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Overview

Driving inclusive growth in South Africa

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Quick wins with competitive markets and efficient institutions

The new political context emerging from the May 2024 elections provides a unique opportunity for South Africa. The alignment of economic and political incentives, in the sense that improving the economy is essential for gaining political power, offers a platform to launch a decisive transformation process, even if there is not yet an agreement on which economic reforms to implement. Such alignment was key behind the successful economic transformation of China in the early 1980s, Vietnam in the late 1980s and 1990s, Poland in the 2010s, and India in the early 2020s. Those successes were anchored on "a development bargain, whereby the country's elites shifted from protecting their own positions to gambling on a growth-based future."[1] This report offers pragmatic policy options, tailored for South African policymakers who want to obtain short-term results, while creating momentum for structural reforms, resume growth, and improve the overall welfare of their citizens, especially the most disadvantaged.

Inclusive growth through market competition and efficient institutions

South Africa needs to transform its economy to achieve robust and inclusive growth. How? By addressing two major shortcomings in its economic model.

First, strengthen and broaden market competition. Today, many of South Africa's markets lack dynamism. Firm entry and exit are a third of the average in a typical middle-income country. Further, new entrants to the labor market can't find stable and productive jobs—leaving youth unemployment above 60%. Market competition, while ensuring greater economic inclusion and enhanced household welfare, is the best way to dynamize an economy as it boosts efficiency and promotes innovation. South Africa could rebalance its economic model by making it easier for foreign and domestic investors and for young workers to enter markets, and by reducing the protection of incumbents (including state-owned enterprises). The status quo is most penalizing for small firms, which lack the capacity or financial means to navigate the complex system of rules and regulations, and for low-skill workers, who face a heavy income tax burden if formally employed.

The alignment of economic and political incentives offers a platform to launch a decisive transformation process

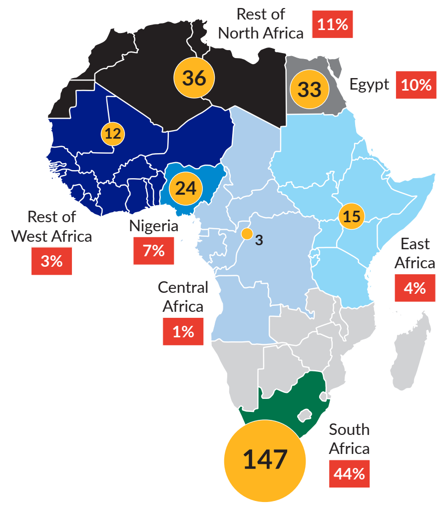
Second, make institutions more efficient and supportive. The burden of institutions has become excessive—not only for businesses and citizens but also for public administration. South African policymakers have attempted, often with good intentions, to correct market or historical failures by intervening through hard regulations, such as Black Empowerment policies, local content, and collective labor bargaining—and direct support programs to specific groups, such as grants, tax rebates, and labor training). Today, these interventions have become so cumbersome that they smother the implementation capacity of the public administration, especially local officials, and open spaces for corruption. It has been well documented that state capture left an enduring mark on South Africa's institutions through

1. Dercon, Stefan. Gambling on Development: Why some countries win and other lose. London: C. Hurst & Co.

Despite long-recognized **strengths...**

- Second-largest economy in Africa (after Nigeria) and 32nd-largest in the world.
- Large and diversified economy: mining, high-productivity agriculture, manufacturing including automotive, high-productivity agro-processing, and services including a well-developed financial sector and strong tourism potential (given natural endowments).
- Biggest regional transport and logistics hub: 1st in Sub-Saharan Africa and 40th (of 165 countries) in the World Bank Group liner-shipping connectivity index.
- Active corporate investors on foreign markets, representing three-quarters of 2015–19 foreign direct investment outflows from Sub-Saharan Africa.
- Research and Development (R&D) capacity —top three universities in the continent and critical mass of highly qualified labor.
- Two-thirds of the population (about 40 million people) living in cities with potential agglomeration effects.
- Large middle-income class: around 40% of people earn between $4 and $13 a day.

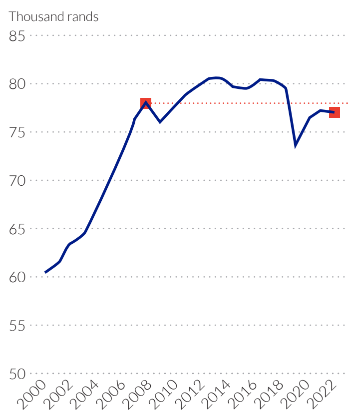
Almost half of all large companies in Africa are from South Africa



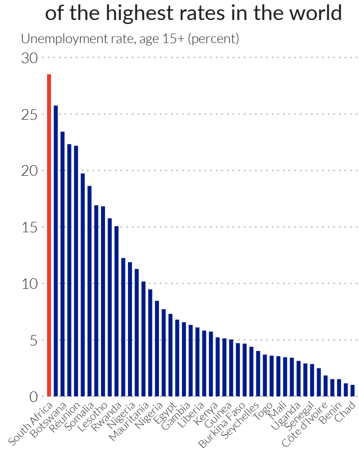
Source: McKinsey African Companies Database.

...South Africa **is on the wrong growth trajectory**

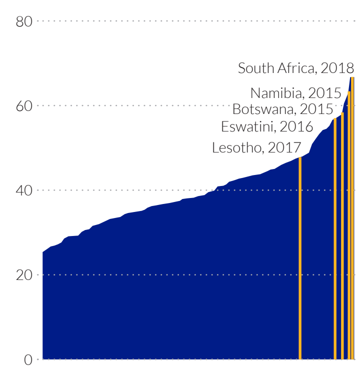
Real GDP per capita in 2023 was less than in 2007



Unemployment is about 30%, one of the highest rates in the world



Inequality is high and persistent, as shown by the Gini coefficient



Source: World Bank.

dismantling accountability mechanisms and losing skilled personnel in key entities, weakening their capacity to deliver public goods and services.

Consider this: to bring phones and IT technologies to its population, the government introduced competition to the telecommunication market in the early 2000s, making South African one of the middle-income countries with the highest rates of digital penetration and exports. In parallel, the private sector also benefited. MTN, a South African multinational mobile telecommunications provider, is now doing business in 22 countries around the world. The same approach has been used in aviation transport, with the emergence of several regional private companies, and more recently in power generation, where competition has led to an unprecedented increase in renewable energy over the past 18 months. There is no

What can the two drivers bring to the South Africa economy?

Competitive markets
- Increase incentives to attract investments, innovate and unleash private sector potential
- Lower the dominance of protected incumbents that penalize customers
- Contribute to a better allocation of the country's human, physical and financial resources
- Create economic and job opportunities accessible to all

Efficient institutions
- Improve quality of public goods and services
- Combat corruption, dismantle entrenched interests and build accountability
- Streamline complex regulations that do more harm than good
- Create efficient coordination mechanisms within the state and between the state and other stakeholders

obvious reason such an approach, when coupled with smart regulations, cannot be applied to other sectors.

Now consider this: the impact of social spending on poor population could be improved dramatically, not necessarily by spending more but by upgrading the quality of institutions. To help young workers prepare for the labor market, the government could coordinate the 100 active labor programs currently dispersed across 20 institutions that defy coordination, reduce affordability, and weaken capacity —producing suboptimal results. More generally, the government could immediately erase extreme poverty if all the financial resources allocated to social protection, about 4% of GDP, were equally distributed to the 10 million adults living on less than $2.90 a day—the international threshold under which people are deemed extremely poor. So, the challenge is not necessarily the lack of financial resources—it is how to use them efficiently using the most appropriate institutional framework.

Addressing the two fundamental shortcomings of limited market competition and institutional inefficiency and ineffectiveness, could contribute to resuming growth and making it inclusive. Beyond the successful (if limited) experiences in South Africa, several East Asian countries transformed their economies by relying more on market forces, opening selected markets to competition, and adjusting their economic institutions. Sweden in the 1990s was exhibiting similar signs of paralysis as South Africa today: slow growth (around 1.6%), high public debt (80% of GDP), and fairly high unemployment (10%). So, it switched to a new economic model. In less than five years, it reinvigorated its economy, doubling GDP growth to 3.1%, reducing unemployment to 6%, and cutting public debt to 40% of GDP. How? By opening domestic markets to competition, focusing the public footprint to areas where the state is the ideal actor to provide essential goods and services, and streamlining regulations to maximize market efficiency and affordability—exactly the kind of turnaround that South Africans are desperately looking for.[2]

From the what to the how: four priority policy areas to provide a roadmap for actions

The two drivers provide direction for South African policymakers—the road they can embark on. But they still need a vehicle for action. For greater effectiveness, they should prioritize what is impactful and above all feasible. Such selectivity is well aligned with international experience and further justified in South Africa. The state has limited financial and technical capabilities to do everything at the same time. It needs to create momentum for reforms by delivering the biggest positive results possible soon. And the political incentives to jumpstart reforms with feasible, impactful, and timely actions are enormous. Operation Vulindlela, the delivery unit created in the Presidency in 2019, produced encouraging results in electricity and in streamlining visa applications. Now, delivery units must be mainstreamed throughout the public administration for sustainable and broad-based results.

> For greater effectiveness, the government could prioritize what is impactful and above all feasible

2. World Bank. 2019. "The Turnaround of the Swedish Economy: Lessons from Large Business Sector Reforms." World Bank Research Observer 34(2). August. pp. 274–308. https://doi.org/10.1093/wbro/lky007.

Implementing reforms in each of the four priority policy areas is a long-term endeavor requiring sustained effort, substantial financial resources, and unwavering political commitment

Four priority policy areas provide a roadmap for actions:

- Improve the efficiency of public spending and leverage private resources to enhance economic growth and job creation.
- Deliver quality, climate-friendly, and resilient infrastructure services.
- Promote efficiency and equitable urban development and mobility.
- Inject dynamism in the private sector to create jobs and productivity gains.

They were agreed on after a consultative process between the World Bank and a diverse group of local and international experts (box 1). They do not address all of South African economic challenges, such as water and agriculture. But without significant improvements in all four, it will be difficult to achieve faster and more inclusive growth.

While these priorities are presented separately, their combination will matter most for inclusive growth. Dynamic firms require good connectivity to markets and customers while individuals need physical accessibility to jobs, which is largely determined by infrastructure quality. The quality of public spending, including partnerships with the private sector, is also important to improve service delivery and the skills of the labor force, which are also key determinants for productivity and job creation. Cultivating such synergies through competitive markets and efficient institutions has been the key opening the success of fast-growing and inclusive countries.

Jump-starting the process with the most feasible, impactful, and timely actions

Implementing reforms in each of the four priority policy areas is a long-term endeavor requiring sustained effort, substantial financial resources, and unwavering political commitment. As demonstrated by international experience and economic theory, South Africa will have to increase its productive physical and human capital, which underpin strong

Box 1 The reform agenda proposed in this report was defined through an inclusive and participatory process

- As part of the dialogue between South Africa and the World Bank, it was agreed in early 2023 that the World Bank would produce a new policy roadmap for the government through a demand-driven and focused process.
- Three groups were constituted to support this exercise: government representatives, generally at the director-general level, from pivotal economic departments and agencies; local experts from the private sector, civil society, and academia; and international advisers, including Nobel Laureate Michael Spence and former ministers from other middle-income countries (see annex 2 for details).
- During the workshop organized in May 2023, these three groups advised the World Bank to develop a new narrative to revitalize the policy debate and create incentives for politicians to embark on critical reforms, while identifying concrete actions in the short term that can generate momentum for reforms. In doing so, the World Bank was advised to prioritize four key areas: private sector growth; infrastructure services; urban agglomeration and mobility; and public spending.
- In March 2024, in a second consultative workshop, the World Bank shared four policy notes aligned on the four above-recommended priorities, giving the members of the three groups the opportunity to provide feedback. This consultation was part of the World Bank's deliberate and constant effort to improve the quality of the notes.
- Some of the policy actions recommended in the notes have already been translated into requests from the authorities for additional technical and financial support, especially in policy areas 1 (public spending) and 2 (infrastructure services).

Feasible, impactful, and timely (FIT) actions for each policy priority area—see annex 1 for details

Increase the impact of public spending
- Accelerate professionalization and the use of digital tools within public administration and incentivize sub-national governments to perform better
- Redirect public spending toward capital investment and job creation

Deliver quality and climate friendly infrastructure services
- Secure electricity provision by connecting renewable projects to the grid and improve revenue collection by municipalities
- Open the railway network to multiple operators and strengthen the state regulatory capacities in the port and railways sectors

Enhance spatial efficiency and equitable access to opportunities
- Improve urban transport through conditional financing to the Passenger Rail Agency of South Africa and upgrading privately owned taxi buses
- Enhance urban densification by facilitating development in strategic locations

Inject dynamism to the private sector
- Increase returns in green and digital sectors with market instruments, lower barriers to entry, and tailored labor and financial support programs
- Unleash the potential of small and innovative firms through venture capital and mobile money

inclusive growth and job creation in the longterm. But such a process can be accelerated by focusing on achievable and impactful actions that can lead to tangible results on the most pressing issues, building momentum and laying the groundwork for broader reforms. Such a pragmatic and gradual approach has been preferred in several countries that have successfully implemented reforms. For example, in Vietnam, liberalizing foreign direct investment was first tested through experiments and pilot projects in a few locations in the early 1990s, before being scaled up in the rest of country during the 1990s and 2000s. Unlike shock therapy, this approach gives time to build support for reforms in a consensual but politically contested society like South Africa.

The World Bank proposes a menu of short-term actions for each of the four priorities. From the full range of possible short-term actions outlined in each note, a subset was selected for their technical feasibility, minimal political constraints, potential for significant impact, and timely implementation (labeled FIT actions). These options are appealing to policymakers because they are fairly straightforward to execute. They do not require significant changes in the legal and institutional frameworks, which are complicated and time-consuming in South Africa's political economy. Further, many of them do not require additional financing, important given the needed fiscal consolidation over the next few years, but they do require political will and vision.

And from the how to the now

What can be done now to improve the impact of public spending?

South Africa's government has limited space to increase spending. But it could spend better to support its key development objectives. Ten actions are priorities in this area (see Policy Note 1), of which three were assessed as most FIT.

The first is to improve the efficiency of public spending through better coordination within and between government Departments, strengthening data systems so there is a better focus on outcomes and consequently, promoting better accountability for results across public institutions. This can be done, for example, by gathering the management of key investment projects in a centralized gateway to realize economies of scale and accelerate implementation through improved monitoring and accountability. Several grant transfers to agencies and municipalities can be consolidated to reduce administrative costs. In social sectors, the emphasis could be on rationalizing labor market programs, which do not have an overarching system to monitor progress or evaluate outcomes, leaving significant gaps in coverage and limiting progress in addressing the employment challenges facing South Africans. The education and training sectors in South Africa should also put more emphasis on results by re-instituting national learning assessments in basic education and creating a system to

South Africa's government could improve the efficiency of public spending through better coordination within and between government Departments, strengthening data systems track employment outcomes of TVET and university graduates. In social assistance, there are potentially large efficiency gains—in better targeting and coverage—through the establishment of a social registry and better interoperability of the current social assistance data system, which could link cash grants with labor market services.

The second FIT action is for the government to expand partnership models with the private sector. Such a move has already started in infrastructure sectors (as emphasized below) but could be broadened to social sectors. The public sector alone will be unable to finance the fast-increasing needs in education and health sectors, but private providers can also commit to high levels of accountability for improving quality and access to education services, particularly for poor communities. The recent experience of public-private partnerships in Western Cape and Gauteng could be scaled up in the immediate future.

The third FIT action is to introduce several cross-cutting measures that may generate some efficiency gains in public spending management. Among them are hiring top managers in public administration based on competencies, under the auspice of the Head of Public Administration, using digital tools to share data and streamline process and well as to improve monitoring and accountability, and encouraging e-procurement through financial awards and penalties. A key action would be to scale up the recent approach developed by the central government to further incentivize subnational governments to deliver better services by linking the allocation of central grants to specific outcomes achieved by provinces and municipalities. Today, subnational governments receive, whatever their performance, about the same resources from the central government—unsustainable but also unfair to good performers and ultimately to citizens.

Climate-friendly infrastructure services require three intertwined lines of action: opening up to competition, broadening sources of financing, and enhancing the state's capability to deliver, coordinate, and regulate

What can be done now to deliver better quality and climate-friendly infrastructure services?

The delivery of quality and climate-friendly infrastructure services requires three intertwined lines of action: opening them to competition to promote efficiency gains and innovation, broadening the sources of financing for investment and maintenance, and enhancing the state's capability to deliver, coordinate, and regulate. This framework was applied to the electricity and freight transport, partly due to close collaboration between the government and the World Bank. Still, it could be extended to other infrastructure sectors, such as water and waste management.

For electricity, eight actions are identified to achieve those goals in the short run (see Policy Note 2). From this menu, two FIT actions are screened as priorities. First, building on the recent adoption of the amended Electricity Regulation Act and the creation of the National Transmission Company of South Africa, improved access to the grid for new projects (which today is the main bottleneck) should be privileged, which is possible by enhancing the management of the existing grid (using digital tools and adjusting rules). It will also require accelerating the opening of the transmission sector to private promoters, which is currently initiated by the government. Second, the billing and collection performance of municipalities—critical to distribution and the financial viability of the sector—can be improved by introducing performance-based transfers from National Treasury. The idea is to reward good performers, currently experimented with in several initiatives from National Treasury. To make these actions most effective over time, the government will need to assess the future role of Eskom, which is called to operate in a very different environment than in the past, while considering how to reorganize the distribution segment now divided between Eskom and municipalities, with well-known challenges of coordination, governance, and efficiency.

For transport, seven actions are proposed, including two that are identified as the most FIT. First, the dominance of Transnet in the rail sector can be reduced by separating infrastructure and operational responsibilities. Establishing an infrastructure manager (independent of Transnet) will reduce existing conflicts of interests and open the door to devolving some routes to other operators. Along these lines, transferring operational responsibilities on the bulk mineral routes to mining companies could be prioritized pending the approval of clear, transparent, and equitable rules. Second, the regulatory capability of the state could be reinforced by rapidly promulgating the Economic Regulation Bill and establishing a joint regulator for the port and rail subsectors. Implementing these two actions is backed up by the recent Cabinet adoption of the roadmap by in December 2023, after an intensive consultation process. These short-term actions should be accompanied by other measures, which will take more time but remain crucial, such as the imperative of bringing back Transnet's financial accounts on a sustainable basis, and developing cleaner and more effective transport modes. Planners will have also to account for the changes in spatial distribution of economic activities that are expected to emerge in the future, such as the shift from coal to renewable energy and the exploitation of new rare-earth minerals.

What can be done now to make cities engines of growth and economic inclusion?

Addressing economic exclusion in South African cities, which remains important even 30 years after the end of apartheid, requires improving mobility and reducing distance through more efficient and equitable transport services and improving urban development. While economic exclusion results from multiple factors, many studies have demonstrated that urban workers' limited and costly mobility (accounting for about two-thirds of the labor force) is key in South Africa. On average, typical workers could spend about half of their earnings on transport (up to 80% for the poorest), compared with 10% in Vietnam.

Of eight action priorities to improve urban transport and reduce distance within cities, two are assessed as the most FIT. First, starting with the objective of making transportation efficient and affordable, the government could reduce the cost for the poorest commuters by distributing free e-vouchers that could be used either on public transport (rail and buses) and on privately-run taxi buses. This could be implemented by, using phone and digital banking, both widely used in South Africa, and by redirecting some of the savings from devolving some services to the private sector. Indeed, the public agency responsible for passenger transport (PRASA) could be incentivized to improve its performance by linking transfers from National Treasury (which account for three-quarters of funding) to its performance, and by developing partnerships with the private sector, which is increasingly considered for the most commercially viable routes. At the same time, the operational efficiency of private minibus taxis could be improved by promoting digital management tools for better coordination and improved integration of this mode of transport into a multimodal system for the benefit of customers (see Policy Note 3). The positive externalities of such actions (overall benefits for society as the gains extend to all customers) could justify a targeted use of subsidies.

Second, to make urban development more conducive to growth and inclusion, several actions could encourage the vertical development of South African cities by making the relative value of new projects more attractive. Because the construction of new housing projects would take some years before becoming concrete, the government must act urgently. It could send strong market signals to encourage densification by relaxing some zonal regulations, streamlining the approval process for strategically social projects, and improving space management with digital platforms. With these actions, the authorities will increase the rate of return associated with investment projects in dense areas, paving the way to spatial efficiency and equity in coming years.

While economic exclusion results from multiple factors, many studies have demonstrated that urban workers' limited and costly mobility is key in South Africa

What can be done now to inject dynamism in the private sector?

To foster the growth of the private sector, which is crucial for job creation, the authorities could act on two fronts. First, they can promote increased competition in future industries such as digital finance and green industries. The emphasis on these sectors is well-founded, as they leverage South Africa's strengths and offer the greatest potential to enhance the country's competitiveness in response to shifting regional and global demands. Second, the government can support the development of small and medium firms, and start-ups, which possess the greatest potential for innovation and employment generation. In South Africa, these firms do not emerge as fast as in other middle-income countries and their survival rate is lower. Eight actions, of which two are assessed FIT, are identified to achieve these two goals (See Policy Note 4).

To develop industries of the future, the authorities can reduce entry barriers for new foreign and domestic private investors embedded in industrial and labor policies

The first FIT action aims to develop future industries by reducing entry barriers for new foreign and domestic private investors who will bring the new technologies and train local workers. This can be achieved by streamlining administrative procedures and making the standard (but simplified) tax regime the rule rather than the exception. The burden of several industrial and labor policies can be reduced by adjusting them to the reality of the market—for example, by generalizing the use of the Equity Equivalence Investment Programs by the Department of Trade and Industry instead of the hard complex conditions associated with Black Economic Empowerment policies. The Special Economic Zones can be reconfigured, as successfully done in Asia, to reduce the costs of doing business, while promoting the creation of jobs through linkages with public-private partnerships. These measures could be implemented fairly quickly since the government has already used them in some scenarios.

The second FIT action is to relax access to financing by start-ups and small firms—the biggest constraint to their development, as shown in recent surveys. While the depth of the financial market in South Africa is one of the largest among middle-income countries, small firms generally are not considered by commercial banks, even if they are innovative. One measure could be to reduce the cost of financing, which remains prohibitive for many small firms, by diversifying the options. As in many other countries, the Central Bank could adjust regulations to foster venture capital and e-money and develop a framework for open finance. These instruments compete with banks, and could reduce their fees and encourage financial inclusion, as demonstrated in several countries over the past few years. The development of small firms will need to be supported by other measures, such as skill development and simplified regulatory regimes to make them more profitable.

What's next?

South Africa needs to reinvigorate its economic model to get onto on a robust and inclusive growth path and meet the expectations from its citizens. This does not need a revolution in its policymaking but evolution to continue addressing the limited competition in many of the country's strategic sectors. This evolution also requires addressing the growing inefficiency in the country's institutions, which has worsened over time due to the increasing complexity of government interventions, significant state capture, and resulting high levels of corruption. Strengthening competition in the markets and transforming institutions into enablers have already supported the successful transformation of some strategic sectors over the past few years, such as telecommunications and aviation, for the benefit of customers and individuals looking for jobs. Such a shift should be expanded and accelerated to other sectors to adjust to today's geopolitical, economic, and technological realities—both domestic and global—shaping the world today.

As part of this evolution, the role of the state remains important, but it should be refocused on ensuring the right conditions for rapid economic growth and strong equity. This will require the capacity to deliver public services, including partnerships with the private sector by opening markets to competition, and using regulations more efficiently to align incentives, reduce costs for the private sector, and enhance human welfare. The state will have to focus on making growth as inclusive as possible by extending economic opportunities to all with an effective redistribution policy, correcting potential market failures. And it will have to manage this transition: if more competitive markets and more efficient institutions will unambiguously improve the country's welfare in the long-term, some groups (such as workers in existing state-owned enterprises) may face short-term losses leading to resistance against the reform process. However, this resistance presents a false dilemma. The government should prepare state-owned enterprises to compete with those at the forefront of global productivity and develop targeted support to affected workers and communities. In all, these interventions will cost less than any attempt to resist the forces of global competition and reduce the chances of local firms and workers as a whole reaping the benefits of such a transformation.

The actions proposed here are only a beginning since economic development is a long-term enterprise ultimately determined by a country's ability to develop and efficiently use its productive, physical, human, and natural capital. They are based on principles of increased (but managed) competition and more efficient institutions. Yet, as Nobel Laureate Robert Lucas emphasized in his seminal article on the Mechanics of Economic Development, achieving and sustaining inclusive growth is a complicated process. As he wrote, “Is there some action a government of South Africa [Egypt] could take that would lead the South African economy to grow like China [India]? If so, what, exactly? If not, what is it about the nature of South Africa that makes it so? The consequences for human welfare involved in questions like these are simply staggering: Once one starts to think about them, it is hard to think about anything else.”[3] The World Bank acknowledges that there may be multiple pathways to rapid and inclusive development in South Africa. However, we hope this study with its in-depth analysis and practical recommendations, will assist South African policymakers in addressing these issues and, most importantly, taking action to pave the way for a brighter future for all citizens. The time for action is now – it is never too late to act decisively.

3. Lucas, R.B. 1988. “On the Mechanics of Economic Development.” Journal of Monetary Economics 22(1): 3–42.

Annex 1 FIT actions for inclusive growth in South Africa and how to implement them

FIT actions	How to implement them
Policy area 1: Increasing the impact of public spending on inclusive growth	
1. Increase the impact of public spending	• Establishing a centralized gateway for priority capital projects above a certain threshold • Improve the efficiency of public spending through better coordination, a sharper focus on results, and better data systems, with special attention to intergovernmental transfers and social sectors • Consider partnerships with the private sector, not only in infrastructure sectors but in social sectors, building on successful experiences in Western Cape and Gauteng • Linking the Covid-19 Social Relief Distress grant with active labor market programs
2. Accelerate professionalization and the use of digital tools in public administration and incentivize subnational governments to perform better	• Operationalize the Head of Public Administration role to strengthen the merit-based hiring of senior managers and reduce politicization • Expand the functionality of the e-procurement system to bid management and compel procuring entities across levels of government to use the system and share data with the National Treasury • Scaling up the performance-based approach used for the public transport grants to other earmarked transfers from national treasury to sub-national governments • Reducing the administrative burden associated with conditional grants to subnational governments, including through consolidation and harmonization
Policy area 2: Delivering better quality, climate-friendly infrastructure services	
3. Secure electricity provision by connecting renewable projects to the grid and improve revenue collection by municipalities	• Ensuring the financial and operational sustainability of the National Transmission Company of South Africa by adopting a new transmission tariff methodology; implementing a new wheeling framework; and updating the Grid Code • Scaling up private investments in transmission by adopting a regulatory framework for an independent private transmission model • Improving electricity distribution by municipalities by streamlining the contractual approach implemented in mid-2023 between the National Treasury and the municipalities; using conditional transfers to incentivize municipalities to perform better; improving local capabilities at the municipal level; and adopting standards for municipal performance
4. Open the railway network to multiple operators and strengthen state regulatory capacities in the port and railway sectors	• Initiating Transnet's unbundling by adopting the new draft Rail Bill • Providing nondiscriminatory access to railway infrastructure by establishing an independent Infrastructure Manager • Developing a public-private framework for allowing private sector participation in railway operations by transferring the operational responsibilities of bulk mineral rail lines to large mining companies and establishing public-private partnerships for running railways on feeder lines • Implementing the independent Economic Regulator section of the Transport Bill, while enhancing the technical and financial capabilities of the Regulator
Policy area 3: Making cities engines of growth and economic inclusion	
5. Improve urban transport through conditional financing to the Passenger Rail Agency of South Africa (PRASA) and upgrading privately owned taxi buses	• Using a result-based approach for allocating grants from National Treasury to PRASA • Distributing vouchers to poor customers, while promoting the use of digital ticketing • Building on the lessons from pilot projects in Cape Town and Gauteng to mutually corporate the minibus taxi sector
6. Enhance urban densification by facilitating development in strategic locations	• Relaxing national building and municipal zoning regulations, while amending the Spatial Planning and Land Use management Act • Introducing financial bonuses for social housing projects in high-density areas close to business centers • Accelerating the development and use of digital spatial planning platforms to boost information collection and sharing

FIT actions	How to implement them
Policy area 4: Injecting dynamism in the private sector	
7. Increase returns in green and digital sectors with market instruments to lower barriers to entry, and tailor labor and financial support programs	• Streamlining firms' entry and operational pre-requisites for foreign investors by promoting the use of "labor equivalent programs" sponsored by the Ministry of Trade and Industry • Increasing liquidity in carbon credit markets • Reorienting incentives and support programs away from fossil fuels and toward new green activities
8. Unleash the potential of small and innovative firms through venture capital and mobile money	• Increasing the provision of venture capital for high-growth start ups • Authorizing nonbank institutions to issue mobile money • Developing a framework for open finance

Annex 2 – List of contributors

This collection of policy notes is a collaborative effort of the World Bank produced by a core team led by Jacques Morisset (Lead Economist and Program Leader) and Javier Baez (Lead Economist).

The key contributors are Smita Kuriakose, with inputs from Tania Begazo, Caroline Cerruti, Seidu Dauda Claudia Meek, Dumisani Ngwenya, Elizabeth Ninan, and Marc Schrijver for Policy Note #1. Mirlan Aldayarov and Bernard Aritua with inputs from Mariano Salto for Policy Note #2, Edward Beukes and Eric Dickson, with inputs from Bernard Aritua, Karla Carvajal Gonzalez, and Nozipho Shabalala for Policy Note #3, and Joanna Alexandra Watkins and Benedicte Baduel, with inputs from Eric Dickson, Knut Leipold, Victoria Monchuck, Dumisani Ngwenya, Elizabeth Ninan, and Paul Seaden for Policy Note #4.

The Bank team benefited from strategic advice and comments from various external stakeholders, including several government agencies, coordinated by the National Treasury under the leadership of Boipuso Mopise, Deputy Director General.

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Sharing its extensive knowledge and practical experience throughout the preparation of the notes, an advisory team comprised Prof. Michael Spence (Nobel Laureate), Prof. Danny Leipziger (George Washington University, former World Bank Vice-President), Montek Alwahulia (former Deputy Chairman of the Planning Commission of India), Dr. Mari Pangestu (former Indonesia's Minister of Trade, and former World Bank Managing Director), and Prof. Andres Velasco (Dean of the London School of Economics, former Finance Minister of Chile).

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