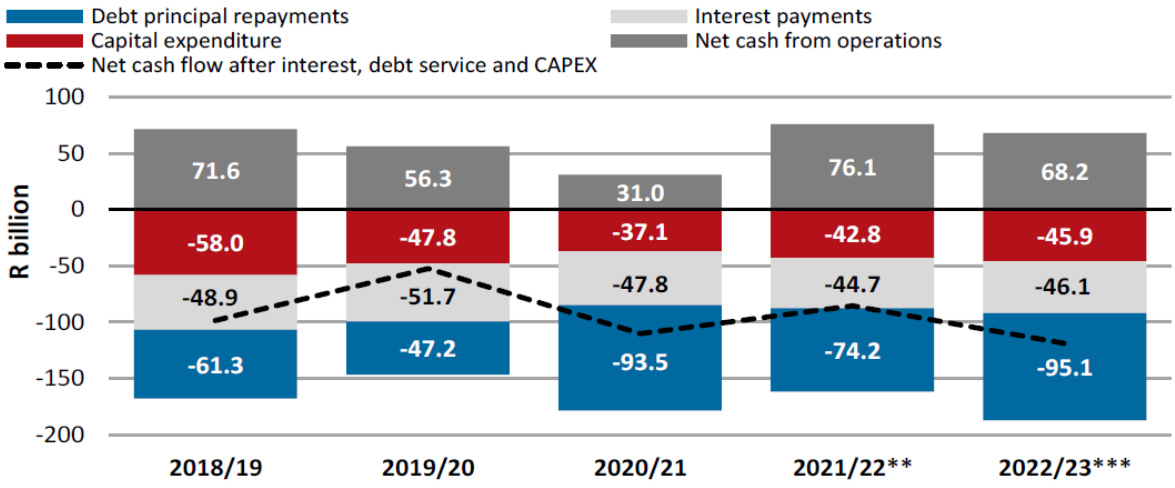
3. Delayed release of audited financial statements from some companies; therefore, unaudited financial results or quarter 4 reports for 2022/23 were used

Source: National Treasury (2024: 83)

According to the NT, the negative RoE for the five years leading up to 2024 was due to the following reasons: Weak revenue growth; high operating costs; elevated debt-service costs; operational inefficiencies; and delayed implementation of turnaround plans due to poor Board governance and ineffective executive management.[348] Unsurprisingly, raising new debt for investing in GFCF was unlikely.

[348] National Treasury (2021)

From a cash-flow perspective, the overall trend since 2018 is negative (Figure 6-9).



**State-owned companies listed in the PFMA schedule, excluding development finance institutions*
***Please note that numbers may differ from earlier publications due to restatement or error*
****Due to reporting delays, unaudited financial results or quarter 4 reports for 2022/23 were used*

Figure 6-9: Consolidated cash flows at state-owned enterprises, 2018-2023
Source: National Treasury (2024: 85)

As reflected in Figure 6-9, net cash from operations (above the line) during the 2018-2023 period has been insufficient to cover capital expenditure (red blocks), interest payments on debt (light grey blocks), and the repayments of principal debt (dark blue blocks). As a result, net cash flow has been negative for over a decade. Eskom is a major cause of the problem. Eskom does not set its own tariffs. Instead, tariffs are set by the NERSA in response to a tariff application by Eskom. Since 2012, the NERSA-approved tariffs have been consistently below WACC. NERSA essentially argued that Eskom's tariff applications included revenues needed to cover the costs to build two new coal-fired power stations that were exceptionally high due to corruption. NERSA did not believe these costs should be carried by the consumer.

Unsurprisingly, rising indebtedness of major SOEs is underpinned by growing contingent liabilities on the sovereign balance sheet and increasing transfers to shore up the weakening SOE balance sheets (Figure 6-10).

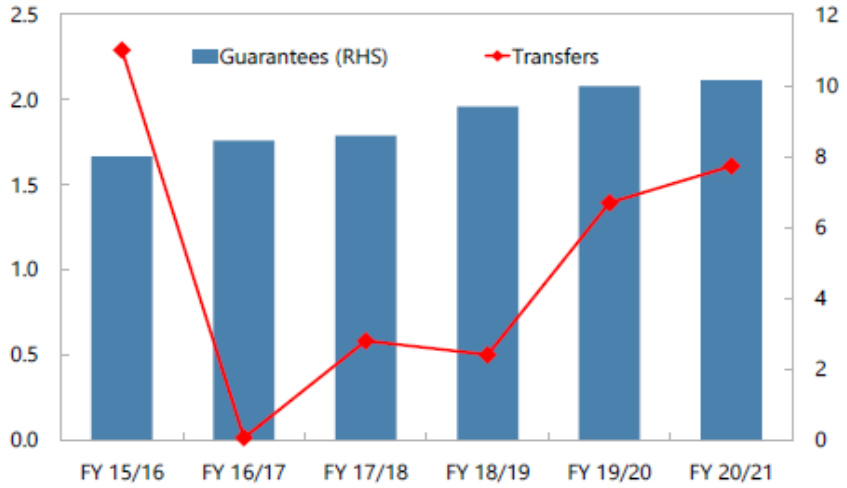


Figure 6-10: Fiscal support to major SOEs (in per cent of GDP)
Source: IMF (2022)

SOEs contributed 13 per cent of gross capital formation over the 2015-2020 period. The debt of non-financial SOEs reached 12.1 per cent of GDP in 2020, compared to 2.3 per cent in 2004. By the end of the 2019/20 financial year, SOE assets amounted to 34 per cent of GDP. Of this, non-financial SOEs accounted for 86 per cent of total SOE assets. Three large SOEs, Eskom, Transnet, and Telkom, accounted for 75 per cent of SOE assets, 80 per cent of the revenue, and 97 per cent of the loan debt.[349]

Figure 6-11 shows that by 2022, the utilities sector was the largest segment of the non-financial SOE sector (61.5 per cent). This comprised the water boards, TCTA, and Eskom. The transport sector comprised of the commercial railways, ports, and pipeline infrastructure (Transnet), airlines (SAA), airports (ACSA), passenger railways (Prasa), communications (Telkom), energy (Central Energy Fund), mining (State Diamond Trader), forestry (SAFCOL), postal services (SAPO), and defence (Denel).

[349] IMF (2022)

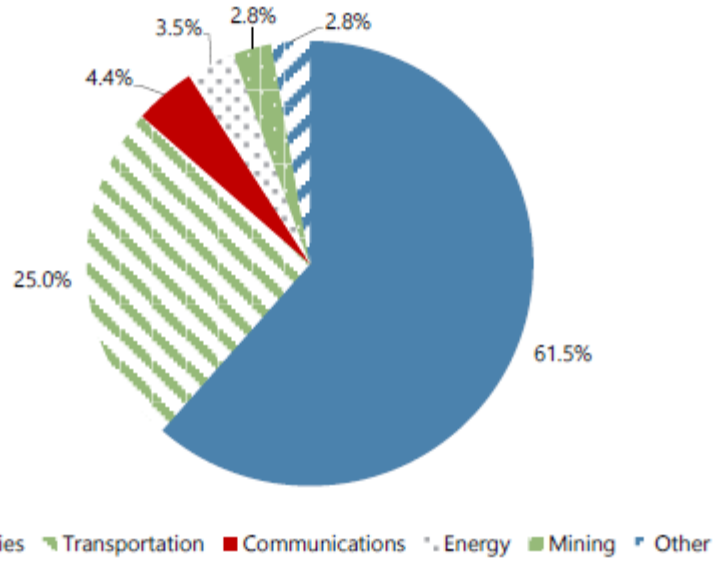


Figure 6-11: Portfolio of non-financial state-owned enterprises by sector, 2024
Source: IMF (2022)

Table 6-6 indicates that during the decade through to 2024, to close the gap between falling revenues and rising costs, SOEs supplemented their traditional borrowing from banks with bond issues. However, SOE bond issues peaked in 2016, gradually declining through to 2023 as the capital markets became increasingly concerned about persistent under-performance.

Table 6-6: Bond issuances of state-owned enterprises, 2014-2024 (in R billion)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ACSA	0.78								1.70		
Denel					0.18	0.05	0.04				
Eskom	13.49	18.02	13.63	4.13	10.85	13.95	7.20	0.70	13.26	15.84	
Rand Water		1.14	0.78					1.71			
SANRAL	3.75	3.22	4.64	0.45	0.50	7.20	1.95	3.74	1.00		
TCTA			4.42	0.04							
Transet	2.91	5.26	1.42	0.36		1.48	4.87	1.84	1.46		13.00
Umgeni			0.94								
Grand Total	**20.92**	**27.63**	**25.82**	**4.98**	**11.53**	**22.69**	**14.06**	**7.98**	**17.41**	**15.84**	**13.00**

Source: Rushton & Halstead (2024)

As Figure 6-12 reveals, Eskom, unsurprisingly, was by far the largest issuer of bonds (dark brown), followed by SANRAL (yellow) and Transnet (light brown). It is noteworthy that Eskom did not issue bonds in 2024, which is a direct consequence of the prohibition on further borrowing announced by the Minister of Finance during his budget speech in February 2023 in lieu of the large equity injection of R254 billion in favour of Eskom.

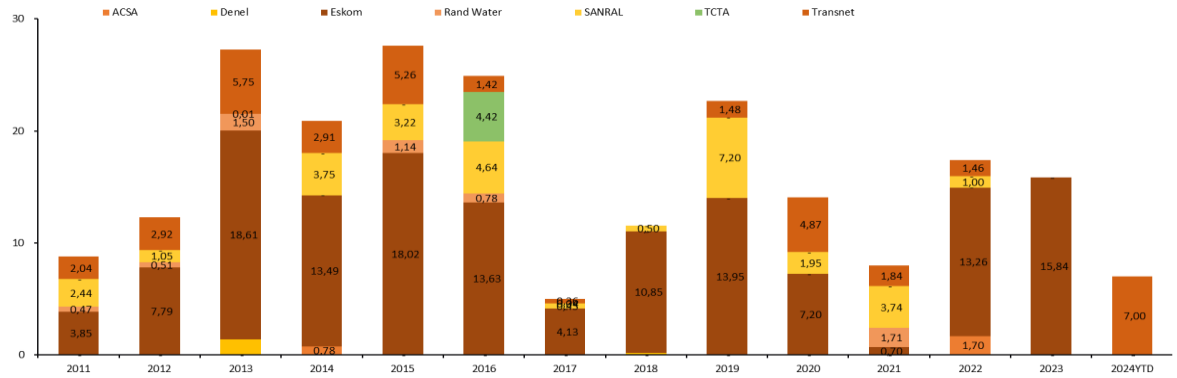


Figure 6-12: Bond issues by state-owned enterprises, 2011-2024
Source: Rushton & Halstead (2024)

Note: Colour coding is from bottom to top, i.e. ACSA is the bottom segment (appearing only in 2013), and Transnet is the top segment.

In 2020, the NPC released a report titled *The Contribution of SOEs to Vision 2030: Case studies of Eskom, Transnet and PRASA,* which spelt out four main reasons for what they termed 'chronic underperformance'. This included 'years of uncertain policy expectations, precarious funding strategies, poor institutional accountability and poor governance, and political interference'.[350] Significantly, while the NPC report favoured the privatisation of non-core public assets, it did not recommend a grand 1990s-style neoliberal privatisation programme.

The 2024 Budget Review most coherently articulates the current approach to the governance of SOEs. The influential National Infrastructure Plan 2050 raised serious concerns about the prevailing public-private partnership (PPP) approach, pointing out that only 2 per cent of the Medium-Term Expenditure Framework at that time was to be delivered via PPPs. In response, the 2024 Budget Review states that the PPP regulatory framework is being reviewed with a view to increasing the impact of public and private investments on growth. In monetary architecture terms, instead of relying on the weak balance sheets of SOEs to raise capital for infrastructure investments, the NT wants to harness a range of more viable and therefore trustworthy private sector balance sheets to raise the necessary capital. This includes reforms aimed at consolidating the 'financing, preparation and planning arrangements for large projects in a single entity to crowd in private-sector finance and expertise'.

To achieve this highly significant goal, the Budget Review continues, there will be an increased use of PPPs to deliver infrastructure projects, a reduction of duplication across departments, and a reduction in red tape by granting exemptions to projects below R2 billion. Most importantly, an 'infrastructure finance and implementation support agency will be established to coordinate the planning and preparation of large

[350] NPC (2020: 9)

projects'. This little-noticed proposal, hidden away in the Budget Review, provides insight into how the NT approached the challenge of underperforming SOEs in 2024.

Besides the need for the Eskom debt relief programme in 2023, the balance sheets of the other SOEs were also being seen by lenders and bond markets as increasingly risky, despite ongoing equity injections by the shareholder. By 2022, the share of Transnet's financing raised in the capital markets had fallen to 47 per cent, comprising both domestic and foreign bonds; Transnet had a single foreign currency bond issuance totalling R14.6 billion. In 2022, Transnet was allocated R2.9 billion to ensure the return of out-of-service locomotives and a further R2.9 billion to address flood damage affecting its operations in eThekwini.

As of 2022, TCTA was responsible for financing 14 projects.[351] These projects were financed exclusively through long-term local currency loans. A portion of this borrowing, related to the Vaal River System and Mokolo Crocodile Water Augmentation Project projects, totalling R9.5 billion as at the end of 2022, was guaranteed. The last LHWP-related debt was repaid in 2021.

By 2022, ACSA was raising most of its funding through long-term bonds (R4.8 billion), with the remainder of its funding comprising loans from DFIs (R1.8 billion) and cumulative redeemable preference shares (R2.5 billion). Government continued to hold 74.6 per cent of ACSA's equity, with 20 per cent by the PIC, 4.2 per cent by empowerment investors, and 1.2 per cent through the staff share incentive scheme.

SANRAL's financing continued to be primarily through the domestic debt capital markets (R47.4 billion), including promissory notes, of which a total of R31.1 billion (nominal amount) was guaranteed, amounting to a total exposure for the government of R49.1 billion. SANRAL also had a loan in local currency from an international DFI. The 2022 Medium-Term Budget Policy Statement announced that the national government would contribute 70 per cent of the amount required to settle SANRAL's debt and interest relating to the unpopular Gauteng Freeway Improvement Project, with the Gauteng Province expected to cover the remaining 30 per cent. To this end, an amount of R23.7 billion was allocated to SANRAL.

In 2022, Telkom still raised around 56 per cent of its total funding on the local capital markets. The company still had a small amount of legacy foreign debt (R123 million) that was guaranteed by the government. Funding of R3.3 billion was in the form of loans in domestic currency. A further R1.7 billion came from ECAs, split equally between domestic and foreign currency.

[351] Vaal River System (VRS), Berg Water Project (BWP), Vaal River Eastern Subsystem Project (VRESAP), Mokolo-Crocodile Water Augmentation Project – Phase 1 and 2 (MCWAP-1 and MCWAP-2), Mooi-Mgeni Transfer Scheme – Phase 2 (MMTS-2), Olifants River Water Resources Development Project (ORWRDP), Komati Water Scheme Augmentation Project (KWSAP), TCTA Corporate Office (TCTA-C), Berg River-Voëlvlei Augmentation Scheme (BRVAS), uMkomazi Water Project (uMWP) as well as advisory services provided to Umgeni Water (UW), the uMzimbvubu Water Project (MRWP), and for the water off-take for Kriel town (Kriel).

In conclusion, there is no evidence that the SOE sector had significantly recovered from the corrupt balance sheet repurposing that occurred during the state capture years. This is despite significant increases in equity injections by the shareholder. Loss of confidence in the SOE balance sheets was reflected in their declining access to the capital markets and international capital. The overall outcome is that the SOEs were unable to realise their potential as the most significant investors in GFCF. To make matters worse, their hollowed-out capacity for effective maintenance of existing infrastructures meant that many of these infrastructures actually deteriorated, even, as in the case of PRASA, to the point of total collapse. Given that the poorest households, particularly women-headed households, are dependent on these publicly provided infrastructure services, the weakening of the SOE balance sheets had detrimental knock-on impacts on these poorest households, often resulting in rising debt to cover the costs of more expensive alternatives.

6.4 Banks

As reflected in Figure 6-1, by 2024, bank balance sheets had changed significantly in three important respects. Firstly, while lending to the private sector had levelled out due to weak economic growth, lending to government, not SOEs, has been rising steadily in recent years.

Secondly, as deposits by households declined, deposits by NFCs increased, mainly because these NFCs prefer to retain high levels of liquidity rather than invest in GFCF.[352]

Thirdly, in a positive response to worsening loadshedding (caused mainly by the legacy of state capture), banks redirected approximately R80 billion to fund nearly 6 gigawatts of rooftop solar between 2021 and 2024. This productive balance sheet reconfiguration involved the balance sheets of banks, households, and businesses to create a new set of tangible assets that have contributed significantly to the elimination of prolonged high levels of loadshedding from mid-2024 onwards.

From a monetary architecture perspective, the first two trends suggest that the higher deposits in banks by NFCs are effectively making rising levels of sovereign debt to fund mainly non-productive public goods and services within a context of low growth possible. Without increased bank lending to NFCs, new investments to spur growth and therefore increase revenues for government to service the debt will be unlikely. This, then, is a recipe for a self-reinforcing downward economic spiral. The counterfoil, of course, is the third trend, which reveals how rapidly this can scale.

Banks have two roles: to create money against the credit-worthy loan applications of borrowers, which results in the expansion of the total quantity of money that is circulated

[352] Karwowski et al. (2022)

in the economy;[353] and they are at the centre of financial intermediation in the economy (i.e. taking deposits from individual and corporate savers and on-lending to borrowers). Thus, the growth of the banking system relies on the ability of banks to create money by extending credit against credible credit applications, and to on-lend savings. This approach best frames the understanding of the long-term role of banking and finance in the South African economy, particularly since 1994.

As reflected in Figure 6-13, it is really only since 1994 that credit extension (loans, overdrafts and advances) grew from less than R500 billion in 1994 to over R5 trillion by 2023. The significant expansion of credit for mortgages since 1993 (blue segment), in particular, reveals the driver of debt-funded consumption-led economic growth since the dawn of democracy in South Africa.

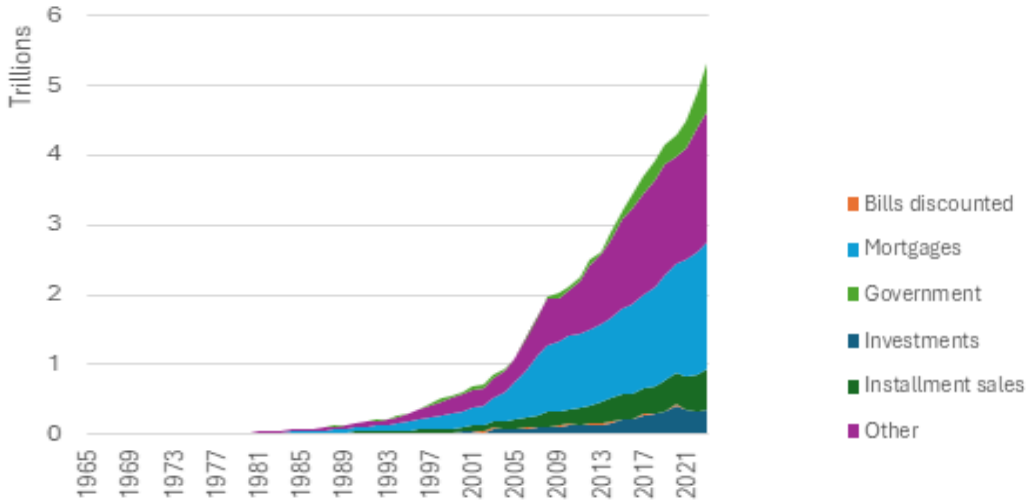


Figure 6-13: Credit extension by type, 1965-2023, in R trillion
Source: Havemann (2024)

Despite regulatory tightening after the 2002 'small banking crisis', the steepest incline in mortgage provision took place in the years leading up to 2008. The notable increase in credit extension to the public sector ('government') since the 2007-9 GFC is also very clear. In crude terms, for the 1993-2008 period, it was the bank-household balance sheet configuration that stimulated the rapid increase in the expanding house ownership sector as the multi-racial middle class expanded into new urban extensions. This, in turn, boosted the construction and retail sectors. By 2024, banks were increasing their lending to government, without increasing lending to the NFC sector.

Due mainly to the strict regulation of a liberalised market, South African banks have, in general, always been well capitalised, but more so, in particular, since 1994. Despite the

[353] Werner (2016)

negative economic conditions since 2008, the equity to asset ratio by 2023 remained comfortably above 10 per cent and has hovered above the 15 per cent mark for most of the period since 1994 (Figure 6-14).

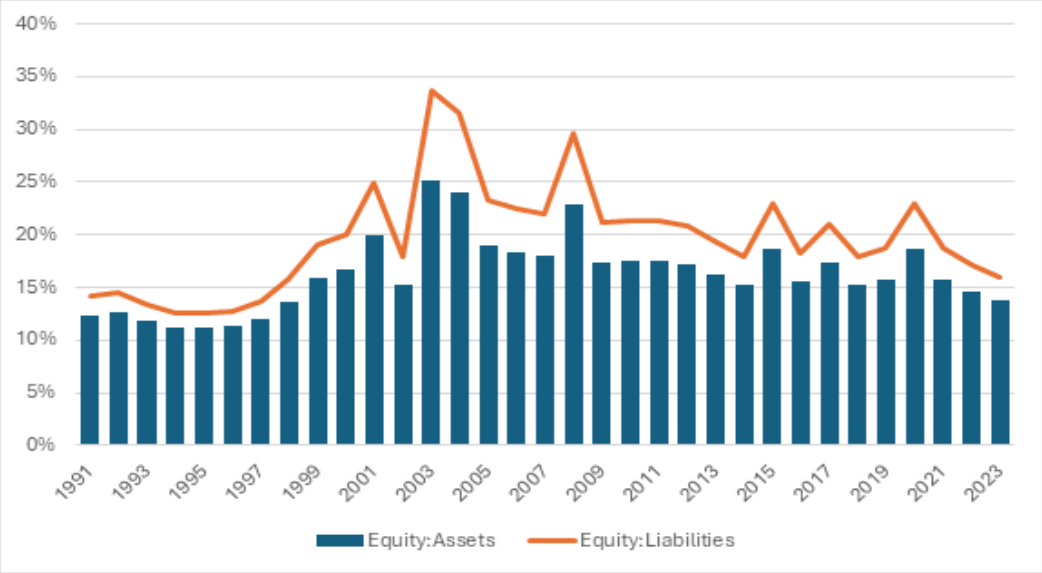


Figure 6-14: Equity-asset ratio of South African banks, 1991-2023
Source: Havemann (2024)

This is a higher ratio than the same ratio for US banks since 2000, which, in turn, reached a high point of 11.4 per cent in 2019. This once again confirms what the Banking Enquiry found back in the 2000s, namely the effect of stringent anti-developmental regulatory controls aimed at maximising stability (i.e. profitability of banks) and minimising risk (i.e. limiting competitiveness). The counter-factual, however, is that the regulated minimum capital requirement to establish a bank has never been changed from when it was set in the mid-1990s. Taking advantage of this de facto lowering of the barrier to entry, a new set of smaller 'tech-savvy' banks has started to emerge (e.g. Tyme Bank).

Figure 6-15 summarises how the deposits by counterparties have changed over time. Shortly before democracy in 1992, households comprised the largest share of deposits, making up 49 per cent of all deposits, while companies made up only 23 per cent of deposits. By 2023, this had switched, with households now making up only 31 per cent of deposits and companies responsible for 47 per cent of all deposits. The outcomes reflected two interrelated trends: a decline in household savings due to a mix of recessionary conditions (2008/9) and sluggish growth under conditions of state capture, and a reluctance of corporations to re-invest their cash reserves in expansion and growth under conditions perceived as high risk.

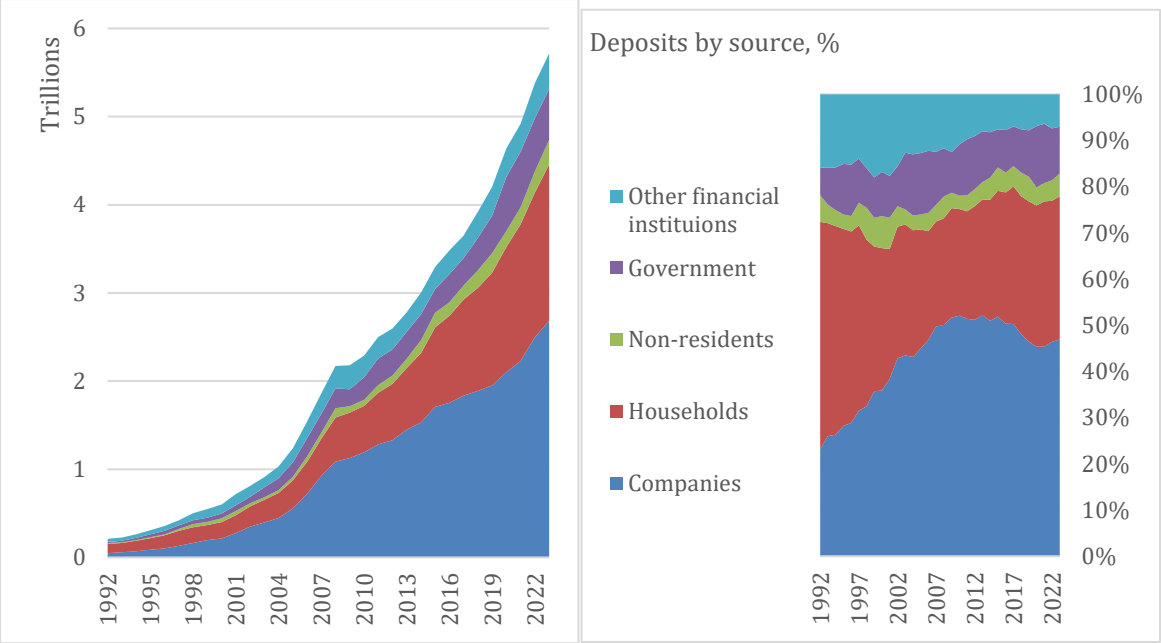


Figure 6-15: Deposits by counterparty, 1992-2022
Source: Havemann (2024)

Using the BA900 returns [354] (which are more granular), it is possible to see this in more detail for February 2024 (Figure 6-16). Added together, the non-household private deposits (i.e. all the other categories combined minus the government and public institutions) were double the size of household deposits in February 2024.

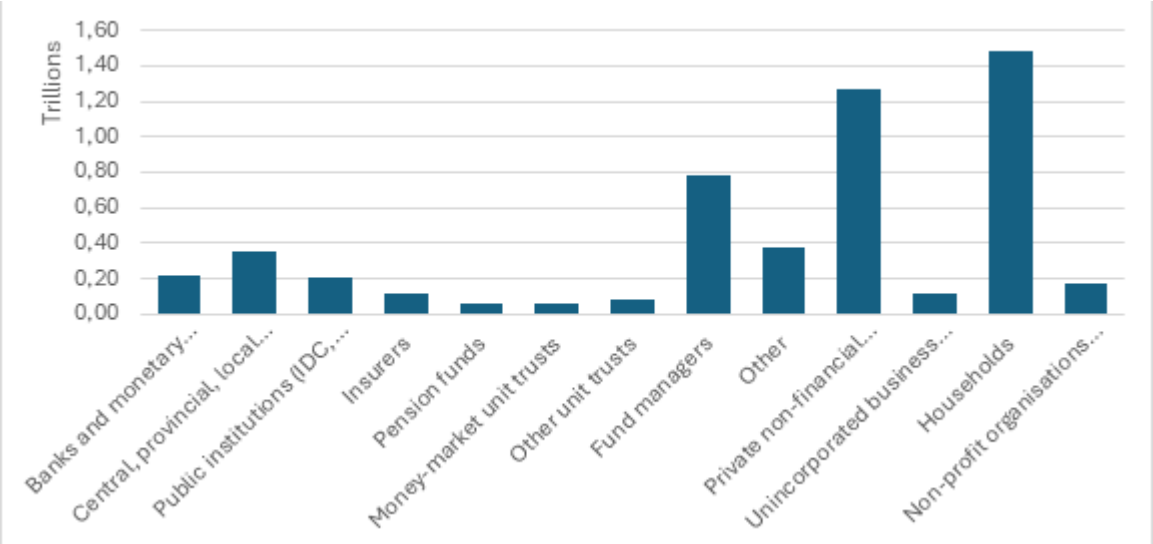


Figure 6-16: Deposits by counterparty, February 2024
Source: Havemann (2024)

[354] Monthly reports submitted by banks to SARB, quoted in Naidoo, Meerholz & Lehmann-Grube (2024)

In a low-growth economy with rising sovereign debt, it is rather surprising that South African banks are amongst the most profitable in the world (with an average ROE of 25 per cent). Although Basel III was adopted in 2010 in response to the GFC, these provisions may have reduced ROEs of banks in most countries in the years that followed, but by 2024, these provisions had not significantly reduced the ROEs of South African banks (down to average ROEs of 20 per cent). The reasons for the profitability of the South African banks were first articulated in the Banking Enquiry Report published by the Competition Commission in 2008. According to this report, South African banks artificially retain high costs for payment services because of 'oligopolistic' behaviour, and they benefit from prudential regulations that have always been premised on the assumption that the banking sector faces higher risks than it really does in practice. This leads to an undervaluation of the importance of developmental interventions that direct finance into the 'real economy.' This would, by definition, entail taking what are perceived to be higher risks by increasing investments in SMEs, light industry, collapsing infrastructures and 'fintech.' The failure of African Bank in 2014 reinforced assumptions about high risk, as did the fall-out from state capture (even though banks colluded in state capture by enabling the financial transfers of the shadow state).[355]

To determine who gets money from banks, Figure 6-17 reveals the assets by institution. Two observations are obvious: The share of assets in foreign loans has declined, and the share of government assets has risen significantly.

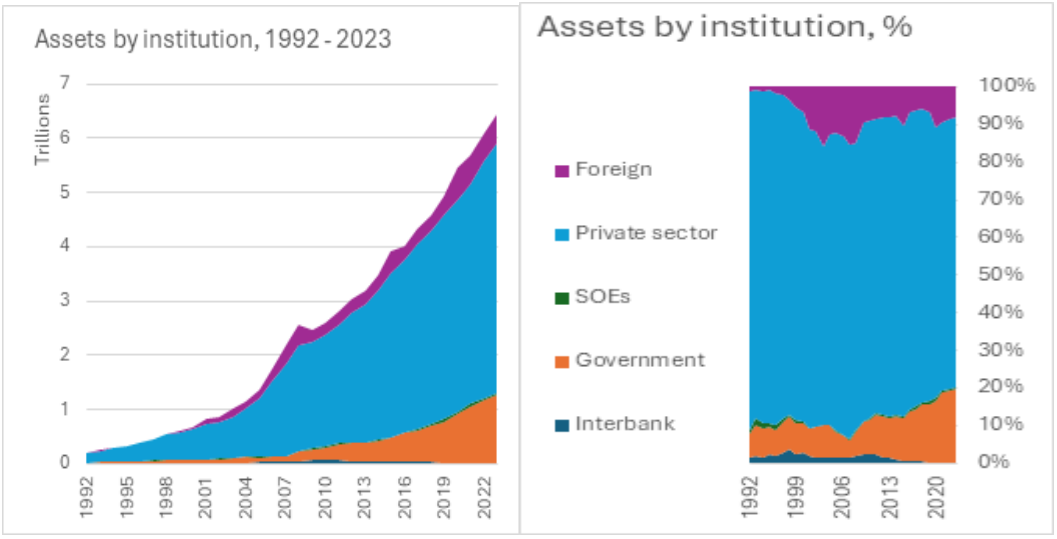


Figure 6-17: Bank assets by type of institution, 1992 to 2024
Source: Havemann (2024)

[355] Hawkins (2021)

To clarify: The data distinguishes between ‘assets’ and ‘credit extension.’ Credit extension is loans and advances, but ‘assets’ include investments and provisions for bad debt. Investments in government bonds have risen sharply, held for both regulatory and investment reasons.

The most significant feature of the post-Covid-19 period is the way bank lending to government is rising but declining to the private sector in a context of low rates of economic growth, resulting in declining tax revenues (Figure 6-18).

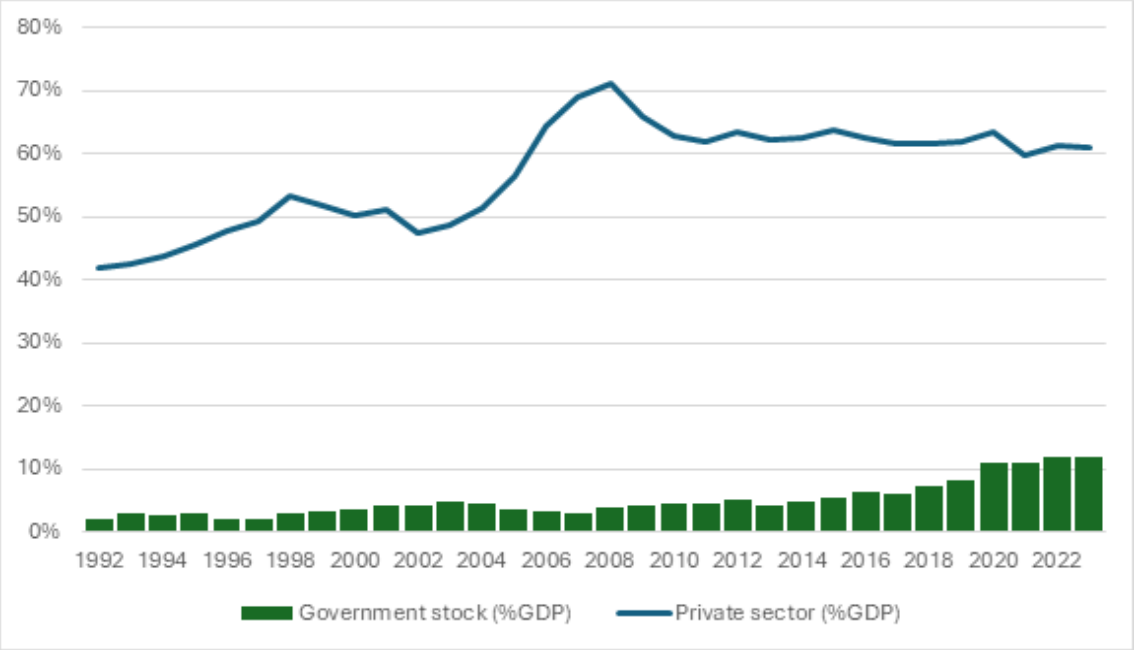


Figure 6-18: Bank holdings of government stock relative to the private sector, 1992-2022
Source: Havemann (2024)

The rapid financial deepening of the South African economy through to 2008 is clear: Loans and advances to the private sector accelerated to just over 70 per cent of GDP by 2008, before contracting. It has gradually reduced as a share, down to 60 per cent of GDP in 2024. This, however, is closely related to the rise of investments in government stock, which is currently up to 12 per cent of GDP.

There are three related reasons for these recent trends. The first is that yields on government debt have risen significantly as the South African economy weakened and investors upped the risk ratings on government bonds. Government debt does not require any capital holdings, and so it is highly profitable for a bank to hold high-yield government debt. Secondly, relatedly, there has been a significant sell-off of South African debt by non-residents nervous about the country’s economic prospects, making debt relatively attractive. Thirdly, the proportion of sovereign debt held by non-banking financial institutions (OFIs) has been rising considerably since 2014, which signals that these OFIs have a greater appetite for sovereign debt than they had before 2014 (Figure 6-19).

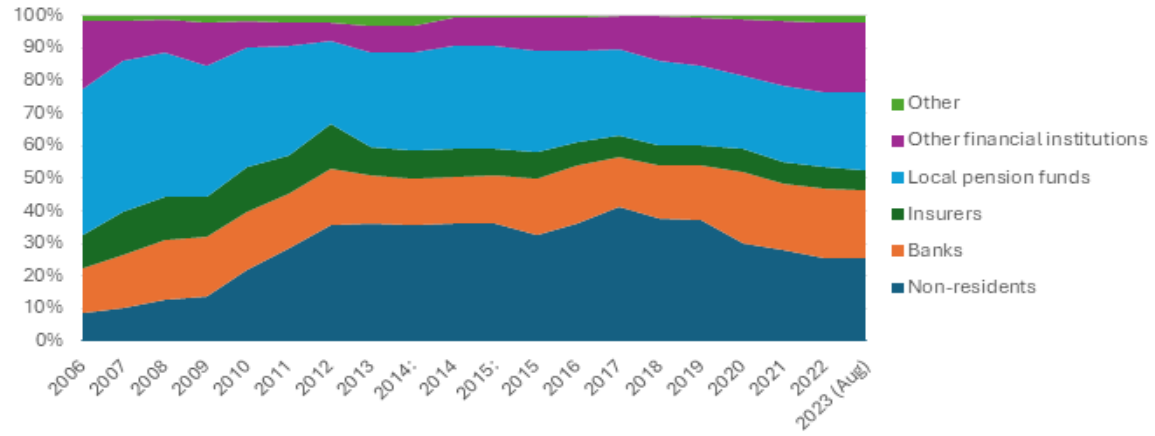


Figure 6-19: Share of sovereign debt held by different institutions.
Source: Havemann (2024)

Counter-intuitively, the rising level of funding for the public sector is not because the banks are stepping in to support the balance sheets of the SOEs. Indeed, bank lending to SOEs has declined overall since 2017, and at best has stagnated (Figure 6-20).

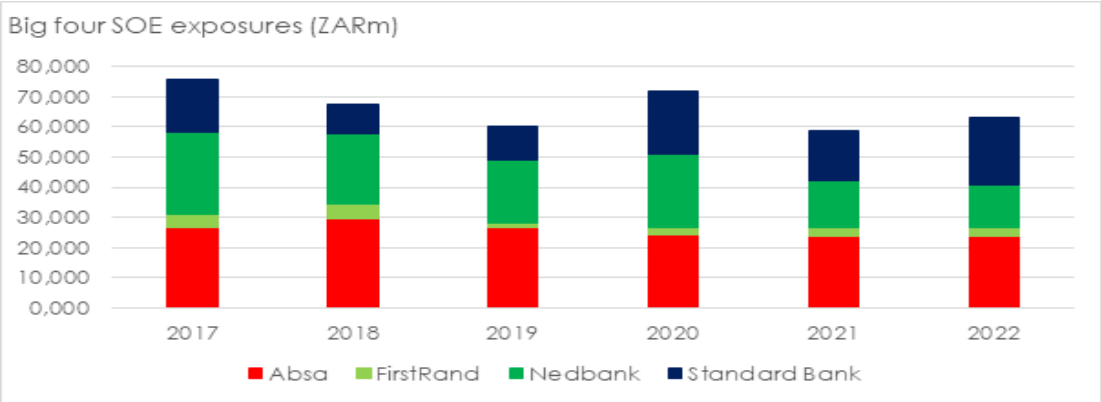


Figure 6-20: SOE exposures as proxied from Pillar 3 disclosures.
Source: SARB BA900 data, Rushton & Halstead (2024)

While there is steadily increasing investment in government stock, the total sum of overdrafts, loans and advances made available by banks to the public sector has declined since 2018. These facilities rose rapidly over the 2009-2018 decade, from R420 billion to R934 billion, before steadily declining to R701 billion by 2023 (Figure 6-21). The non-financial SOEs received the largest slice over this period, averaging 61 per cent of all bank overdrafts, loans and advances to the public sector, followed by local governments, averaging at 26.2 per cent per annum, and financial SOEs received on average 8.7 per

cent per annum. Bank lending of this nature to the national government was relatively low over the 2009 - 2023 period, averaging only 2 per cent of total public sector borrowings. This is because the fiscus relies on the bond market, not banking facilities.

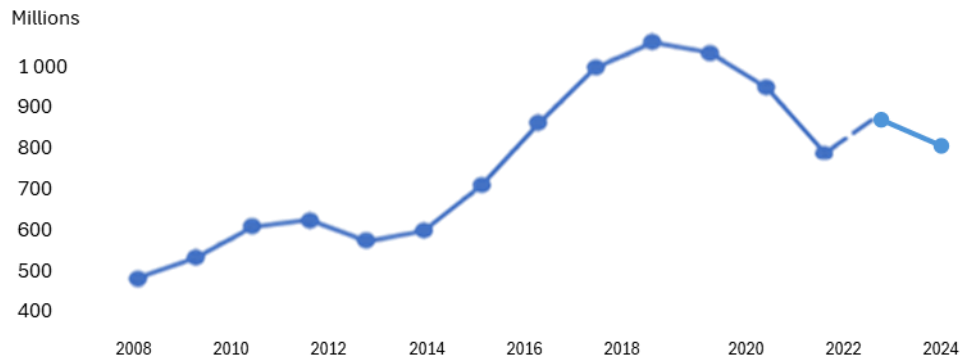


Figure 6-21: Bank overdrafts, loans and advances to the public sector, 2009-2023
Source: SARB BA900 data, Rushton & Halstead (2024)

Except for a spike and then a rapid decline after 2022 to an all-time low, overall bank lending to non-financial SOEs has declined overall since 2014 (Figure 6-22).

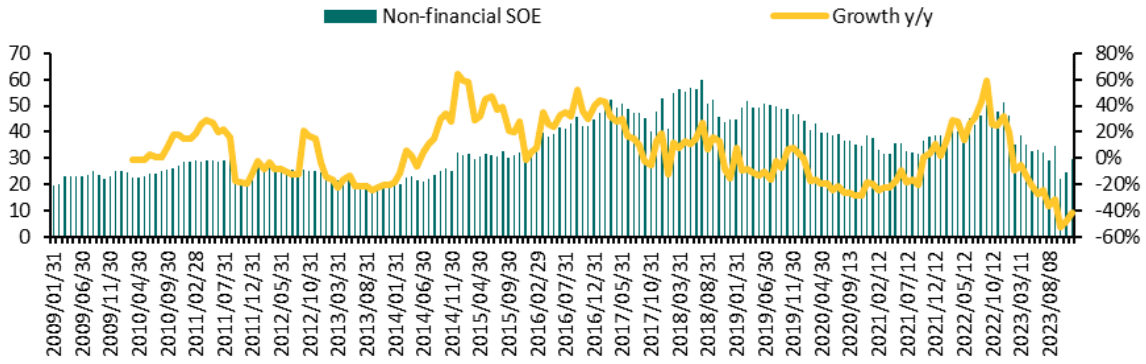


Figure 6-22: Bank lending to non-financial SOEs, 2009-2023
Source: SARB BA900 data, Rushton & Halstead (2024)

Finally, in response to the negative impact of loadshedding on households and businesses, banks set up new lending facilities to support rooftop solar installations. This even included formally accrediting approved installers that their customers were required to use to qualify for loans. According to data from Eskom, the installed rooftop solar photovoltaic (PV) capacity increased from 983 megawatts in March 2022 to 5,790 megawatts by June 2024, marking a substantial growth in just over two years (Figure 6-23). This amounts to a total investment of approximately R80 billion.

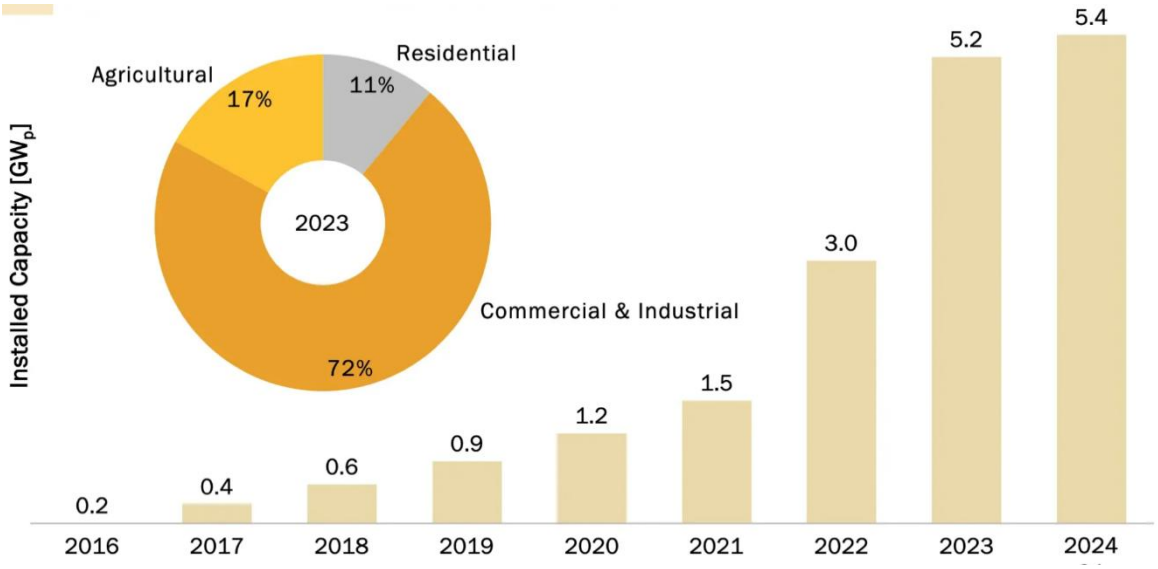


Figure 6-23: Growth in Embedded Solar PV
Source: Centre for Renewable and Sustainable Energy Studies, Stellenbosch University

In summary, despite successive economic challenges starting with the GFC in 2007/9 through to state capture and then the pandemic, the South African banking sector has remained highly profitable. This is due to a specific and intentional balance sheet configuration that is reproduced by the combined effect of the SARB's regulatory requirements and the concentrated nature of the banking sector. The investigation by the authoritative Banking Enquiry of 2008 into the high cost of payment services found that it was this risk-averse regulatory regime and the banking sector's 'oligopolistic' characteristics that resulted in high profitability levels. Instead of enabling increased investments in the formal small business sector to create jobs and enlarge the middle class, or loans for businesses and SOEs to significantly increase investments in GFCF, the banking sector has consistently preferred to provide consumption-related debt. As the bond yield climbed, and overall investor confidence declined in the wake of state capture, banks shifted from conventional lending to government to investments in government bonds to take advantage of the rising bond rates. Banks did well from declining levels of confidence in the economy.

6.5 Development Finance Institutions

The role of DFIs around the world has changed over time. After WWII, they were regarded as an integral part of the interventionist states that emerged in post-war Europe and Japan to enable reconstruction, and from the late 1950s through to the late 1970s, many national and even sub-national DFIs emerged to support many of the post-colonial economies in Asia and Africa. However, by the 1990s, they were out of favour due to the impact of neoliberal policies that gave preference to markets rather than states.

It was only after the 2007 financial crisis that they re-emerged as key players in the development finance world, particularly as lead arrangers of the new investment flows into renewable energy. During the 15 years after 2007, their collective asset base doubled, and by 2022, the total number of DFIs (otherwise known as Public Development Banks) globally had risen to 522, and their total annual investments rose to 10 per cent of total global investment.[356]

In this global context, contrary to what one would expect given the post-1994 challenges, South Africa's DFIs did not become major drivers of development. Instead of receiving massive injections of capital from the fiscus to leverage co-funding to accelerate development during the 1994 period, they were regarded as self-financing and therefore dependent on retained earnings, capital markets, and international DFIs to finance the gradual expansion of their investment portfolios. Furthermore, their governance by policy departments rather than the SARB constrained their access to the capital markets. The interventions that did take place, including the establishment of new DFIs, did not result in the top 14 DFIs becoming a major financial force compared to the commercial banking and non-banking financial institutions. Compared to the assets of banks at R6.7 trillion and shadow banks at R3.2 trillion, the DFI assets at around R350 billion by 2024 were tiny.

To complement the reconfigured balance sheets of the traditional DFIs (LBK, DBSA, IDC), a large number of DFIs were established after 1994 to support the developmental project of the democratic era. By 2024, there were 45 DFIs and Development Finance Agencies: 12 at national, 16 at provincial, and 17 at local government levels. Of these 45 structures, there were fourteen significant DFIs with assets of at least R1 billion each (see Table 6-7). Figure 6-1 reflects the four largest, namely the IDC, DBSA, LBK, and Ithala Development Finance Corporation. By 2023, the asset base of the fourteen largest had grown to R346 billion, which accounted for 97 per cent of total DFI assets by 2023. This was, in turn, equal in value to nearly 5 per cent of GDP in 2023, which is higher than the average size of the DFI/GDP ratio in Sub-Saharan Africa.[357]

[356] Finance in Common (2020)
[357] Massa, Mendez-Parra & te Velde (2016: 9)

Table 6-7: Fourteen largest DFIs, 2023

Entity	National	Provincial	Balance Sheet March 2023 (billion)
Industrial Development Cooperation (IDC)	X		159
Development Bank of the Southern Africa (DBSA)	X		109
Land and Agricultural Bank (LBK)	X		35
Ithala Development Finance Corporation (IDFC)		X	8
National Housing Finance Corporation (NHFC)	X		8
Small Enterprise Finance Agency (SEFA)	X		7
National Empowerment Fund (NEF)	X		6
Gauteng Growth and Development Agency (GGDA)		X	4
Limpopo Economic Development Agency (LEDA)		X	2
Eastern Cape Development Corporation (ECDC)		X	2
Free State Development Corporation (FDC)		X	2
KwaZulu-Natal Growth Fund (KZN GF)		X	1
Mpumalanga Economic Growth Agency (MEGA)		X	1
Social Housing Regulatory Agency (SHRA)	X		1
	7	**7**	**346**

Source: Nhleko (2024)

By 2024, the number of DFIs had increased by 4 from 41 in 2014 to 45 in 2024. Half of the largest fourteen DFIs were national entities: the DBSA, IDC, LBK, NEF, NHFC, Social Housing Regulatory Agency, and the Small Enterprise Finance Agency.

The poor economic performance of many DFIs over the years reinforced their relatively weak position, particularly those at sub-national level. The DBSA is the key exception: Having avoided state capture, it is self-financing, has a strong balance sheet, enjoys sound credit ratings, consistently declares a profit, always has clean audits and remains operationally efficient. The IDC survived the Oakbay fiasco and has since then done as well as the DBSA. Nevertheless, support from the sovereign via transfers or guarantees has been negligible for both, which means the balance sheet expansion has been incremental rather than exponential over the years.

Given that the overall goal of most DFIs has been to contribute to an increase in GFCF, this has been hard to achieve in a context of low overall levels of GFCF over many years and weakening SOEs. Significant equity injections to counteract low levels of investment in GFCF have not materialised. Nor do the balance sheets reflect high-risk lending: Instead, the Fixed Assets to Liquid Assets Ratio is low, with less than half of total assets in fixed long-term development loans. Taking advantage of South Africa's highly liquid capital markets, a third is invested in securities. When it comes to the provincial-level development finance corporations, they have been plagued by a constant flow of corruption allegations before, during and after the state capture years.

DFI assets in order of size included loans at R146 billion, securities at R107 billion, and currency/deposits at R47 billion. Liabilities in order of size were equity at R245 billion, loans at R52 billion, and accounts payable at R47 billion.

Table 6-8 demonstrates that by 2023, DFI balance sheets were interlocked with a much wider range of counterparties compared to the 1990s. With respect to assets, the counterparties in order of size were national and local government at R145 billion (R12.7 billion in 1995), private corporates at R63 billion (R6.1 billion in 1995), banks at R47 billion (R644 million in 1995), non-residents (mainly international DFIs) at R28 billion (R3 billion in 1995), households at R22 billion (R2,2 billion in 1995), SOEs at R21 billion (R2.2 billion in 1995) and NBFIs at R17 billion (R1.3 billion in 1995). Notably, while all the categories were roughly 10 per cent of their current size in 1995, bank-related assets were closer to 1 per cent of their current size in 1995, which means bank-related assets grew at a faster rate than asset-related counterparties than any of the other counterparties over the 1995-2023 period.

Table 6-8: DFI counterparties, 2023

DFIs instruments	Non-residents			Banks			Non-bank financial inst.			Central & local govt.			Public corporates			Private corporates			Households		
2023 - R million	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB	OB	Change	CB
Total financial assets (change ≈ net acquisitions)	**27 230**	**1 356**	**28 586**	**49 396**	**-2 322**	**47 074**	**16 429**	**1 393**	**17 822**	**115 475**	**29 916**	**145 390**	**20 126**	**1 003**	**21 129**	**100 505**	**-36 933**	**63 572**	**20 892**	**1 041**	**21 933**
Currency and deposits				48 928	-1 920	47 008															
Investment (debt) securities										80 526	27 105	107 631									
Loans	27 230	1 356	28 586							15 391	767	16 158	20 126	1 003	21 129	55 643	2 772	58 415	20 892	1 041	21 933
Equity and investment fund shares/units																44 862	-39 705	5 157			
Insurance, pension and standardised guarantee schemes							716	68	784												
Financial derivatives and employee stock options				468	- 402	66															
Accounts receivable and other assets										19 558	2 044	21 602									
Property, equipment and land							15 713	1 325	17 038												
Total financial liabilities (change ≈ net incurrence)	**55 086**	**-4 415**	**50 670**	**49 083**	**-3 045**	**46 039**	**3 955**	**- 451**	**3 505**	**241 929**	**3 364**	**245 293**									
Debt securities	2	35	37	6	87	93	32	457	489												
Loans	34 702	-7 620	27 082	28 696	-6 301	22 395	3 337	- 733	2 604												
Equity and investment fund shares/units										241 929	3 364	245 293									
Insurance, pension and Standardised guarantee schemes							587	- 175	412												
Financial derivatives and employee stock options																					
Accounts payable and other liabilities	20 381	3 170	23 551	20 381	3 170	23 551															

Source: Nhleko (2024)

Liabilities of DFIs in order of size included national and local government at R245 billion (R14 billion in 1995), non-residents at R50 billion (R5.7 billion in 1995), banks at R46 billion (R8.2 billion in 1995) and NBFIs at R3.5 billion (R227 million in 1995). The growth rates in the size of liability-related banking and NBFI counterparties were higher than government and non-residents.

Loans issued by DFIs grew from around R6 billion in 1981 to over R160 billion in 2020. There was a significant upward spike after the 2007-9 GFC, and not after 1994, as one would have expected. This has to do with the fact that the South African perception of the role of DFIs was aligned with global neoliberal narratives in the 1990s, namely that DFIs do not have a major role to play. This has changed since the GFC,[358] resulting in the rapid expansion of DFI global balance sheets to USD 23 trillion, with annual investments

[358] McCallum, Davies, Richards & Hoffman (2022)

of USD 2.5 trillion, which represented 10 per cent of total global investments in 2022.[359] Instead of following the global trend, sovereign guarantees could have massively expanded the balance sheets of the DFIs after 1994, in particular after 2008. Instead, they were forced to depend on a small sliver of capital sources from the capital markets and ad hoc equity injections when the need arose.

Finally, Table 6-9 shows that to date, South African DFIs have not provided guarantees on any significant scale and therefore do not hold large contingent liabilities on their balance sheets. Furthermore, the government's exposure to contingent liabilities arising from utilised guarantees issued to 'public financial entities' (namely LBK, IDC and DBSA) amounted to only R6 billion as at March 2023, representing a negligible 2 per cent of the total exposure to all national state-owned entities, down from R7.4 billion in March 2021. This level of guarantees provided by the sovereign does not enable DFI balance sheets to grow. Nor are DFIs a contingent liability for the SARB, as they are in many other developing countries. This is an obvious elasticity space to identify: A balance sheet reconfiguration that provides either one of these types of guarantees, or both, could massively expand the balance sheets of DFIs. Of course, this would only be a good idea if 'leakage' from DFIs could be terminated.[360]

Table 6-9: Government guarantees for the three largest DFIs

R billion	2020/21		2021/22		2022/23	
Entity	Guarantee	Exposure	Guarantee	Exposure	Guarantee	Exposure
LBK	9,6	2,4	9,6	1,9	8,1	0,4
DBSA	10,0	4,9	9,9	5,2	9,9	5,5
IDC	0,5	0,1	0,5	0,1	0,5	0,1
Total	**20,1**	**7,4**	**20,0**	**7,2**	**18,5**	**6,0**
As % of all national state-owned entities	3%	2%	4%	2%	4%	2%

Source: National Treasury (2023)

6.6 Pension funds

Compared to the apartheid period, when household savings funded NFCs via the banks and public infrastructures via the purchase of government bonds, the post-1994 trend through to 2024 is about the massive translocation of the savings of middle- to high-

[359] Finance in Common (ND)
[360] 'Leakage' is the polite term for rent seeking behaviour, both legal and illegal (i.e. corruption).

income households into pension funds. This was coupled with the removal of prescribed assets, which effectively removed a key supply of capital funding from government, which the apartheid government had been able to access. The consistent low level of investment in GFCF by these pension funds, in turn, created the need to move finance around the non-real economy to preserve financial value; this is what resulted in the mushrooming of the shadow banking industry as the enablers of (largely) short-duration transactions within the rapidly expanding financial sector. This is probably the most significant macro-level balance sheet reconfiguration of pension fund savings during the democratic period. A significant driver was the politically driven negotiated agreement that the outgoing political elite demanded to protect the savings of civil servants (who were, of course, overwhelmingly white by the 1990s) in the largest pension fund of all, namely the GEPF.

At the same time, all the efforts to include the majority in the pension system over the years have not resulted in a more equitable system. Instead, the outcome is highly unequal: Sophisticated contributory schemes for employed workers funded by both employer and employee (with monthly contributions averaging 10 per cent of salaries and wages); generously high defined benefits for civil servants (only partly funded from contributions); and the non-contributory pension schemes fully funded by the state for the poor that provide very low level monthly payouts to pensioners who do not benefit from the other pension schemes.

By 2024, 880 'active' registered pension funds were regulated by the FSCA. Of these, 445 were managed by the seven major 'pension fund administrators,' namely Liberty Group (33), MMI Group (42), Alexander Forbes (217), Sanlam (65), Old Mutual (13), NBC Fund Administration Services (52), and NMG Consultants and Actuaries Administrators (23). Another 25 were self-administered, and 410 were administered by a range of smaller fund administrators.[361] According to the last published Registrar of Pension Funds Annual Report in 2017, there were 15 million members of South African pensions.[362] We can assume this has increased to at least 18 million members by 2023.[363]

The FSCA was established in 2018, replacing the former FSB, which previously oversaw pension funds. This transition led to a reorganisation of reporting structures and processes. The GEPF remains, by far, the largest pension fund with assets worth R2 trillion, 1.2 million active members, and 450 000 pensioners. It is not regulated by the FSCA. Instead, it is regulated by the Government Pensions Administration Agency, which was established by Presidential Proclamation in 2010.

[361] FSCA Integrated Report (2023-24)
[362] Registrar of Pension Funds (2017)
[363] Since 2017 reporting on pension funds falls under the FSCA and its annual report is less informative. Given that pension fund membership increased by 2 million between 2014 and 2017, it is safe to assume that in the six years to 2023 membership increased by 3 million. This takes into account the slowing down of the rate of growth of the pension funds to 3.5% per annum.

Figure 6-24 indicates that by 2020, total pension assets had risen from R3.6 trillion in 2014 to R4.3 trillion, averaging an annual year-on-year growth of 3.5 per cent. This is partly related to long-term low growth rates, but also the impact of the Covid-19 pandemic. For the first time, pension assets actually shrank in 2020 by 6.5 per cent. By 2022, growth in total asset levels had recovered from the pandemic, and risen to R4.5 trillion. Based on SARB data, Hadji et. al. (2025) found that total assets of the NBFI sector were approximately R14.8 trillion by 2021 (240 per cent of GDP), made up primarily of corporate stocks and bonds. Liabilities were R15.4 trillion, comprised mainly of policy-holders and pension contributions.[364]

The rise of the pension and insurance funds resulted in NBFIs replacing banks as the source of long-term capital (Rateiwa and Aziakpona 2017).[365] Furthermore, pension funds and asset managers administer large portfolios of sovereign bonds, which means financial stability depends on their respective balance sheet decisions (Bara et al. 2017).[366]

Compared to other countries, South Africa has the 16th largest pool of pension assets in the world, which is significant given the small size of the South African economy. The size of South Africa's pension assets exceeded those in India, Ireland, France, Spain and Chile in 2024. The growth rate of South African pension assets is one of the fastest rates of growth in the world, way above the average annual growth rate and the growth rates of disposable income. Even more significantly, according to a SARB report, pension assets comprise 53 to 63 per cent of GDP, of which less than 10 per cent was re-invested in the so-called 'real economy' and even less in infrastructure.[367] It is, therefore, unsurprising that the governing party has started to raise questions about how these funds can be more effectively deployed.

[364] Hadji-Lazaro et al. (2025)
[365] Rateiwa & Aziakpona (2017)
[366] Bara et al. (2017)
[367] Pillay & Fedderke (2022)

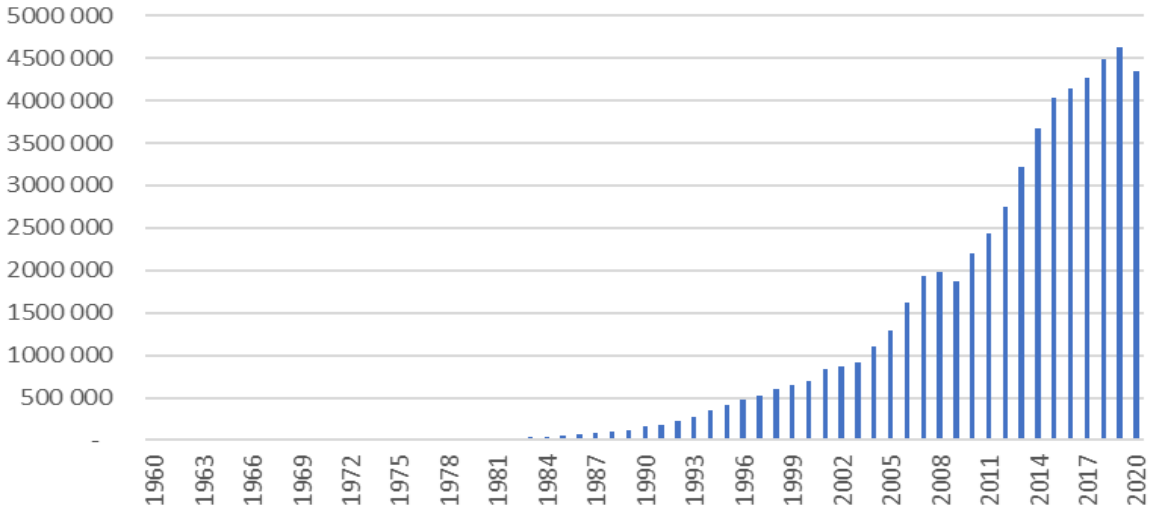


Figure 6-24: Pension Assets in South Africa, 1960-2020 (in R million)
Source: Moleko (2024), based on reports of the Financial Services Board

Table 6-10 shows the volume of total funds managed by the PIC from 2003 to 2022. It indicates that the volume increased from R0.3 trillion in 2003 to R2.5 trillion in 2022. Contractions only occurred in the crisis years of 2009 and 2020.

Table 6-10: Total funds managed by PIC, 2003-2022

Date (31 March)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total funds (trillion R)	0.309	0.377	0.461	0.599	0.72	0.787	0.74	0.911	1,032	1,170	1,400	1,600	1,810	1,857	1,928	2,083	2,164	1,907	2,339	2,548
% change	n/a	22.01	22.28	29.93	20.2	9.31	-5.97	23.11	13.28	13.37	19.66	14.29	13.13	2.6	3.82	8.04	3.89	11.88	22.65	8.2

Source: PIC Annual Reports (2003-2022)

The accumulated funds and reserves of the GEPF as at 31 March 2024 amounted to R2.3 trillion, which was about 40 per cent of all private and public retirement funds, and, in turn, equivalent to 33 per cent of GDP.[368] Its holdings of domestic bills and bonds (mainly government securities) amounted to R699 billion, domestic and foreign equities amounted to R1.2 trillion, and foreign CIS (unit trusts) accounted for R260 billion. For the 2023 calendar year, the PIC's investments included R40 billion invested in government bonds, R30 billion in ordinary shares of private companies, R27 billion placed with various OFIs (in particular, shadow banks via its network of asset managers), and R46 billion in cash and short or medium-term monetary deposits. As former GEPF Board member Andrew Donaldson observed, the

[368] Donaldson (2024: 1)

> GEPF is a significant funder of both the government and the business sector, a substantial source of funds invested by banks and other financial intermediaries, and an increasingly prominent investor in foreign assets. Its contribution to meeting government's funding requirement, however, has declined over time.[369]

The PIC, the GEPF's asset manager, held over 35 per cent of outstanding government debt in 1994. This dropped dramatically to only 15 per cent in 2024,[370] at a time when key government agencies such as the SOEs are finding it increasingly difficult to source debt from the private capital markets to finance their recovery strategies.

It is difficult to determine how the GEPF interprets its investment mandate by analysing the GEPF's 2023/24 financial statements. As Donaldson observes, around 50 per cent of its assets are held in domestic equities, and 14 per cent in foreign bonds or equity. Whereas its investments were almost entirely in government or parastatal securities in 1994, by 2023/24 this had reduced to just 24 per cent. Even more surprising is that the GEPF made virtually no further net investments in government bonds in 2023/24. From a GFCF perspective, this makes very little strategic sense.

The GEPF manages its R2.3 trillion fund by appointing the PIC as its asset manager. The PIC executes its mandate via thirty-nine appointed external asset managers. The investments that are not managed by PIC are invested in several dedicated African infrastructure and development funds, including the Pan-Africa Infrastructure Development Funds managed by Harith Fund Managers (initially established by the PIC). About R260.7 billion is invested in over 10 CISs, including R150.2 billion in Black Rock (UK), a giant global exchange-traded fund.

The PIC's Isibaya Fund holds R96.1 billion in unlisted equities, of which about two-thirds are domestic investments, and R40.9 billion is direct loans. This fund has a property portfolio of R16.2 billion. However, as Donaldson points out, '[p]oor performance of many of these investments has contributed to the GEPF's weak overall return on investments of just 3.5 per cent in 2022/23 and 4.9 per cent in 2023/24',[371] well below yields from government bonds. Total impairments amounted to a staggering R6.2 billion in 2022/23 and R6.5 billion in 2023/24, including two investments in which losses of over R1.5 billion were made.

Donaldson concludes his assessment of the GEPF as follows:

> In a context in which the yield on long-dated (>10 years) government bonds has fluctuated around 12 per cent, and the rise in government's borrowing requirement has constrained its ability to finance services and development, it is

[369] Donaldson (2024: 1)
[370] Donaldson (2024: 6)
[371] Donaldson (2024: 6)

hard to avoid the conclusion that the GEPF's investment strategy should be reconsidered.[372]

While civil servants have managed to secure their financial interests via the government pension reforms, the distribution of pensions remains highly unequal. Only 23 per cent of the working age population were members of pension funds in 2017, which was equal to 16.9 million people.[373] The bulk of the population over 65 relies on state-provided old age pensions, which are means-tested income allocations to these individuals made through the annual budget. These non-contributory pensions are cash transfers servicing the elderly who are reliant on the state. Of the total 18.8 million recipients of all state welfare grants in 2023, 3.8 million were old-age grant beneficiaries, up from 2.2 million in 2007. As a result, the expenditure for old age grants has risen from R22 billion to R90 billion over the 2007-2023 period. Significantly, the majority of the beneficiaries of these pensions are women.[374]

As Figure 6-25 shows, by 2019, the members of ASISA held R6.2 trillion worth of assets. This comprises unit trust savings of R2.1 trillion, life offices at R2.8 trillion and retirement savings at R1.2 trillion. Of this, R958 billion is placed with banks (which end up mainly in consumption-related credit); R775 billion is invested in government bonds that, in theory, gets re-invested mainly in public infrastructures, local governments and SOEs (most likely mainly via the bonds these entities issue); R3.3 trillion in listed and unlisted equities (mainly NFCs); R93 billion in property; and R1 trillion in various fixed interest investments (fixed deposits, annuities, fixed rate preferred stocks and money market instruments of various kinds). To put this into perspective, the Just Energy Transition - Investment Plan estimates that R1.5 trillion is required over five years to drive the energy transition. This is just below 20 per cent of the total assets of the savings and investment industry.

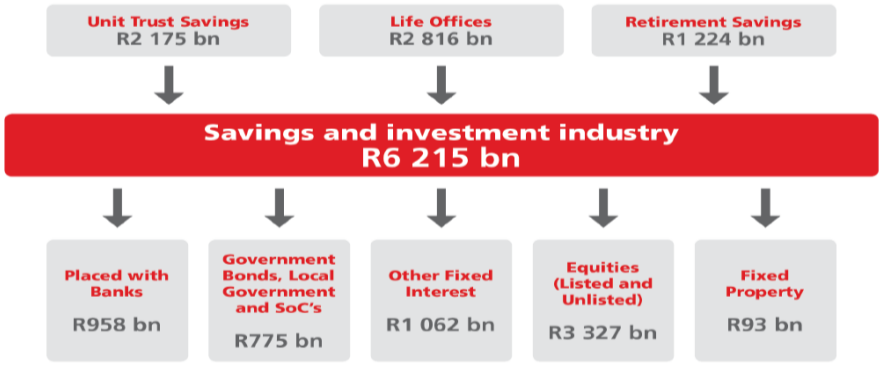


Figure 6-25: Asset Deployment of South Africa's Financial Sector as of 21 Dec 2018
Source: Raine (2019)

[372] Donaldson (2024: 6)
[373] Moleko (2024)
[374] Burns, Kewsell & Leibbrandt (2005)

ASISA is opposed to prescribed assets on the grounds that the returns on these investments will more than likely be below the normal market returns due to inefficient governance. They are effectively arguing that asset managers are better able to determine what investments are in the best interests of fund members than bureaucrats, who are deemed to have vested interests at odds with pension fund members, especially if SOEs are listed as the primary beneficiaries of prescription. Instead, they strongly favour Regulation 28 of the Pensions Act, which is a set of guidelines rather than forced prescriptions that came into effect in January 2023.

The overt rationale provided for Regulation 28 is to reduce risk for investors by ensuring that fund managers spread the investments across a range of sectors. This is achieved by specifying a set of defined limits, namely: 75 per cent in listed equities (both local and foreign), 25 per cent in property, 15 per cent exposure in private equity, 10 per cent in commodities, 10 per cent in HFs, and 2.5 per cent in other excluded assets. Further, retirement funds may not invest more than 25 per cent across all asset classes in one particular entity or company.

The most significant change introduced by Regulation 28 is that retirement funds are now allowed to invest in infrastructure (which is, of course, a key element of GFCF), up to a total limit of 45 per cent across all asset classes. However, to make sure these investments go into real projects, this excludes debt issued by or guaranteed by the South African government. The definition of 'infrastructure' is quite broad, including assets with the main objective of developing, constructing, or maintaining physical assets and technology to provide utilities, services, or facilities to the benefit of the economy, business, or the public. It includes private sector developments as well as the more traditional public sector projects. While infrastructure includes the traditional energy, transport and utility projects, it now also includes health, educational, civic and digital infrastructure facilities (e.g. cell phone towers, data centres, satellite infrastructure, optical networks, etc).

Removing the constraint on infrastructure investments could open the floodgates for redirecting pension funds into infrastructure projects. However, that will *only* happen if the appropriate institutional and financial configurations are put in place with respective risk, incentives, hurdle rates, security of the assets, guarantees, accountability and planning certainty. In short, this reform could potentially result in a dramatic balance sheet reconfiguration, which ASISA members would support if these issues are properly addressed.

The most controversial aspect of the Regulation 28 reform is the provision that raised the aggregate exposure to foreign-owned assets to a maximum of 45 per cent. This reform came into effect in July 2022, ahead of the implementation of Regulation 28 in January 2023. Within months, over R600 billion left the country, with a potential for this offshore

flow to grow to R2.5 trillion before hitting the 45 per cent limit.[375] Once again, the case for this reform that was forcefully made by ASISA members was to diversify portfolios and therefore reduce risk and maximise returns on behalf of their members. In reality, the real constraint this addresses is the low economic growth rates relative to the high growth rates of these funds, resulting in diminished investment opportunities for fund managers (reinforced by the shrinking number of JSE-listed companies).

In summary, by solving the problem of limited investment opportunities for institutional investors by raising the offshore investment limit to 45 per cent of total assets of a given institution, the linked problems of underinvestment in GFCF and, therefore, low economic growth rates are exacerbated. This becomes, of course, a vicious circle: Low growth rates reinforce the need to externalise investments, which in turn reinforces low growth rates. The solution lies in a radical balance sheet reconfiguration that correlates (a) a multi-sectoral systemic agreement between the state and ASISA members on how best to configure the financial and institutional arrangements to ensure massive investment flows into South Africa's infrastructure, with (b) gradual reductions in the offshore investment limit. It is not difficult to imagine a formula for calibrating the way this arc is gradually bent in favour of South African-centred investment and growth. The latter, on its own, will have negative consequences for pension fund beneficiaries, while the former, on its own, is unlikely to generate the funding that is required.

6.7 Shadow Banking

As reflected in Figure 6-1, by 2024, the NBFI sector included the pension funds, insurance funds and the shadow banks. The NBFI sector is, therefore, *not equivalent* to the shadow banks. This section is mainly interested in the shadow banks. It is clear that, compared to most parts of the world, the South African system has two unique features. Firstly, the NBFI sector is much larger than the banking sector, not least because of the unusually large size of the pension industry and, to some extent, the insurance sector for such a small population. Secondly, the high degree of interconnectedness between the different financial sectors, in particular between the less-regulated shadow banks and highly regulated commercial banks. The fact that the assets of shadow banks are equal in value to 50 per cent of South Africa's GDP (which is similar to pension funds) reinforces concerns within the SARB about systemic risk.[376]

Using the FSB criteria that Kemp used, Mashimbye updates the data on shadow banking through to 2021.[377] As Figure 6-26 indicates, shadow banks continued their long-term growth trajectory with assets increasing from R2.2 trillion in 2016 to R3.2 trillion by

[375] Fraser (2023)
[376] Kemp (2017)
[377] Mashimbye (2023)

2021.[378] By 2024, this had gone up to R4.5 trillion.[379] As in 2016, shadow banks were half the size of the banking sector by 2024. However, the NBFI sector as a whole held assets worth R13 trillion in 2016, which was double the assets held by banks.

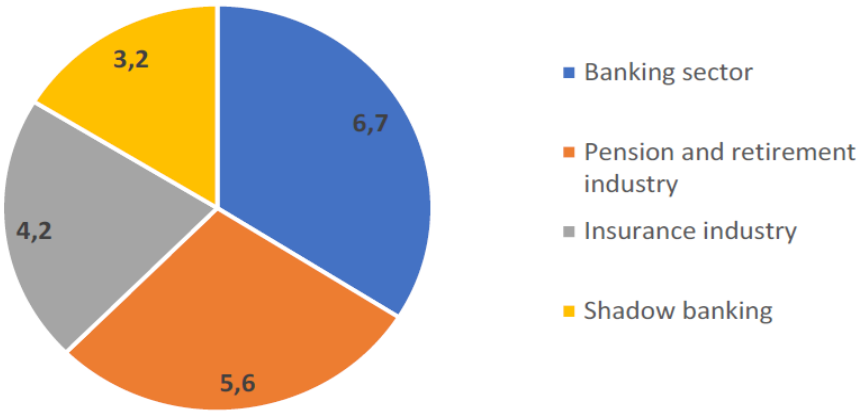


Figure 6-26: Financial sector assets in 2021 (R trillion)
Source: Mashimbye (2023: 9)

Using ASISA data to calculate the number of shadow banks and the value of assets held by four types of shadow banks, Mashimbye shows that by 2021, there were 446 MAFs (holding the largest quantity of assets), 343 Fund-of-Funds (FoF), 133 FIFs, and 53 MMFs.[380] Figure 6-27 shows that in only six years through to 2021, the total assets of these four sets of shadow banks increased by R1 trillion from R1.6 to R2.6 trillion.

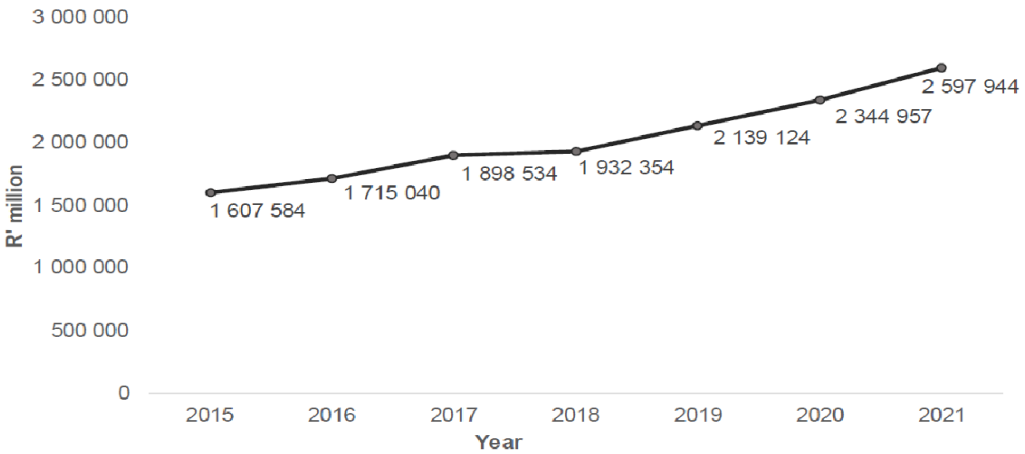


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Figure 6-27: Trends in assets of shadow banking in South Africa, 2015-2021
Source: Mashimbye (2023: 11)

[378] Mashimbye (2023)
[379] van der Merwe (2024)
[380] Raine (2019)

Before proceeding, it is worth noting that Mashimbye and Kemp used a very broad definition of shadow banks that some in the NBFI community have questioned. While it is accepted that money market and bond funds can be defined as shadow banks, they would argue that this is not true for many MAFs and, in particular, FoFs. A narrower definition preferred by many practitioners in the NBFI sector is to define shadow banks as long-term lenders who also offer liquidity transformation to short-term investors. In other words, they need to manage a tricky balance between returns from a basket of fixed long-term investments and sufficient liquidity to meet the requirements of short-term investors. This narrower definition of shadow banks can include components of the CIS industry (e.g. some MMFs or illiquid corporate bonds), but it excludes some instruments that are not prone to the same run risks in the near cash and credit markets as the more narrowly defined shadow banks. This may be true, but, as argued at the outset of the report, this distinction is difficult to operationalise in the qualitative analysis this report provides. As a result, we have retained the broad definition provided by Kemp and Mashimbye, while recognising that we have not distinguished between the higher and lower risk institutions. Our analytical aim is limited to assessing the relationships between the balance sheets of shadow banks (broadly defined) and the other institutions, in particular, the banks, NFCs and institutional investors. We are less interested in a technical quantitative analysis of these institutions.

Figure 6-28 gives an overview of shadow banking assets by fund class. MAFs were, and remain, by far the largest segment of the shadow banking sub-sector. These are professionally managed funds that aim to reduce risk by investing in a diversified portfolio of assets on behalf of investors. FIFs are mutual funds or exchange-traded funds that invest in fixed-income securities, such as bonds, Treasury bills, and other debt instruments. They provided investors with regular income, typically in the form of interest payments, while preserving capital. FoFs are funds that invest in other funds, thus providing an even more diversified portfolio than MAFs, although they do tend to have a specialist focus (e.g. just debt, or just equity). As mentioned, for some practitioners, FoFs cannot be defined as shadow banks. MMFs are mutual funds that invest in highly liquid, short-term instruments, such as Treasury bonds, commercial paper, and certificates of deposit. They preserve capital, ensure liquidity and generate only modest returns.

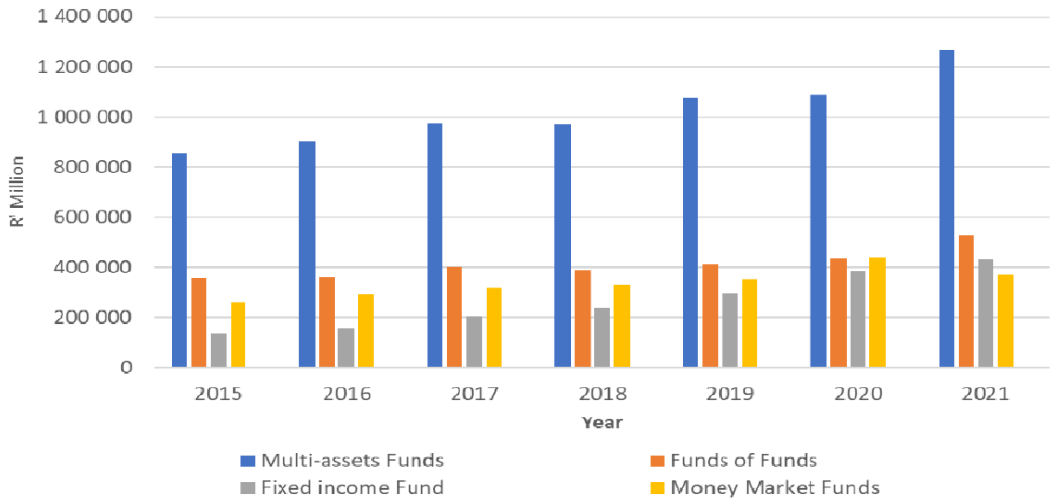


Figure 6-28: Shadow banking assets by fund class in South Africa, 2015-2021
Source: Mashimbye (2023: 12)

Mashimbye has mapped the network of shadow banks (Figure 6-29). It is safe to assume that nothing has changed since 2021 when he did his work. Over 50 per cent of MAFs and FoFs are invested in various CISs, while MMFs are overwhelmingly invested in banks. Over half of FIFs are invested in banks. It is therefore unsurprising that Mashimbye's study, which is the first systematic study of the systemic risk of shadow banks, concludes 'that shadow banking contributes to systemic risk in South Africa, with MAFs being the largest contributors followed by FoFs, and then FIFs'.[381] For him, systemic risk arises from the fact that the balance sheets of regulated banks depend heavily on the balance sheets of a set of less-regulated shadow banks to get things done that would not otherwise be possible within a more regulated banking space. However, with respect to MMFs, their contribution to systemic risk is minimal because, he argues, most are owned by regulated financial institutions like banks.

[381] Mashimbye (2023)

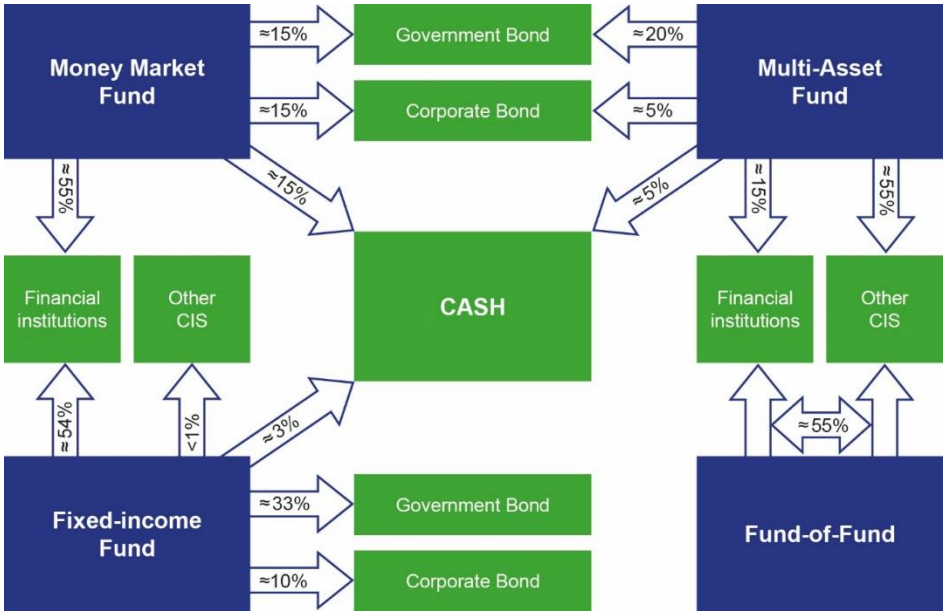


Figure 6-29: Shadow bank network in South Africa, 2021
Source: Mashimbye (2023: 13)

In response to growing concerns about systemic risk, the so-called Twin Peaks model was introduced in 2017: The PA within SARB was established to regulate the banks, and the FSCA replaced the FSB as the regulator of the NBFI sector (including the pension funds, CISs and most shadow banks). All shadow banks must also be registered with the NCR in terms of the National Credit Act of 2005.

Mashimbye's interest in systemic risk arising from the expansion of shadow banking brings into focus the extent of interconnectedness between shadow banks and regulated banks, and between shadow banks themselves. The more interconnectedness, the greater the threat of contagion if anything goes wrong. This was the lesson learnt from the African Bank collapse in 2014 and the regulatory tightening that followed. It was also the lesson that global banks learnt from the 2007/9 crisis.

Mashimbye shows that there is an extremely high degree of interconnectedness within the South African monetary architecture, more so than in most other countries. Extremely complex interconnections between shadow banks and the wider monetary architecture have emerged because of (a) technological innovations that speed up the transaction rate, (b) the desire for regulatory arbitrage in the wake of Basel III, and (c) the pursuit of higher returns by investors located in low-interest environments.

Complex sponsor arrangements via Special Purpose Vehicles, new multi-layered investment instruments, and counterparty contracting have enabled these entanglements. Unsurprisingly, this was useful for the shadow state operators during state capture, as reflected in the role played by the Bank of Baroda and VBS Bank.

Following Mashimbye, well-known examples of these complex transactions include investments by insurers and pension funds in shadow banking assets, which are used to buy bundled credit instruments from commercial banks that then underpin the funding of government and/or corporate bonds. In this way, banks participate in off-balance sheet activities to create space for more loans. Insurers and banks participate in MMFs as sponsors: 15 per cent of MMFs are sponsored by banks and 25 per cent by insurers. Banks are heavily invested in the assets of shadow banks: They are invested in 60 per cent of the assets of MMFs, 48 per cent of the assets of FIFs, and 11 per cent of the assets of MAFs.[382]

There are also strong interconnections between shadow banks. For example, by 2021, MAFs had invested R500 billion and FoFs had invested R250 billion in CISs, which accounted for 40 per cent and 47 per cent of MAF and FoF assets, respectively by 2021. MMFs do not invest in CISs, but CISs invest in MMFs. Besides these direct interconnections, indirect interconnections with contagion potential arise from over-exposures to the same markets: MMFs and MAFs are heavily invested in banks and bonds (both government and corporate). And so, the interconnections go on.

In sum, the shadow banking sector became an extremely complex system in the run-up to the 2024 balance sheet configuration of South Africa. The underlying driver was the need to keep moving the growing balloon of liquid finance that investors were reluctant to invest in GFCF. When the market became oversaturated, they pushed for Regulation 28 to allow them to move this liquidity offshore. This expanding pool of liquidity has coincided with the increase in inequality between different household classes. At the same time, the opacity of the sector also contributes to increased systemic risk. In Mashimbye's view, the most important source of systemic risk is MAFs, followed by FoFs and FIFs.

6.8 Central bank

By 2024, the SARB had firmly entrenched itself as the most powerful and significant 'fire fighter' at the apex of South Africa's monetary architecture. According to the NT's Macro-Trends Report, while fiscal policy was compromised by the legacy of state capture and impact of the Covid-19 pandemic (both of which pushed up debt and spending levels), it was the SARB that did the heavy lifting to protect South Africa from many of the most common financial crises that have afflicted many economies in the Global South during and after the pandemic.[383] As shown below, the rise in foreign currency deposits attests to the confidence in the SARB that exists within international markets, and the sharp rise in the provision of liquidity to the banks in response to the pandemic after a long period

[382] Mashimbye (2023: 45)
[383] National Treasury (2023)

of steady decline attests to its institutional strength and sound capital base by the end of the third decade after 1994.

The problem, however, is that the institutional consolidation of the SARB has not resulted in interventions that address the twin challenge of under-investment in GFCF and persistent inequalities. Although the SARB often justifies its inflation targets by arguing that low inflation is the best way to protect the poor, there is little evidence that it has used its prudential authority to address the concerns raised by the 2008 Banking Enquiry or the concerns raised about the relationship between tight monetary policies and worsening inequality. The SARB's view is that tighter monetary policies might initially worsen inequalities but reduce inequalities in the long run.[384]

Four themes reflect the way the SARB is responding to the changing environment: The impact of the Twin Peaks model, the response to the Covid-19 pandemic, the recalibration of the GFECRA to reduce the debt burden, and the new approach to climate change.

First, the Twin Peaks model: By 2024, it was clear that the adoption of this model gave the SARB unprecedented regulatory control of the entire monetary architecture via the collaboration between the PA, the FSCA, the NCR, and the NT. However, there is not much evidence that the Twin Peaks model was used to reinforce increased flows of finance into GFCF as intended by the Regulation 28 reforms. Instead, the SARB issued an Exchange Control Circular in February 2022 that increased the foreign investment limit for South African institutional investors, including retirement funds, from 30 per cent to 45 per cent. This measure was formalised with the implementation of Regulation 28 reforms in January 2023 that were, in essence, an attempt to balance two pressures: institutional investors who wanted to escape the constraints of a low-growth economy, and the need to redirect capital into GFCF (in particular infrastructures).

Second, the response to the Covid-19 pandemic: The SARB responded to the Covid-19 pandemic with various interventions aimed at stimulating liquidity without compromising its asset base and liquidity ratios (see below). These included lowering interest rates, purchasing securities on the secondary bond market, shifting from an 'end-of-day discretionary supplementary facilities' approach to an Intraday Overnight Supplementary Repurchase Operations approach, approving an IMF loan of R4.3 billion, and lowering the Standing Facility borrowing rate. However, like the rest of the world, economic recovery meant intervening again in November 2021 by raising interest rates to levels that were often perceived as too high for too long to enable economic recovery and reduce inequalities. The Governor of the SARB has since vociferously defended raising interest rates as the best way to protect the poor from inflationary pressures. This was invariably a response to criticism that SARB's obsession with inflation made it

[384] Merrino (2021)

impossible to lower the unemployment rate, a resurfacing of the line of argument in the NGP.

Third, the GFECRA was recalibrated to help government reduce the debt burden. Working around the formal independence of the SARB from the fiscal authorities, the SARB and NT exploited the potential of this elasticity space by collaborating to recalibrate the rules governing the size of the GFECRA to release R150 billion into the NRF. In February of 2024, the SARB and NT agreed on a major balance sheet agreement to accommodate the transfer of R150 billion from the GFECRA to the NRF. This was announced in the 2024 budget speech. Before the settlement agreement, the GFECRA balance was over R500 billion. With no new settlement agreement, the buffer was reset at R250 billion.[385] The GFECRA deal to ease fiscal pressures somewhat contradicts the principle of a strict separation of monetary and fiscal policy.

Fourth, since 2017, the SARB has been developing its capacity to respond to climate change in line with international trends amongst Central Banks. It has started to amend its regulatory and supervisory frameworks to incorporate climate-related risks. This includes developing guidelines for banks to integrate climate risks into their governance and risk management practices. Draft guidelines for banks about how to incorporate climate-related risks into their risk management frameworks and governance have already been issued. Further, the SARB has introduced climate change risk into its scenario stress testing methodology for systemically important banks. These tests assess the resilience of financial institutions to climate-related shocks.

The core challenge facing the SARB from a monetary architecture perspective is how to keep interest rates high enough to ensure continued inward flows of capital, but not too high to constrain economic growth and employment creation. There is considerable debate about whether this balance has been achieved. The one thing that counts in its favour is the health of its balance reflected in upward trends in assets and liquidity ratios. However, without economic growth, even the SARB's balance will be insufficient to mitigate the fragilities of the South African economy.

Two interventions to mitigate these fragilities were introduced in 2022 and 2023 when the SARB acted to increase the monetary base and protect depositors from bank failures. As a way of injecting liquidity, the SARB amended its Monetary Policy Implementation Framework in 2022 to enlarge the monetary base by nearly R100 billion. Like QE in other countries, this was about using monetary policy to stimulate economic growth by permanently increasing the level of reserves in the banking system.

To mitigate the risks of depositors and a way of attracting savers back into the banking system, in 2023, the SARB established the Corporation for Deposit Information, which is

[385] SARB report quoted in Naidoo et al. (2024)

a deposit insurance scheme that will provide depositors access to their money should their bank fail. It was established in March of 2023 and was fully operational by mid-2024.

The balance sheet analysis reveals the following trends:

First, Figure 6-30 below shows constant balance sheet expansion pre- and post-pandemic. The balance sheet size was R856 billion in 2019 and R1.1 trillion in 2022.

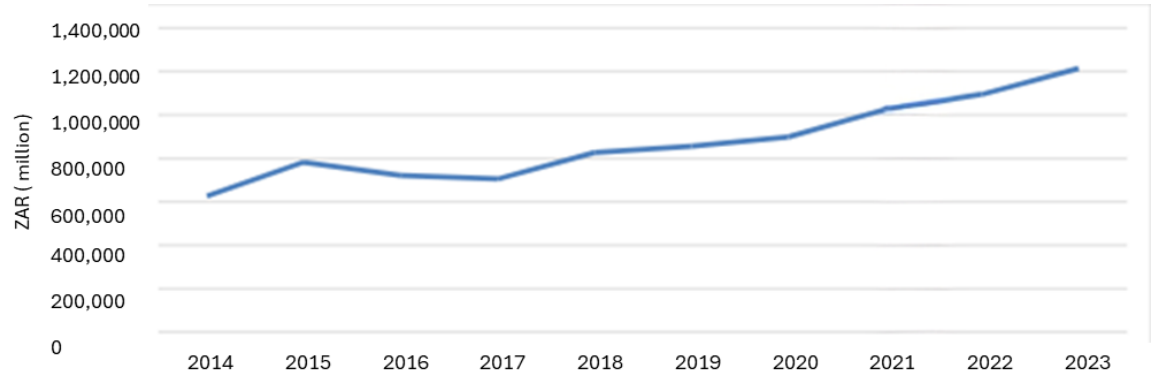


Figure 6-30: Total Assets 2014-2023
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

Second, while significant advances were made to the banks in response to the pandemic, Figure 6-31 reveals a jump in advances to government from a mere R65 million in 2019 to R12.6 billion in 2020 in response to the Covid-19 crisis, after which it tapers off.

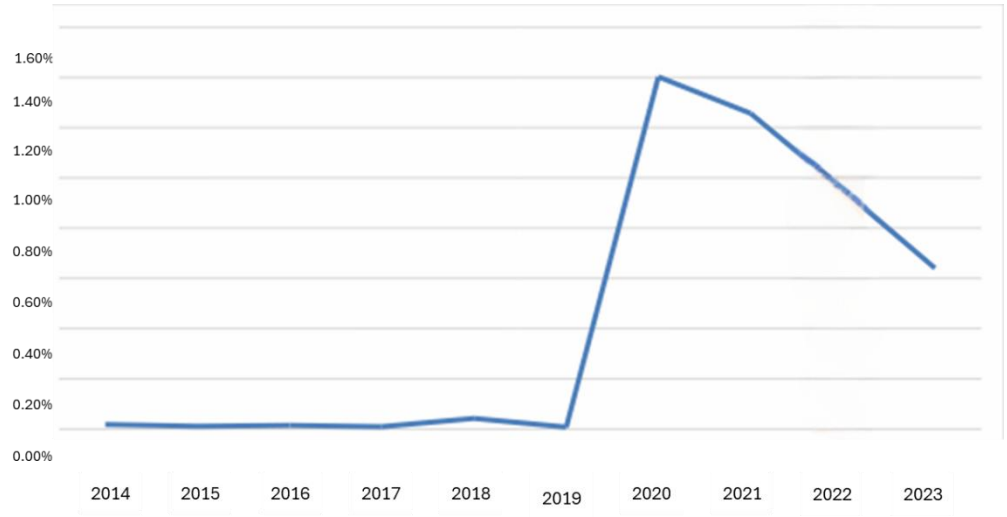


Figure 6-31: Other advances (as a % of Total Assets) 2014-2023
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

The SARB's strategy in this period has been more collaborative, working with the NT and regulatory bodies to assist in addressing the economic consequences of Covid-19, as opposed to addressing them with open market operations. While the SARB took the measures described above to create elasticity, these were limited compared to what Central Banks did in developed economies. The SARB took the view that financial stabilisation rather than economic stimulus was more of a priority. However, this did not mean that it did not use the stimulus instruments that it had at its disposal.

Finally, from a financial flows perspective, Figure 6-32 demonstrates the gradual, limited increase rather than decline in foreign deposits as a proportion of the total SARB balance sheet over this period, again indicating the potential for balance sheet expansion by the SARB as a consequence of inward financial flows. As argued by Demertzis and Viegi, this relates to South Africa's position within the global USD monetary architecture, and in particular, how dependent South African monetary policy is on the US Federal Reserve Policy. She argues that 'US expansionary policies induce capital flows towards the South African economy, with international financial intermediaries looking for higher yields in emerging markets. This induces an increase in domestic asset prices but not an increase in economic activity ....'[386]

While it may (in theory) be possible to keep interest rates high enough to sustain this inflow and low enough to expand the domestic economy during a period of ultra-low global interest rates, this balance becomes impossible as global interest rates rise, which is what started to happen from March 2022. In anticipation of this eventuality, the SARB pre-emptively raised interest rates in November 2021 at a time when loadshedding was clearly undermining any hope of an economic recovery.

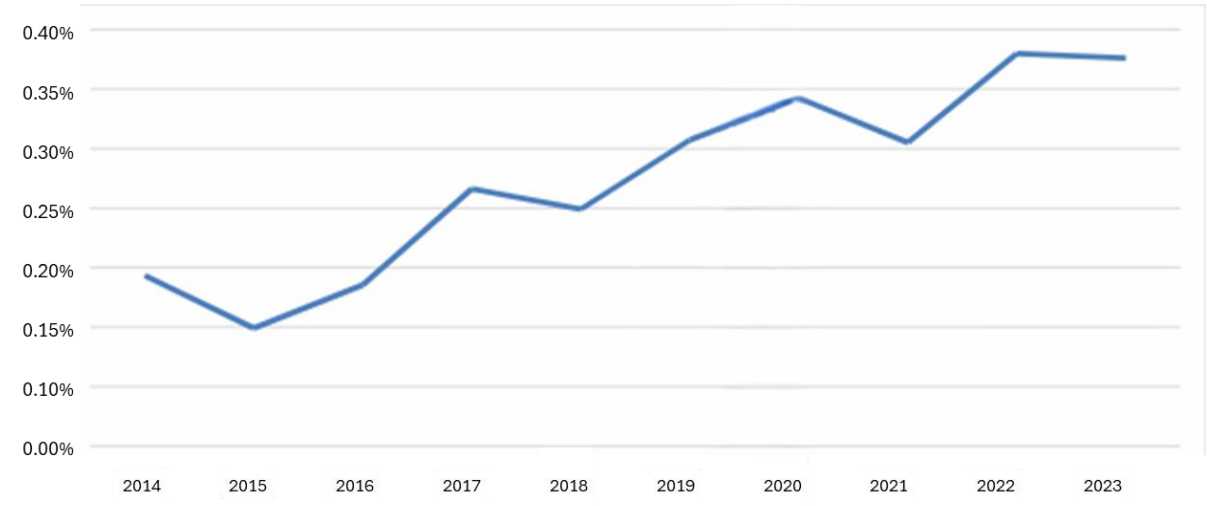


Figure 6-32: Foreign deposits (SARB Liability) as a % of Total Liabilities 2014-2023
Source: Naidoo, Meerholz & Lehmann-Grube (2024)

[386] Demertzis & Viegi (2021)

All in all, the SARB is firmly positioned as the monetary apex institution in South Africa's balance sheet configuration with the necessary tools, institutional capacity and capital base. It required three decades to achieve this role after the end of apartheid. However, it has not intervened in ways that have significantly contributed to addressing the fundamental challenges of under-investment in GFCF and persistent inequalities. Indeed, as argued by the Competition Commission's Banking Enquiry Report, its regulatory regime reinforces the low risk-high return conditions enjoyed by South Africa's major banks. At the same time, it is questionable whether monetary policy can be used effectively to directly influence increased investment in GFCF. Low interest rates and increased liquidity can help, but that is not sufficient to ensure that public and private institutions make the requisite decisions.

6.9 National Treasury

The NT has often been referred to as the 'state-within-a-state.' It was the primary bulwark against state capture because it refused to sign the nuclear deal with Russia and has solidly resisted pressures to relax fiscal controls. Since its establishment in the 1990s, the convention was for the Cabinet to delegate not only the details of crafting the annual national budget to the NT (always presented by the Minister of Finance in February of each year) but also the setting of fiscal policy goals and guidelines. Its powerful Assets and Liabilities Unit manages the vast array of state-owned institutions that fall under the authority of the NT. Furthermore, the NT has become the primary driver of the macroeconomic policy frameworks over the years. 'Fiscal consolidation' and 'macro-economic stabilisation' have been the central focus of the NT's macro-economic policies.

As is very clear from its 2024 report on Macro-Economic Trends,[387] the NT's *ideal monetary architecture* is a balance sheet configuration that consists of a well-capitalised SARB that keeps inflation as low as possible via tight monetary policy, banks with capital to lend but not dependent on regular liquidity advances from the SARB, listed and unlisted NFCs with sufficiently robust balance sheets to sustain increased their levels of investment (without having to favour industrial policies), households that are not over-indebted, free inward and outward capital flows, and tight fiscal controls (including, ideally, low debt levels, restricted spending, and low taxes).

However, as the Report argues, the long-term goal of fiscal stabilisation has been compromised by the need to increase spending and raise debt levels to deal with the legacy impact of state capture and the shock effects of the Covid-19 pandemic. In this regard, the Report (see Figure 6-33*)* indicates South Africa's increasing debt-to-GDP level

[387] National Treasury (2023)

and the widening gap between revenue and expenditure in the Treasury's budget. Furthermore, it reveals that the vast bulk of the debt is ZAR-denominated, which confirms the argument in Section 6.4 that while lending to the private sector has flatlined, lending to government has increased in recent years. In short, the balance sheets of the banks and the NRF have become increasingly more entangled, and the GFECRA deal brings the SARB into the mix.

As a result, the over-optimistic growth predictions, published in the Minister of Finance's budget speech each year, are thwarted by the need for equity injections into the persistently unproductive SOEs and to service unsustainable levels of debt. This makes for the perfect storm at the centre of South Africa's monetary architecture. This is why it is necessary to see these problems not just as aberrations to be resolved but rather signalling the unviability of the monetary architecture that was put in place in the 1990s when the NT was being established.

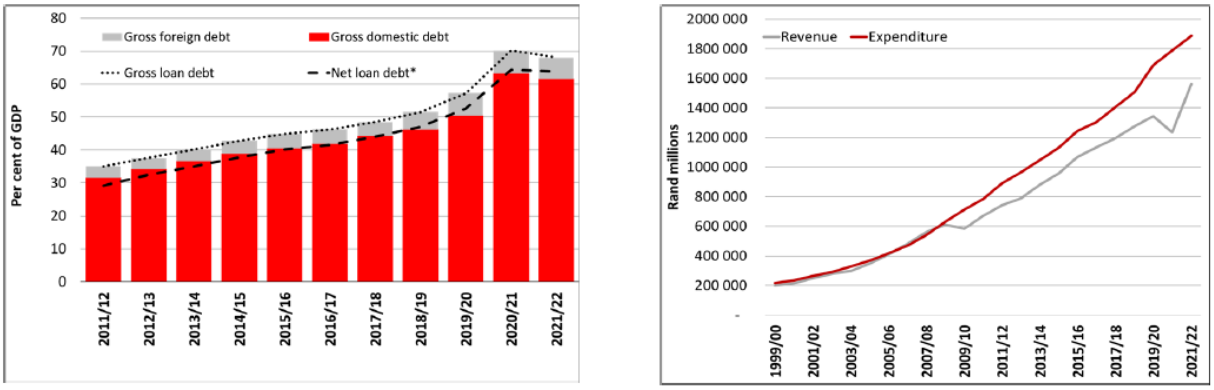


Figure 6-33: South Africa's Debt Ratio and Consolidated Government Revenue and Expenditure (RHS)
Source: National Treasury (2024)

Gross public debt ballooned from R627 billion (26 per cent of GDP) in 2008/9 to R4.73 trillion in 2022/23 (71.1 per cent of GDP), resulting in sovereign risk ratings dropping from BBB/BBB- to sub-investment grades by 2013 (BB/BB-). Strategies to reduce the gap between revenues and expenditure have, as the NT's report on Macro-Trends concludes, largely failed for various reasons, one of which was the necessity for equity injections in SOEs. The other reason was that, in response to rising poverty, social welfare spending grew faster since 2008/9 (9 per cent per annum) than the growth in aggregate spending (8.7 per cent) for the same period. Bailouts of SOEs have cost the fiscus R308.7 billion, R220.4 billion of which went to Eskom. The others included SAA (R47.3 billion), Denel (R5.8 billion), SA Express (R2.1 billion), SABC (R3.2 billion), LBK (R8 billion) and SASRIA

(R22 billion). Without understanding these challenges via a monetary architecture approach, business-as-usual can reinforce the downward spiral.

As reflected in Figure 6-34, SOE investments in GFCF plummeted from 2014 onwards as state capture set in and capital markets effectively 'redlined' the SOEs.[388] Although starting a little later, the same downward trend applies to government departments at national and provincial levels that the NT directly controls. However, initially thwarting these austerity measures were those entities with their own off-balance sheet revenues who were able to continue their capital spending for a little longer, namely the 257 local governments and the 150 SETAs with access to the skills levies paid by employers, plus various other smaller off-balance sheet financial agencies. The overall trend is very clear from Figure 6-34: Contrary to the strategic policy intentions of the NT, overall levels of public sector investment in GFCF have been downward since 2016.

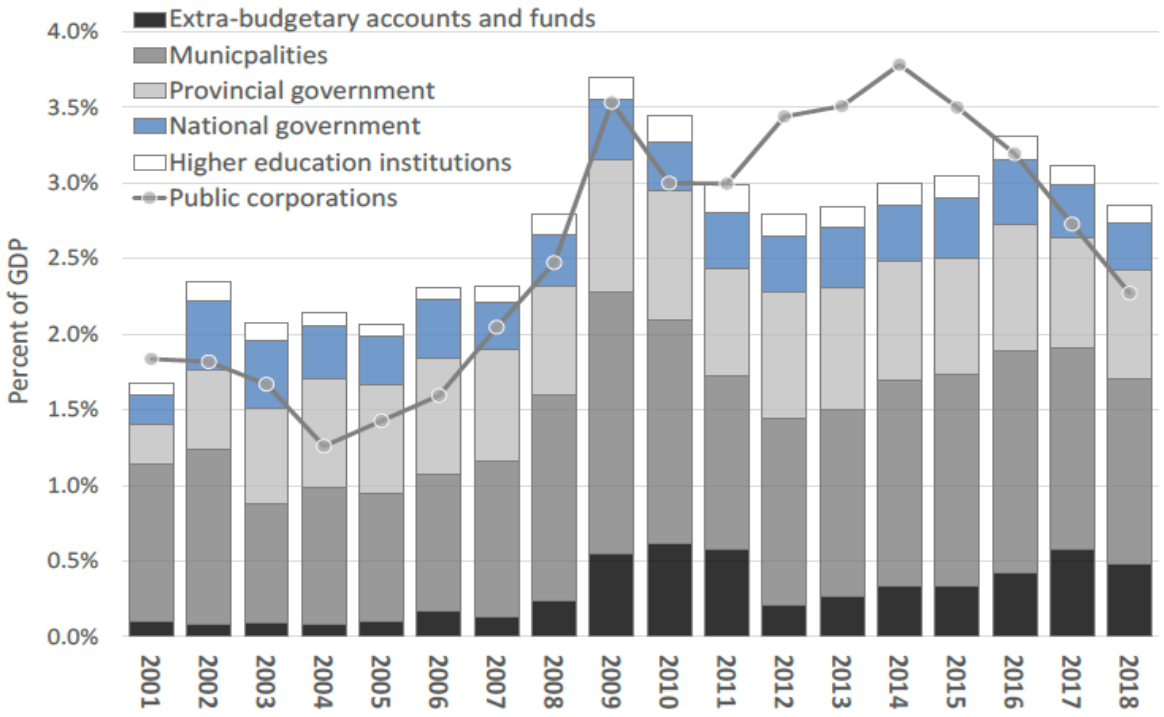


Figure 6-34: Capital Spending by Public Sector Institutions (2001-2018)
Source: Sachs (2021: 28)
Note: A distinction is made between spending financed largely out of general taxation and utility charges (bars) and those financed on the balance sheets of state-owned enterprises (the line). Extra-budgetary accounts and funds in this (Stats SA) dataset includes public utilities operating passenger rail, national roads, and water infrastructure.

[388] Sachs (2021: 28)

As reflected in Section 6.3, there are no signs that SOEs have started to recover from a decade of declining capital expenditure. What matters here from a fiscal ecosystem perspective is not simply the absolute quantitative decline in capital spending in the decade leading up to 2024, but also the long-term qualitative impact on economic growth of a decline in capital spending as measured by the incremental capital-output ratio (ICOR). ICOR measures the annual increment in real GDP divided by the previous year's fixed capital formation. The lower the ICOR for a particular year, the more productive the investments have been during the previous year.

Figure 6-35 shows that the public sector share of investments in GFCF has dropped to 30-35 per cent of total GFCF from a high of 55 per cent in the 1970s. At the same time, the ICOR more than tripled in the 2010s compared to the 2000s. Put simply, less economic value is being generated for every Rand that is invested by the state in infrastructure.

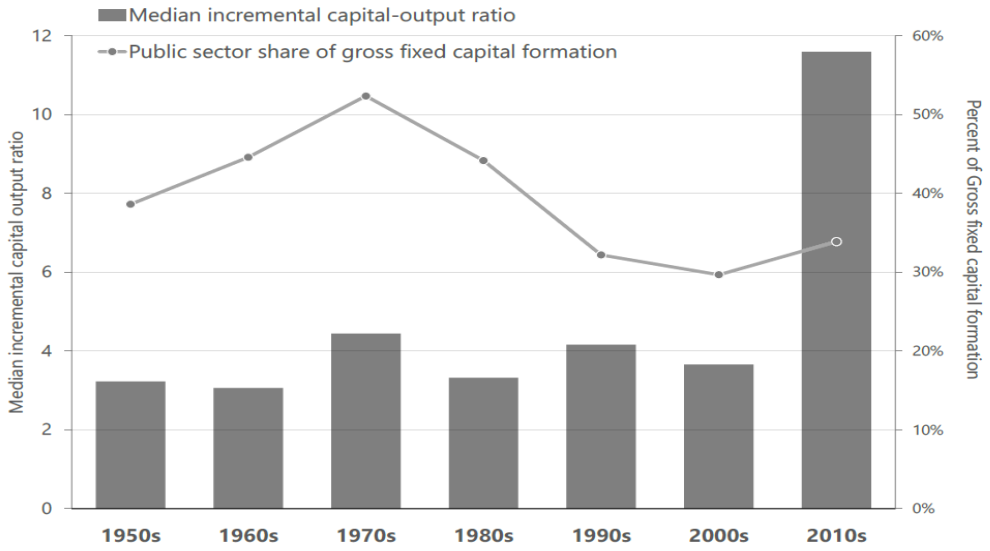


Figure 6-35: Public Investment and the Incremental Capital-Output Ratio
Source: Sachs (2021: 28)
Note: The incremental capital-output ratio is the annual increment in real GDP divided by last year's gross fixed capital formation. The graph shows the median value for this ratio over each decade.

The data shows that during the decade leading up to 2020, the ICOR was three times higher than it was a decade earlier. Compare this to the 1970s, when public sector investments (funded in part by funds secured via prescribed assets and the government pension funds) accounted for over 50 per cent of GFCF with a low ICOR of around 4. In other words, not only was public sector investment in GFCF very high in the 1970s (over 50 per cent), but its economic impact was also high, as reflected in a low ICOR. The high economic impact of infrastructure investments in the 1970s and 1980s (when the ICOR dropped even lower to 3.5) is not surprising, given that it was a decade dominated by the

Eskom build programme (including three large power stations and around 1200 km of power lines per annum).

Sachs, who was head of the Budget Office in the NT until November 2017, concludes as follows:

> One reason for this correlation might be that public infrastructure spending, which is increasingly important at the margin, is *not creating truly productive assets*. But spending might also appear to be 'wasted' because infrastructure is built too far ahead of demand, or because broader expectations of economic growth and demand fail to materialise. Whatever the reason, the 'stranded assets' that result impose a financing burden. Where public sector creates assets with a value below its cost of production, society will be saddled with servicing the liabilities that result.[389]

To fully appreciate the extent of South Africa's fiscal crisis and, therefore, the constraints on infrastructure financing and GFCF more generally, it is useful to contextualise the current phase (2020-2023) against the profile of the previous phases of expenditure growth. Figure 6-36 depicts five phases of expenditure growth since 1997. Phase 1 indicates the GEAR years (1996-2000) when growth and spending declined; Phase 2 was the decade of both GDP growth and fiscal expansion (2000-2011), and Phase 3 was the start of a long period of austerity when spending growth was constrained and aligned with GDP (2012-2019), even though it got partially reversed after 2017 by the new post-Zuma administration.

A more severe contraction took place in Phase 4 following a brief increase in spending to mitigate the impact of the pandemic. Phase 5 is the projection by the NT based on overly optimistic assumptions about a mild recovery in economic growth rates without emphasising the need to re-invent the monetary architecture. Instead, the NT's Macro-Economic Trends Report simply repeats calls to re-establish the balances needed to return to its *ideal monetary architecture*.

There are obvious balance sheet reconfigurations that will be required to re-ignite inclusive economic growth: (a) the redirection of public and private capital into GFCF, in particular into the energy, water and digital infrastructure sectors and key industrial sectors according to co-developed industrial policies (the Masterplans); (b) the creation of new mechanisms to enable smaller businesses to gain access to capital to expand; and (c) how the JSE can constrain the behaviour of large listed companies who source capital within South Africa for re-investments elsewhere.[390]

[389] Sachs (2021: 27)
[390] Sachs (2021: 30)

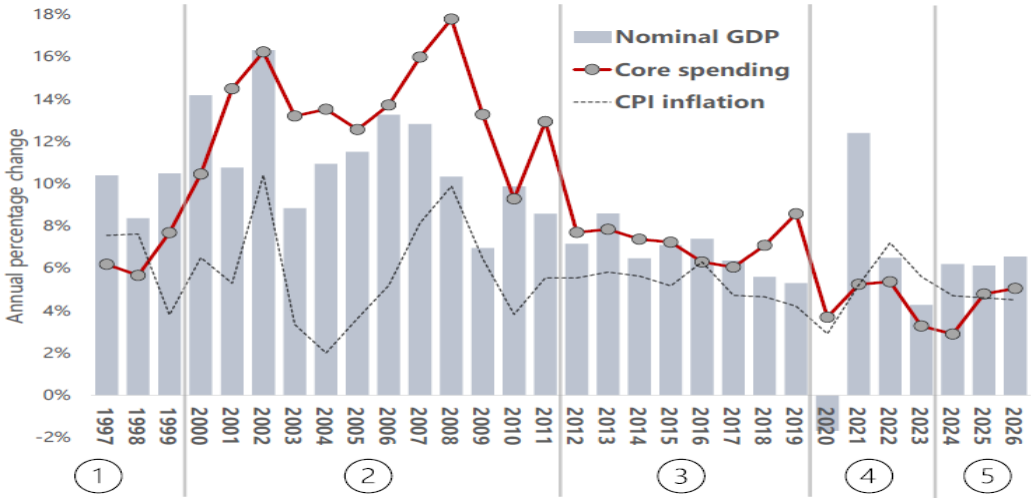
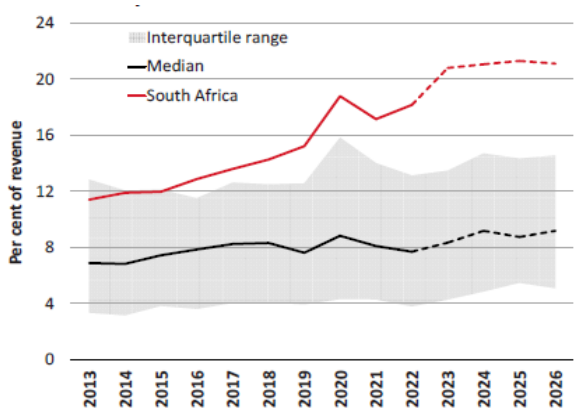


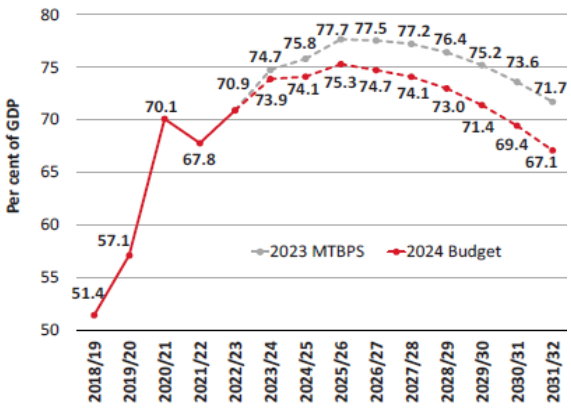
Figure 6-36: Five phases of nominal growth: Core spending, nominal GDP, and consumer inflation, 1997-2026 (projected)
Source: Sachs (2021)

As Figure 6-37 conveys, South African fiscal policy is defensive rather than proactive, i.e. the focus is on reducing the profoundly unsustainable debt-GDP ratio without providing proactive strategies to stimulate growth. However, the problem is not really debt in and of itself, but rather persistently low growth. If economic growth rates were higher, the debt-GDP ratio would decline over time. In the absence of a clear economic policy framework to foster rapid increases in economic growth through increases in public and private investment in GFCF, austerity becomes the NT's method to achieve this goal. However, as Sachs argues, to significantly reduce debt in a low-growth context means such severe cuts that this will undermine what little growth potential there may be.[391]

Debt-service cost trends in South Africa and peers*



Gross debt-to-GDP outlook



Consists of 74 non-oil-producing emerging market economies

Figure 6-37: South African debt service cost trends and outlook for gross debt-to-GDP
Source: Budget Review (2024: 2)

[391] Sachs (2021: 38)

Contrary to what was predicted in the Medium-Term Budget Policy Statements for 2020-2023, significant GDP growth did not materialise. Instead, as the 2024 Budget Review reveals that GDP growth has averaged at only 0.8 per cent since 2012, 'a rate of economic growth that is insufficient to address high levels of unemployment and poverty'. The Budget Review continues optimistically:

> The economic growth strategy prioritises macroeconomic stability, structural reforms and improvements in state capability to raise growth rates in a sustainable manner.

However, besides the highly problematic assumption that improvements in state capacity can happen quickly enough, very little is said about how growth will be achieved, other than to argue that '[l]ong-term growth is highly dependent on improving capacity in energy, freight rail and ports, and on continuing to reduce structural barriers to economic activity'.[392] However, for this to happen, investments in these and other crucial economic infrastructures will have to rise faster than current projections. Not all these investments can be expected to come from the public sector. This explains the emphasis in the 2024 Budget Review on the need for a new project preparation agency to drive PPPs (see Section 6.8).

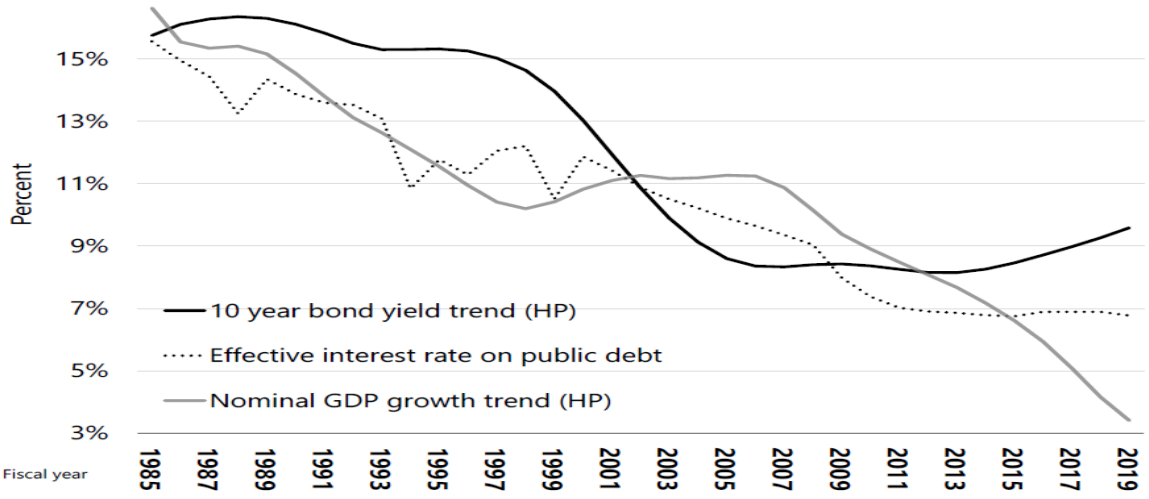


Figure 6-38: Government's interest on debt and the trend in nominal GDP growth, 1985-2019
Source: Sachs (2021)

As Sachs argues, what matters is not the debt-GDP ratio at a given moment in time, but the trend over time. If the effective interest rate payable to service sovereign debt is less than the growth rate over time, then it is possible to argue that debt can be sustainable. For most countries, this is the case, and for most of the time since 1985, it was the case

[392] National Treasury (2024)

in South Africa (Figure 6-38). However, since 2014, the trend is clear: The effective interest rate on public debt is consistently higher than the growth rate, and so too, for that matter, is the bond yield. This means South African debt is now unsustainable. Under these conditions and given the structure of inequality, what matters is the kind of economic growth that is fostered. Incentivising growth that benefits those who save little, consume a lot, and move their gains offshore will make the problems worse. Increasing the labour intensity of GFCF has a better chance of being more inclusive.

Following Sachs, it is possible to argue that South Africa's fiscal ecosystem, with the NT as its organisational linchpin, has enabled a grand national balance sheet configuration that is now threatening to unravel in the face of persistent low growth, high interest rates, an unsustainable debt-GDP ratio, falling capital investments in GFCF, and a rising ICOR. Under these circumstances, inclusive growth that has the potential to reduce inequalities is highly unlikely.

6.10 Summation

By 2024, South Africa was faced with many interrelated challenges, including low levels of economic growth, negative climate change impacts, loadshedding, constrained fiscal spending, continued under-performance of the SOEs and tectonic shifts across an increasingly multi-polar world. As a result, as this section has revealed, the low levels of public and private investment in GFCF have persisted into 2024. Economic recovery will be impossible if these trends continue. Furthermore, wealth inequalities have also persisted and most likely worsened as a result of the pandemic and constrained economic growth.

Traditional approaches to these challenges are no longer fit-for-purpose: Low levels of investment in GFCF can no longer be blamed entirely on poor public sector governance, nor is the lack of incentives for private sector investment the only problem. Nor can wealth inequalities be blamed on inadequate social welfare policies. The fundamental problem, we have argued, is more systemic, namely, the absence of a macro-financial governance approach that brings into focus the complex intersectional dynamics of the entire financial ecosystem. Without this systems perspective, it will not be possible to identify the elasticity spaces where potential balance sheet reconfigurations exist for unlocking new flows of capital and/or redirecting existing flows.

7 The Way Forward: Negotiating Balance Sheet Reconfigurations for a Just Transition

To address the challenges of inequality and underinvestment in GFCF within the wider context of the Just Transition and the NDP, more effective macro-financial governance of South Africa's monetary architecture will be necessary. This will need to go beyond traditional regulatory approaches that have a narrow financial stability mandate. It will also mean going beyond traditional conceptions of blended finance solutions. As argued by Mazzucato, this traditional blended finance approach rests on the mistaken assumption that if the state steps back, the gap between the amounts invested and what is needed will be filled by the private sector. As a result, the so-called 'billions to trillions' claims made a decade ago have not been realised. Instead, Mazzucato argues, 'mission-oriented blended finance' is needed that catalyses structural transformation, builds productive capacities, and generates long-term public value without compromising private returns. The aim is not simply to fill gaps, but to redirect and align capital to finance public goods, expanding fixed privately owned assets in economically productive sectors and inclusionary initiatives (e.g. credit extension for small businesses, housing market reforms, opportunities for women).[393]

It needs to be emphasised that coercive regulatory interventions to drive balance sheet reconfigurations that compromise the returns for investors will, more than likely, have the unintended consequence of reinforcing capital flight. The outcome may not, in fact, result in increased investments in GFCF. A balance is needed between regulatory interventions that influence the directionality of capital investments, non-regulatory interventions to build the capacity needed to massively expand the pipeline of bankable projects, and interventions that address the collapse of effective governance in general, and in the local government and SOE sectors, in particular. Related to this is the challenge of absorptive capacity. Increasing the supply of capital without addressing the governance constraints that undermine absorption and effective deployment of capital will have inflationary consequences.

While elements of a *blended finance 2.0* approach exists at the moment (e.g. the setting up by the DBSA of the Infrastructure Fund, the Water Partnership Office established by DBSA and NT, bank-led investments in rooftop solar to mitigate loadshedding, and the proposed financing arrangements to fund the national transmission build programme, etc), a much more coherent and strategic approach is needed to facilitate joint action. No single actor has the combined institutional and legal capacity to unilaterally reconfigure the current web of interlocking balance sheets to unlock the required flows of capital. Of course, some have more power than others to effect change. Nevertheless,

[393] Mazzucato & Vieira de Sa (2025)

it will be necessary to create a macro-financial coordination platform within the state, possibly housed in the Presidency or NT, tasked with tracking, modelling, and governing system-wide balance sheet reconfigurations and flows. For this purpose, the following non-exhaustive list of elasticity spaces can be identified. Others can, of course, be added. Each is characterised by a specific set of stakeholders who could negotiate balance sheet reconfigurations that unlock flows of capital that do not currently exist.

The recommendations below should be seen as the potential building blocks for a long-term roadmap that sequences a set of reforms over time in ways that maximise certainty. Ad hoc non-negotiated interventions that ignore the complexities will result in negative unintended consequences. This report did not set out to provide such a roadmap. A stakeholder engagement and negotiation process would be required to develop it. Without these kinds of engagements, resistance to change by a wide range of entrenched interests could well prevent reforms from being implemented. These interests include pension fund managers, banks, offshore investors, asset managers, trade unions and a wide range of intermediaries whose interests are tied to short-term capital gains rather than long-term dividend generation.

The recommendations below address the three key challenges that the main report addresses, namely persistent inequality, under-investment in GFCF, and the absence of macro-financial governance of South Africa's monetary architecture. These challenges are, of course, interrelated: If under-investment in GFCF by the public and private sector persists, it will be impossible to achieve high enough levels of inclusive economic growth that will make it possible to reduce inequalities over time and invest in the Just Transition. Indeed, interventions to reduce inequalities may well be preconditions for high-growth rates and a Just Transition. The key recommendation that flows from this understanding of the challenges is the pressing need for effective macro-financial governance of the web of interlocking balance sheets that comprise the financial ecosystem. South Africa's financial system is highly regulated, but what is missing is directionality. Specifically, directionality that means identifying a set of elasticity spaces where potential balance sheet reconfigurations could unlock new (or expand existing) flows of finance.

The recommendations that follow are descriptions of elasticity spaces where the potential exists for balance sheet reconfigurations that unlock new flows of finance for ramping up investments in growth-catalysing and sustainability-oriented GFCF (both public infrastructure and private fixed assets).

Rising levels of investment in GFCF could well create upward inflationary pressures if there is a lack of capacity to effectively deploy this capital with minimal levels of corruption. If these investments do not result in significant improvements in productive capacity and the related reduction in unemployment, inflation could well be the inevitable outcome. There is an urgent need to develop the capacity for effective governance across both public and private sectors. It would be a mistake, however, to

assume that we must wait to *first* create a capacitated, uncorrupted 'developmental state' before investments in GFCF can substantially increase. This ideal will never be achieved; effective execution capability does not *precede* implementation; it gets built *in order to* implement. Following reports by the United Nations Economic Commission for Africa and the NPC, an incrementalist approach is required that starts with forging political settlements to create pockets of excellence with clear mandates to get things done.[394] A good example is Operation Vulindlela in the Presidency, and another is the Infrastructure Fund.

The second challenge relates to greening and, in particular, biodiversity restoration to ensure the sustainability of a wide range of ecosystem services. During the course of the industrial era, rising investment in GFCF has been at the expense of the natural resource base and ecosystem services.[395] As argued in a report for the Colombian government, the only way to address this contradiction is to develop a 'green GFCF' indicator that would include the valuation of biodiversity and ecosystem services over time.[396] Fortunately, the empirical basis for this has been developed by a joint report compiled by the South African National Biodiversity Institute and the French Development Bank that calculates the economic value of South Africa's ecosystem services in a way that makes a 'green GFCF' indicator possible.[397] Further work in this regard is required to ensure investments in GFCF are not at the expense of natural capital.

A third challenge to raising the levels of investment in GFCF is the bottlenecks created by a combination of skills shortages, institutional weaknesses, unreliable energy supplies and logistics constraints. Balance sheet reconfigurations alone may not be able to fix structural weaknesses; but structural weaknesses cannot be addressed without these balance sheet reconfigurations. Those responsible for allocating private capital should be more proactive in finding solutions that both protect the interests of investors while simultaneously enabling structural solutions to our skills and governance challenges. This is what is starting to happen in the water sector under the auspices of the Water Partnership Office.

Despite these three qualifications concerning inflation and greening, the recommendations below are primers for a set of balance sheet negotiations that could result in agreements that result in these much-needed financial flows.

- ***Align the DFI and SARB Balance Sheets*:**

  Aligned with international trends, it is recommended that SARB's PA should *regulate and supervise* the DFIs to ensure their safety, soundness, and systemic stability. This

[394] See Swilling, Cartwright & Mebratu (2021); Callaghan & Swilling (2023)
[395] Millennium Ecosystem Assessment (2005)
[396] Swilling (2025)
[397] Hadji-Lazaro et al. (2023)

will harmonise their respective governance structures and regularise and expand their participation in the capital markets. It will significantly boost the trust and confidence in the balance sheets of these DFIs, not least because, like other regulated financial institutions, their respective backstops will be the SARB's balance sheet. When the DBSA investigated the implications of migrating from NT to the SARB, feedback from the capital markets suggested the DBSA's loan book could quadruple in size from R120 billion back in 2023 to around R400 billion. In other words, an extra R300 billion without changing monetary or fiscal policy. The extra capital is unlocked not by policy change, but by way of a balance sheet reconfiguration: By aligning the DBSA balance sheet with the SARB balance sheet, the relationship between the DBSA's balance sheet and the range of balance sheets in the capital market changes, thus making it possible for the DBSA to strengthen the balance sheets of a much wider array of institutions. Theoretically, using the DBSA experience as a benchmark, a fourfold expansion of the balance sheets of all DFIs would increase their collective size from R350 billion to R1.4 trillion without any further capital injections from the fiscus. If this included equity injections, the leverage would be much greater.

Impact on the challenges: This balance sheet reconfiguration will help marry the need for increased investment in GFCF with the developmental focus of the DFIs in addressing the inequality challenge.

- ***Reposition the Balance Sheets of the Pension Funds as Keystone Funders of GFCF (i.e. both public infrastructure and privately owned fixed assets)*:**

  As discussed in detail in the main report, the rate of expansion of the balance sheets of South Africa's pension funds since 1994 has far exceeded the rate of expansion of their investments in GFCF. In terms of Regulation 28 reforms, they were allowed to externalise up to 45 per cent of their investments, which in 2023 was calculated to be equal to a potential outflow of R2.5 trillion. Pension funds successfully argued that weak economic growth resulted in limited investment opportunities, thus prejudicing the interests of pension fund members. The solution to this problem, which was approved by the Minister of Finance in 2022, exacerbated the problem of low levels of investment in GFCF and thus reinforced weak economic growth rates. And so, a vicious circle ensued: Poor growth means fewer investment opportunities, which means more external flows, which, in turn, dilutes the investments needed to catalyse economic growth. The resultant negative socio-economic impacts reinforce existential uncertainties, which, in turn, increase the demand for *more* rather than *less* liquid assets.

  It is recommended that a negotiated balance sheet reconfiguration be put in place, whereby a gradual reduction in the size of the 45 per cent limit is correlated with a

gradual increase in investments in GFCF. For this to happen, viable institutional vehicles and mechanisms will need to be established that will, in turn, result in the redirection of at least 20 per cent of pension fund assets into GFCF. This should include a requirement that pension funds formulate annual 'infrastructure investment plans' and report on these in their quarterly reports. Another regulatory intervention that could be considered to enable 'patient capital' investments in infrastructure might be the equivalent of a REIT structure that was developed for the property industry (which passes the tax obligation on to shareholders), or a vehicle similar to the UK's Long-Term Asset Fund structure. A variation on this theme might be a tax-free Infrastructure Investment account, similar to the tax-free Savings account. The investment could be for a minimum period of 20 years, with contributions deductible up to a certain level. The result would be an incentive to invest in long-term fixed assets, with growth during the investment being tax-free and a portion of the eventual return also being tax-free. These kinds of vehicles and mechanisms could include a creative approach to providing sovereign and non-sovereign guarantees (see below), as well as creative ways of using listed notes on the Johannesburg or Cape Town Stock Exchange to give pension funds the security of a listed asset that, in turn, enables underlying financial flows into unlisted assets. This could unlock a pipeline of projects worth R1 trillion. The PIC/GEPF, as the largest player in the pension industry, would need to play a leading role in this wider negotiated balance sheet reconfiguration.

Impact on challenges: This balance sheet reconfiguration relates primarily to increasing GFCF, which will, of course, help boost the economic growth that is a precondition for reducing inequalities.

- ***New Guarantee Mechanisms for Unlocking Domestic Capital:***
  If fiscal policy remains the same, a new set of sovereign guarantees is unlikely. Indeed, the large-scale increase in sovereign guarantees since 2010 was, in fact, a balance sheet reconfiguration aimed at unlocking international and domestic investments in the SOEs and the Renewable Energy Independent Power Producers Procurement Programme. Eskom was the main beneficiary of this strategy. The overall failure and therefore fiscal legacy of this strategy effectively cut off this option for addressing the current challenges using the same mechanism. The NT and the DFIs have developed the proposed Credit Guarantee Vehicle (CGV) that provides, if appropriately structured, an attractive alternative to sovereign guarantees. In essence, it is proposed that a South African company be established that would provide ZAR-denominated guarantees that could unlock investments in public infrastructure worth USD 2.5 billion (R50 billion). It is proposed that the NT plus DFIs (local and international) purchase the initial equity in the company. This is an ambitious balance sheet reconfiguration because it re-aligns a set of public balance

sheets (NT plus DFIs) to unlock capital flows from private sector balance sheets into public sector infrastructure assets without having to increase the stock of sovereign guarantees.

The challenge, however, is to ensure that the CGV is structured and managed in ways that overcome the trust deficit that exists within the financial sector vis-à-vis government initiatives to leverage private sector funding. As far as the financial sector is concerned, the only way the CGV will work is if it is completely independent of political interference, project selection criteria are entirely commercial, performance-based guarantees rather than general guarantees are provided, and governance standards are transparent and in line with local and global best practice (as perceived by the financial sector).

The CGV is likely to fail if it is seen by the financial sector as a substitute for fixing governance failures. Furthermore, as argued by Futuregrowth, if the CGV aims to raise capital for infrastructure investments, it is solving for the wrong problem. Availability of and access to capital is not the problem and, in their view, never has been. This is particularly true since the adoption of the reformed Regulation 28. Instead, Futuregrowth argues, the problem that must be solved is the gap between plans on paper and implementation. The causes are a lack of streamlined processes, delays in project approvals, bureaucratic inefficiencies, and corruption. It follows that the CGV could weaken project discipline at exactly the time when the opposite is needed. To address this challenge, the CGV will need to be protected from political interference by an independent board, provide performance-based guarantees, graduated risk sharing (i.e. reduced guarantees as projects prove performance, selective provision of guarantees for specific rather than general risks for projects that would otherwise be viable without guarantees, performance monitoring and capacity development (e.g. standardised documentation and risk assessments, skills development and project management capacity).

Impact on challenges: This is primarily a macro-financial governance reform that would result in beneficial balance sheet reconfigurations that unlock increased investments in GFCF, with positive impacts on economic growth that could help reduce inequalities.

- ***Strengthening of the Infrastructure Fund:***

  The DBSA was mandated to establish and manage the Infrastructure Fund through a Memorandum of Agreement signed on 17 August 2020. This agreement was a collaborative effort between the NT, Infrastructure South Africa, and the DBSA, aiming to operationalise the Infrastructure Fund as a blended finance mechanism to support South Africa's infrastructure development goals. This is now South Africa’s

largest blended finance vehicle. The agreement commits the government to providing R100 billion over ten years to leverage R900 billion from the private sector. ASISA was part of the negotiations leading up to this ambitious balance sheet reconfiguration. As of 2025, the Infrastructure Fund has funded projects worth R340 billion, of which R281 billion is at the implementation stage. However, it needs to grow much faster if the goal of R1 trillion worth of infrastructure investments is to be realised over the medium term.

Impacts on challenges: This is about reinforcing a recent balance sheet reconfiguration that could result in major increases in investment in GFCF with positive impacts on growth and inequality reduction.

- ***Expanding the SOE Balance Sheets:***

  After the May 2024 general election, the Department of Public Enterprises, which previously managed most SOEs, was abolished. The overall governance of SOEs remains unresolved, with very serious negative implications for investment in SOEs. The National State Enterprises Bill remains in limbo, and it is unclear what the specific recommendations of the Presidential State-Owned Enterprises Council are at this stage. From a monetary architecture perspective, the resolution of the governance of the SOEs should be seen as the most significant and urgent balance sheet reconfiguration. Given the findings of the Zondo Commission, this will need to include significant reforms to the procurement systems to prevent expanded balance sheets from boosting opportunities for corruption. While it is appropriate to focus on ensuring that state capture of SOEs never happens again, it is equally important to focus on a balance sheet reconfiguration that encourages international and domestic investments. South African institutional investors have, for example, rejected the balance sheet reconfiguration at the centre of the National State Enterprises Bill, i.e. a mega-holding company for all SOEs and DFIs. If they do not trust such a solution, there is no chance that this balance sheet reconfiguration can result in the redirection of pension fund capital into public infrastructures on scale. With its collective balance sheet of R1.3 trillion, SOEs could leverage at least half that amount if the appropriate balance sheet reconfiguration could be negotiated (including possibly shareholder diversification without compromising majority public ownership), including a portfolio of international and domestic investments, a viable long-term pipeline of projects, and a set of guarantees that will not increase the burden on the NT.

  Impacts on challenges: These proposed balance sheet reconfigurations (in particular, possible shareholder dilution) could result in significant increases in investment in GFCF, in particular, with direct impacts on economic growth and

resultant reductions of inequalities (especially where this impact on services like affordable electricity, improved public transport, reliable water supplies, etc).

- ***Changing the Risk-Reward Profile of the Banking Sector*:**

  Besides the shift to climate resilience in line with the requirements of the SARB's climate change programme to factor climate risk into banking regulations (see below), the risk-reward profile of the South African banking sector needs to be revisited. This will require adjustments by the SARB to allow easier entry of banking startups to increase competition (which is starting to happen, e.g. TymeBank, etc). Current banking regulations incentivise banks to hold government bonds instead of riskier investments in infrastructure.[398] However, it will also require the banks to significantly redirect funding into the small business sector. To this end, there are lessons to be learnt from the way the banks funded the rooftop solar revolution that resulted in an investment of around R80 billion, much of it to execute projects implemented by small, mainly South African, formal small businesses. However, it may also be time to revisit the Banking Enquiry report of 2008 that recommended the breaking up of the current oligopolistic banking practices with respect to the way the payment system works, and banking fees charged. The preference for short-term lending for consumption should switch to longer-term, and therefore more risky, lending to expand production. The re-allocation of 1 per cent of the total annual loans and advances issued by South African banks (R5.5 trillion) as of May 2024 would unlock R55 billion for investments in GFCF. Given that the total private sector contribution to GFCF in 2024 was around R260 billion, an additional R55 billion from the banking sector is a substantial increase.

  Impacts on challenges: While this balance sheet configuration could result in substantial increases in investment in GFCF, it could also result in larger flows of credit to small businesses and poor households.

- ***Making NFCs Accountable for Re-investment*:**

  The JSE launched a series of reforms in 2023 aimed at creating a more inclusive and efficient exchange, encouraging new listings in light of a long period of decline, and supporting economic growth. These reforms include the 'simplification project' to overhaul and simplify listing requirements; the 'market segmentation' project to accommodate large and small businesses; and the 'rejuvenation project' to provide for modernised securities listings and listing provisions for BEE companies. In addition to the commendable accommodation of small businesses and BEE in these reforms, in 2022, the JSE also issued guidelines for 'sustainability reporting' by listed

[398] Loewald et al. (2020)

companies in line with the King IV Report on Corporate Governance. However, it is worth noting that there are no requirements to incentivise re-investment in GFCF within South Africa. Dual listings for companies that source capital in South Africa for investments elsewhere remain intact. Following the logic of this report, the ethical commitment to sustainability should be just as important as an ethical commitment to re-invest a significant portion of profits (which means low retention levels) in fixed assets for expansion. Contrary to trends in the USA, the Companies Amendment Acts that came into effect in December 2024 provide for enhanced ESG reporting. This may provide the opportunity for equalising the ethical concern for sustainability with a concern for re-investment for expansion as a contribution to raising the levels of investment in GFCF, especially if this reinforces the Just Transition. Indeed, following the example of Germany's Growth Opportunities Act (enacted in 2024), this could lead to a subsequent Companies Amendment Act to provide for tax incentives for companies (and in particular holding companies) to re-invest profits in fixed assets. The resultant balance sheet reconfiguration could unlock substantial additional investments in GFCF. A 20 per cent increase on existing levels of investment in GFCF would unlock at least R50 billion.

Impact on challenges: This is a balance sheet reconfiguration that would arise from a macro-financial governance reform of the financial ecosystem, with potential to unlock increased investments in GFCF.

- ***Ensuring that Small Formal Businesses can Access Finance*:**

  All small businesses, formal and informal, identify access to affordable finance as their primary challenge. There is plenty of evidence that women, who are the primary drivers of small informal businesses, can only access credit from stokvels, retrenchment packages, family and friends. They get virtually no support from the mainstream financial institutions. Small formal businesses are in a slightly better position, but still cannot access what is required on scale. This is despite many different government programmes over the years to support small businesses. Nevertheless, as already discussed, these small businesses contribute more to GVA and make more employment opportunities available than large businesses. Their role, therefore, in reducing inequality and unemployment through job creation and entrepreneurial opportunities is obvious. This is particularly true for women-headed households that depend on incomes from small, informal or formal businesses. Given that these women-headed households comprise 42.3 per cent of all households, interventions that boost the businesses they depend on will have a significant impact on gender-based inequalities and related power relations. The most recent government initiative is the R100 billion Transformation Fund announced by the President in February 2025. While there are many concerns about

the viability of this initiative in the financial sector, if structured appropriately and managed competently, it could make a difference. A key focus of this new fund should be digital platforms and fintech. The innovations emerging from this space could significantly alter the flow of capital in favour of small formal and informal businesses.

From a monetary architecture perspective, what matters most are the close relations between the household balance sheets of most women-headed, poorer and middle-class households and small formal and women-led informal businesses. It follows that the balance sheet reconfigurations that matter most are those that connect small businesses to finance from banks, NBFIs and NFCs on the one hand, and those that connect the balance sheets of poorer households to these expanding small businesses on the other. The SARB and Banks, in particular, need to make it much easier for small businesses to access credit. It is extraordinarily difficult to run a small business effectively under our current banking regulations. It takes up an enormous amount of time and can be too costly. The banks themselves do not fully understand the systems the 'Fintech' companies have developed for them and therefore cannot easily modify them to suit the needs of small businesses. One of the most promising spaces for growth of small businesses is the expanding 'green economy' where access to low-cost green finance is an ideal opportunity for growth of small (black-owned) businesses breaking into markets where white businesses are not yet well-established. A good example of this is the massive expansion of the small businesses that implemented the rooftop solar revolution between 2022 and 2024.

Impacts on challenges: This is the balance sheet reconfiguration that could have the most substantial impact on inequality reduction, with respect to access to finance by women-led small, mainly informal businesses who access virtually no funding from commercial banks.

- ***Shadow Banks as the Heavy Lifters:***

Together with DFIs and pension funds, shadow banks could become the heavy lifters of domestic capital mobilisation. Instead of incentives to generate fees from large volumes of relatively low-value deals, they could generate fees from fewer, larger deals aimed at ensuring that more capital goes into GFCF. The removal of the cap on fees in 1998 incentivised increased deal flow and therefore shorter duration of investments, which, in turn, undermines the need for longer-term investments in fixed assets. This decision may need to be reconsidered. The creativity that exists within the shadow banking sector and relatively less constrained regulatory operating space should enable them to find innovative financing solutions for complex projects that result in rising overall levels of investment in GFCF. However,

what applies to pension funds will also apply to them, i.e. the need for policy and regulatory certainty, a viable bankable pipeline of projects, guarantee structures, and returns that are significantly higher than the yields on government bonds. For example, as effective deal makers, it is not difficult to imagine them coming up with a balance sheet reconfiguration that combines a listed note programme to attract pension fund investments, DFI funding to bring down the average cost of capital (especially if this entails accessing climate finance), REIT structures for tax efficiency, and all backed by guarantees from the proposed CGV referred to above.

Impact on challenges: The balance sheet reconfiguration that would arise from the macro-financial governance reforms of the monetary architecture would mainly unlock funding for increased investments in GFCF, as various incentives get created for these shadow banks to redirect the large flows of liquid funds into more fixed assets.

- ***Exploiting the Potential of Project-Level Blended Finance Solutions:***

  Whereas the Infrastructure Fund blends finance at the national level for large-scale priority infrastructure projects, a wide range of project-level infrastructure projects are required across many sectors (in particular energy, water, freight and roads). However, the National Infrastructure Plan 2050 estimates that only 2 per cent of the Medium-Term Expenditure Framework is delivered by PPPs. South Africa's toll roads, two municipal water concessions run by a South African company and the Renewable Energy Independent Power Producers Procurement Programme are successful examples of balance sheet configurations that mobilised substantial capital for public infrastructure projects. The most significant current such project is the ITP programme announced in April 2024 by the Minister of Electricity and Energy. The newly created NTCSA is responsible for implementing the R400 billion Transmission Development Plan over the next decade. However, despite a balance sheet of R80 billion, it does not have the necessary capacity to borrow all the funds required to implement the Plan. Hence, the need for a balance sheet reconfiguration aimed at harnessing a range of private sector balance sheets to generate the required funds. Approximately 20 per cent of the total capital requirement will be generated via ITPs. However, for this to work, it will be necessary to structure these ITPs as 'build-own-operate-transfer' or 'build-operate-transfer' contracts. The ITP contractor will raise the funds, build and operate (with or without ownership rights), before transferring the asset back to the NTCSA after 30 years. Either way, the asset will be reflected on the NTCSA balance sheet against a liability to pay a monthly fee to the ITP, while the ITP's liability is the repayment obligation to the funder against the contract with NTCSA. The Multilateral Investment Guarantee Agency-backed guarantee mechanism will underwrite each ITP contract. This is another example of

a major balance sheet reconfiguration aimed at unlocking R80 billion of capital without changing fiscal or monetary policies. The same approach is envisaged for a range of water projects to address the water crisis.

Impacts on challenges: Blended finance is, by definition, a balance sheet reconfiguration aimed at unlocking blended public and private sector funding to increase investments in GFCF, with major positive impacts on economic growth. The triple impact on inequality is via increased employment, improved infrastructure services (that could, potentially, target women in particular), and opportunities for small business development via preferential procurement.

- ***Building a Stable Middle Class*:**

  Based on the 2017 data, it is assumed that by 2024, the wealth of the bottom 50 per cent of the population will continue to shrink in the wake of the pandemic and slow recovery from state capture. Given that nearly 50 per cent of these households are headed by women, the negative gender implications of the shrinking wealth base of half of the population come clearly into view. It follows that measures that reverse the declining wealth of the bottom 50 per cent, which also take into account the dynamics of gender inequality, will contribute significantly to reversing the extreme levels of gender inequality that detrimentally affect women on a daily basis. It follows that the priority needs to be the building of a redistributive household finance architecture, including mechanisms to support low-income asset accumulation such as matched savings schemes, cooperative finance, and blended mortgage guarantees within the wider context of spatial transformation and gender-sensitive development strategies. To build a stable middle class, many more formal employment opportunities will be required (in particular for women); however, it might even be more impactful to expand the access of small women-led informal businesses and small formal businesses to affordable credit of various kinds. The proposed Transformation Fund could play an important role in this regard. The balance sheets of the poorest half of all South African households are deeply entangled with the balance sheets of these small, informal and formal businesses. Expansion of these small businesses will directly affect the asset accumulation of South Africa's households. However, it is the balance sheets of small *formal* businesses that have the greatest potential to expand the fastest if they can secure more reliable access to affordable finance. This will require government support, but needs to be coupled with reforms that align the balance sheets of the banks, NBFIs, and NFCs with the requirements of small formal businesses. A good example is the obligatory 'enterprise development contributions' to support BEE companies. Another example would be the impact of low-cost climate finance on BEE companies wanting to expand within the growing 'green economy.'

Impact on challenges: the macro-financial governance of the monetary architecture could have the explicit goal of expanding and reinforcing the middle class as a means to reducing inequalities.

- ***Reducing Gender-Based Inequalities**:*

  A constant theme throughout this report is how the existing monetary architecture has had a particularly negative effect on women. Various private sector initiatives have targeted women as key beneficiaries and participants in various commercial arrangements that connect women-headed household balance sheets with new black-owned, women-led businesses. Nevertheless, the gender-based inequalities have persisted. With 42.3 per cent of households headed by women in a society where women continue to earn less than men for the same job, where unemployment levels are higher amongst women than men and where women find it harder to access credit than men, it is not surprising that these kinds of gender-based socio-economic inequalities translate into the power relations that result in extremely high levels of gender-based violence. Interventions are needed that target, in particular, women-headed households within low-income communities. More welfare transfers, like the child grant for single mothers, are important. However, various measures to encourage access to affordable credit by women-led businesses, the delivery of services that recognise the specificities of women's needs and positions in society, and the closure of the income gap between men and women will go a long way.

  Impact on the challenges: various public and private sector initiatives could substantially reinforce the wealth of poor women-headed households.

- ***SARB's Role in Climate Proofing:***

  The SARB's 'climate change programme' is aligned with the recommendations of the *Network for Greening the Financial System* and is aimed at climate-proofing South Africa's monetary architecture. This could catalyse a cascade of balance sheet reconfigurations, in particular, they could reinforce the kinds of negotiated balance sheet reconfigurations referred to above. These interventions include amending the regulatory and supervisory frameworks to account for climate-related risks; including climate risks in stress testing methods and macro-prudential instruments to monitor banks; assessing the structural changes arising from the impact of climate transition on financial stability, and developing monetary policy guidelines to respond to transition-related risks; and reducing the SARB's own carbon footprint. The SARB's climate commitment is unlikely to be realised without significant direct interventions in certain specific balance sheet reconfigurations. An obvious example is supporting the recommendation made to align the SARB and DFI balance sheets,

including capital support for climate-related investments by DFIs along similar lines to practices elsewhere in the developing world. The GFECRA transaction that has already been discussed was, in fact, a balance sheet reconfiguration that allowed the SARB to assist NT to close a budget gap ultimately related to the weakness of SOE balance sheets. This was clearly necessary to ensure financial stability. Similar interventions might be required to address the challenge of 'stranded assets.' A joint report by the Climate Policy Initiative, DBSA and Agence Française de Développement (AFD), titled *Understanding the impact of a low carbon transition on South Africa,*[399] estimated that South Africa may face a 'transition risk' exceeding R1.8 trillion over the 2013 to 2035 period. Transition risks are the direct and indirect impacts of 'stranded assets' in the face of climate change and the energy transition (e.g. coal-fired power stations that no longer pay for themselves). When these kinds of legacy impacts result in financial instability, the SARB will need to ensure it has the wriggle room required to 'fight the fires'. This is why this 'firefighting' institution, as well as the NT, should not be overburdened with the sole responsibility for financing rising levels of investment in GFCF.

Impact on challenges: the climate proofing initiative by the SARB could result in balance sheet reconfigurations within the banking sector that reinforce the already expanding flow of finance into climate mitigation initiatives such as the renewable energy programme.

- ***Strategic Re-alignment of the GEPF's Investment Mandate with the NDP Target for GFCF (30 per cent of GDP):*** It is clear that the GEPF's investment mandate needs to be reassessed and strategically aligned to support the overall goal to increase investments in GFCF. This refers to investments that support the expansion of public infrastructures (in particular energy, water, transport and digital infrastructure via the relevant public agencies and enterprises), as well as investments in private companies on condition these companies substantially increase their respective levels of re-investment in fixed assets to well over the value of replacements. By way of example, the GEPF could become the largest provider of both debt and equity funding to the South African BEE companies that will be executing the estimated R80 billion worth of ITP projects that will be required to deliver the Transmission Development Plan, the strategic plan of the NTCSA. This would tick many boxes: transformation, sustainability, Just Transition, and economic growth by increasing the level of investment in GFCF. Besides project finance, the GEPF should re-establish its commitment to investing in government bonds and SOE balance sheets. The GEPF needs to consider whether the gradual increase in offshore investments aligns with the goals of the NDP, particularly the goal of increasing the level of

[399] Huxham, Anwar & Nelson (2019)

investment in South African GFCF to 30 per cent of GDP. Finally, given the dominant position of the GEPF/PIC on the JSE, they could help reinforce what has been referred to as the *real South African companies*. This can be done by redirecting investments from the dual-listed companies that tend to be extractive, to these *real South African companies* that source capital locally, operate locally and pay dividends to mostly South African shareholders.

Impact on challenges: This balance sheet reconfiguration, which would depend on macro-financial governance reforms of the monetary architecture, could result in one of the biggest impacts on GFCF, which, of course, would boost growth and reduce inequalities.

8 Commissioned working papers

Donaldson, Andrew (2024) A note on the GEPF: Is it time to reconsider the investment mandate? Working Paper prepared for the NPC Finance Working Group.

Havemann, Roy (2024) 'Workstream: Banks', Working Paper prepared for the NPC Finance Working Group.

Mollo, Makhiba (2024) 'Public Investment Corporation, Working Paper prepared for the NPC Finance Working Group.

Moloko, Nthabiseng (2024) 'Paper n Pension Funds', Working Paper prepared for the NPC Finance Working Group.

Naidoo, Chantal, Yasmin Meerholz, and Patrick Lehmann-Grube (2024) 'South African Reserve Bank Institutional Context', Working Paper prepared for the NPC Finance Working Group.

Nhleko, Zeph (2024) 'Role of Domestic Development Finance Institutions in National Capital Allocation', Working Paper prepared for the NPC Finance Working Group.

Rushton, Kate and Avril Halstead (2024) SOE Balance Sheets: Various Spreadsheets, 1994-2024. Data prepared for the NPC Finance Working Group.

Van der Merwe, Pieter (2024) 'Data Framework – Shadow Banking in South Africa', Working Paper prepared for the NPC Finance Working Group.

Interviews

Donaldson, Andrew (2024). Interviews conducted on 8 October 2024 and 13 November 2024.

Zalk, Nimrod (2024). Interview conducted on 20 November 2024.

9 Appendices

9.1 Appendix A: The Prasa and Eskom Stories

A tragic story about state capture of SOEs that is not often told is the case of PRASA. It was widely accepted that by 2023, the urban passenger rail system had collapsed. Figure A-1 tells the story from a financial perspective. In desperate attempts to prop up the balance sheet of PRASA after extensive looting by corrupt executives and Board members, PRASA received over R100 billion in capital transfers from the NRF to keep it afloat over the decade to 2019. Over the same period, trains on time declined from 90 per cent to 70 per cent, paying users dropped from nearly 100 per cent to 70 per cent, and customer satisfaction plummeted. Over the subsequent five years, conditions got much worse, in particular during the Covid-19 pandemic years, when the trains stopped running and the infrastructure was literally stolen because a corrupt Board illegally cancelled the contract with the security company, which was employed to protect the assets, in order to illegally give the contract to their friends.

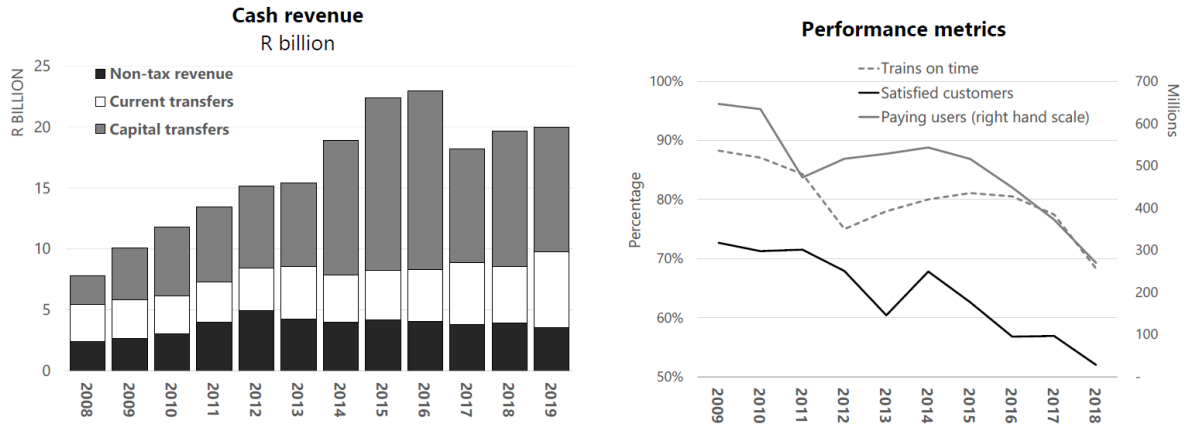


Figure A-1: Revenue sources and performance metrics of PRASA, 2008-2019

The most important story about state capture of SOEs refers to Eskom. Even though Eskom used to be in a healthy financial shape by the late 2000s, it is technically bankrupt today with a debt of over R400 billion that it cannot service, half of which is held by a combination of international DFIs, the DBSA (only 5 per cent of the total) and the PIC (at R80 billion). In February 2023, the Minister of Finance announced in his Budget Speech that R254 billion would be made available to Eskom to pay down its debt on condition that it stops refinancing its debt with new loans. This effectively marked the end of Eskom as it was before unbundling began in earnest in January 2024 with the establishment of the National Transmission Company of South Africa.

Eskom's decline in the context of state capture can be traced back to the 2008 Budget Speech by the Minister of Finance, which included the announcement that government would provide a R60 billion loan to Eskom to assist the company with financing its investment in infrastructure, namely the Medupi, Kusile, and Ingula coal-fired power stations. This was a hasty response to the start of rolling black-outs in 2007, which were, in turn, a consequence of the refusal of government to allow Eskom to implement the recommendations of the 1998 White Paper on Energy to build new power stations, a position the President acknowledged at the end of 2007 was a strategic mistake. The loan finance was provided by the World Bank, the last major loan for coal-fired power that it ever made. In the Minister of Finance's 2009 Budget Speech, further details were provided: The funding was to be provided in the form of a subordinated loan to be paid in three instalments: R10 billion in 2008/09, R30 billion in 2009/10, and R20 billion in 2010/11. Furthermore, the provision of a guarantee facility to secure R176 billion of the company's debt was announced. In 2010/11, this facility was increased to R350 billion. Eskom could have collected the revenue it needed to finance the loan by increasing tariffs, or it could have borrowed from the NT. However, the NT chose to issue guarantees on top of its equity injections. What should have cost R306 billion, the Medupi and Kusile power stations have cost over R450 billion because of a combination of corruption, extreme execution inefficiencies, and inappropriate build designs.

As of 2022, Eskom's primary source of borrowing was the local debt capital market, with R161.6 billion of bonds outstanding and a further R1.1 billion in commercial paper. International DFIs were another major source of financing, providing R124 billion in a mix of local and foreign currency loans. Eskom had also raised funding in the international capital markets; foreign-denominated bonds and Eurorand bonds contributed a further R61.9 billion and R6.3 billion, respectively. Other loans amounted to R23.2 billion, and ECA facilities totalled R17.7 billion. The total guarantees outstanding in favour of Eskom as of March 2022 amounted to R327.9 billion, representing most of the domestic bonds and the DFI funding.

Underlying the story of Eskom is a deeper story about the mismanagement of the state and SOE balance sheets. Eskom has traditionally funded capital expenditure off its own balance sheet, i.e. borrowing in accordance with what it can afford given the revenue from sales. However, in line with earlier strategic assumptions that it is best that BEE private companies build the power stations and not Eskom, government set up the NERSA to act as an independent body to balance the price of electricity from a consumer perspective with the returns required by Eskom to cover the WACC plus operating costs. For new power stations to be on the balance sheets of profit-oriented BEE companies (who would have had to borrow money at higher rates than Eskom), the price of electricity would have had to escalate way above what the regulator deemed prudent. A decision was never made to build new power stations until it was too late. For Eskom to build the two new power stations without massively increasing the tariff (for political reasons) and

without borrowing from NT, the balance sheet reconfiguration that NT favoured was to transfer the costs onto the state balance sheet (and therefore the tax base) via direct equity injections over 15 years and contingent liabilities (guarantees for loans) that were for sums larger than what the Eskom business could withstand. Even if tariff increases since 2007 were on average lower than WACC, NERSA did nevertheless approve substantial increases over time - electricity tariffs rose by a factor of roughly 6.5 from 2007 to 2022, compared to general inflation that raised prices by a factor of just 1.3 for the same period. It was hard enough to make it all work without corruption; however, with corruption, it was a disaster that wrecked the South African economy.

In short, the Eskom crisis was the outcome of (a) the impact of a combination of bad policy decisions (in particular to fund the new-build programme with sovereign-guaranteed debt, and the NERSA decisions from 2006 onwards to approve tariff increases below WACC - see 2024 section on SOEs), (b) the onset of state capture that targeted Eskom, (c) the effects of the GFC, and (d) the extra-ordinary demands of the ambitious new-build programme (Medupi and Kusile power stations) was most clearly reflected in the gradual deterioration of the Eskom balance sheets from 2008 onwards. The first sign of trouble was the announcement by the Minister of Finance in 2008 that R60 billion was to be made available to Eskom as a loan over five years. Less than five months later, on 18 July, the NT issued a highly significant statement announcing the loan would be spread over three not five years in order to achieve two goals: to protect Eskom's balance sheet by 'deeply subordinating' the loan, and 'to assist with smoothing the impact of the tariff increases to ameliorate the negative impact on Eskom's balance sheet'. In other words, funds were drawn from the NRF (funded by taxpayers) to prevent politically dangerous tariff increases without compromising the Eskom balance sheet. The new balance sheet configuration was now firmly in place, leading (some would say inevitably) to the current crisis of the Eskom balance sheet.

Like any business, for Eskom to be financially viable, it requires cost-effective tariffs. NERSA sets the tariffs which should, in theory, cover operating costs and a fair return on capital. If NERSA approves a tariff that is less than WACC, the result is a shortfall. Since 2006, tariffs have constantly been below WACC, resulting in debt securities and borrowings increasing to R424 billion by 2023. The debt balance has increased in lockstep with the growth in annual revenue shortfalls, together with rising levels of municipal debt owed to Eskom. As a result, the NT has, since 2016, been forced to increase the size of equity injections into Eskom allocated from the national budget (NRF balance sheet). With hindsight, it is clear that two sets of decisions were made in 2008 that resulted in a specific balance sheet configuration for Eskom that has been disastrous for the South African economy: The first set related to the decision by NT in 2008 to debt-fund the new build programme (Medupi and Kusile), and the second set related to the NERSA decisions since 2006 to approve tariffs below WACC, i.e. below what Eskom needed to service the debt that it was forced to carry on its balance sheet.

Mix these two sets of decisions into the state capture imbroglio that centred around Eskom (inflating both capex and opex levels) and the associated hollowing out of local government that resulted in the rapid escalation of unpaid debts to Eskom for electricity, and the result has been Eskom's financial crisis, forcing equity injections and persistent loadshedding (See Figure A-2).

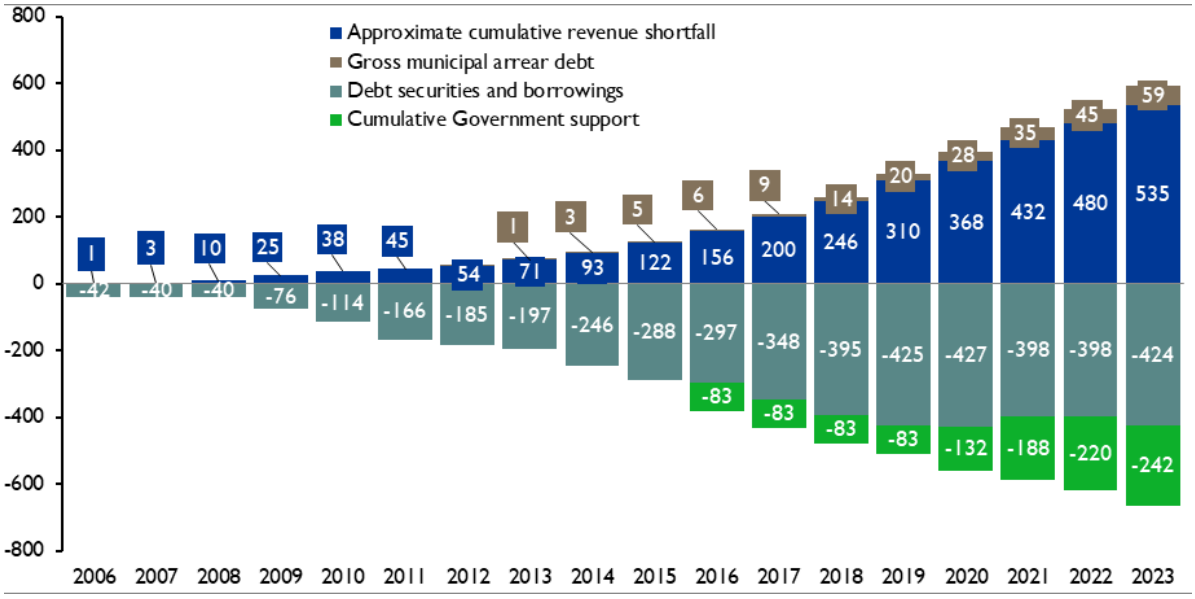


Figure A-2: Growth in cumulative revenue shortfall and debt, R billion
Source: Eskom (2023)

Note: Government support in 2016 includes the conversion of a R60 billion shareholder loan and direct equity of R23 billion. Debt securities and borrowings and Government support are reflected as negative amounts for illustrative purposes.

9.2 Appendix B: Balance Sheets of Selected SOEs

Eskom: Total equity and liabilities by March 2022 were R801 billion. Total borrowings were R396 billion, broken down as follows:

Table A-1: Eskom's borrowings

Borrowings	Mar-22	Mar-21	Currency
Local (SA) Bonds	161 635	161 171	ZAR
Commercial Paper	1 058	1 251	ZAR
Eurorand zero coupon bonds	6 318	5 600	ZAR
Foreign bonds	61 916	55 553	USD
DFIs	124 438	143 174	Mixed
ECAs	17 735	23 343	Mixed
Floating rate notes		2 027	ZAR
Other loans	23 194	9 707	ZAR
Total	**396 294**	**401 826**	

Source: Rushton & Halstead (2024)

Eskom bonds comprised the following: Local South African bonds - R161 billion (of which R149 billion was sovereign-guaranteed); commercial paper (R1 billion); Euro and zero-coupon bonds (R6,3 billion); foreign bonds (R61 billion) (in USD, of which R14 billion was sovereign-guaranteed). Loans from DFIs included R50 billion in USD (World Bank, etc, sovereign-guaranteed), R60 billion in ZAR (including around R20 billion from DBSA, of which R47 billion was sovereign-guaranteed), and R13 billion in Euros (KfW, AFD, EIB, sovereign-guaranteed). Furthermore, Eskom had sourced funding from ECAs: R5,8 billion in USD (sovereign-guaranteed), R1 billion in ZAR (sovereign-guaranteed), R10 billion in Euros (sovereign-guaranteed) and R28 million in JPY (sovereign-guaranteed). The R293 billion worth of sovereign guarantees are effectively an asset on the Eskom balance sheet and a liability on the sovereign balance sheet.

By March 2022, Transnet's equity and liabilities stood at R128 billion, with contingent liabilities of R5,7 billion and contingent assets of R2,9 billion. Total borrowings were as follows:

Table A-2: Transnet's borrowings

Borrowings	Mar-22	Mar-21	Currency
Local (SA) Bonds	40 455	36 659	ZAR
Foreign bonds	3 155	8 128	ZAR
USD bonds	14 628	14 735	USD
Secured bank loans	15 216	17 869	
Unsecured bank loans	37 006	33 781	
Commercial paper	1 623	1 581	ZAR
Other borrowings	16 755	16 388	
Total	**128 838**	**129 141**	

Source: Rushton & Halstead (2024)

Bonds include local South African bonds (R40 billion), foreign bonds (R3.1 billion), sovereign-guaranteed), USD bonds (R14 billion); commercial paper (R1.6 billion). The sovereign-guaranteed bond portion of R3.1 billion is an asset on Transnet's balance sheet and a contingent liability for the NT.

By March 2022, SANRAL's total equity and liabilities stood at R564,5 billion. Total borrowings were as follows:

Table A-3: SANRAL's borrowings

Borrowings	Mar-22	Mar-21	Currency
Local (SA) Bonds	40 772 834	39 084 494	ZAR
EIB loan	909 412	949 620	ZAR
Promissory notes	1 136 868	1 151 282	ZAR
Total	**42 819 114**	**41 185 396**	

Source: Rushton & Halstead (2024)

SANRAL had contingent liabilities of R55 million and R44 million on its balance sheet by 2022, R32,6 billion of the local South African bonds were sovereign guaranteed, as was the entire EIB loan and all the promissory notes. Significantly, all borrowings were in ZAR. This means the R34 billion of sovereign guarantees were an asset on the SANRAL balance sheet, and a liability for the NT.

By March 2022, ACSA's equity and liabilities were at R30,3 billion, total borrowing was at R9,2 billion, and contingent liabilities were at R400 million.

Table A-4: ACSA's borrowings

Borrowings	Mar-22	Mar-21	Currency
Local (SA) Bonds	4 881 149	4 857 670	ZAR
Other (Southern Sun)	1 500	1 500	ZAR
DFIs	1 834 000	2 101 379	ZAR
Redeemable prefs (National Treasury)	2 537 445	2 338 329	ZAR
Total	**9 254 094**	**9 298 878**	

Source: Rushton & Halstead (2024)

The redeemable preference share in favour of NT should be regarded as a loan rather than a contingent liability on NT's balance sheet. DFI loans included AFD 1 - R170 million; AFD 2 - R796 million; INCA - R33 million; DBSA - R833 million. None of the local South African bonds and DFI loans were sovereign-guaranteed.

Figures

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