

SOUTH AFRICA ECONOMIC UPDATE

EDITION 14



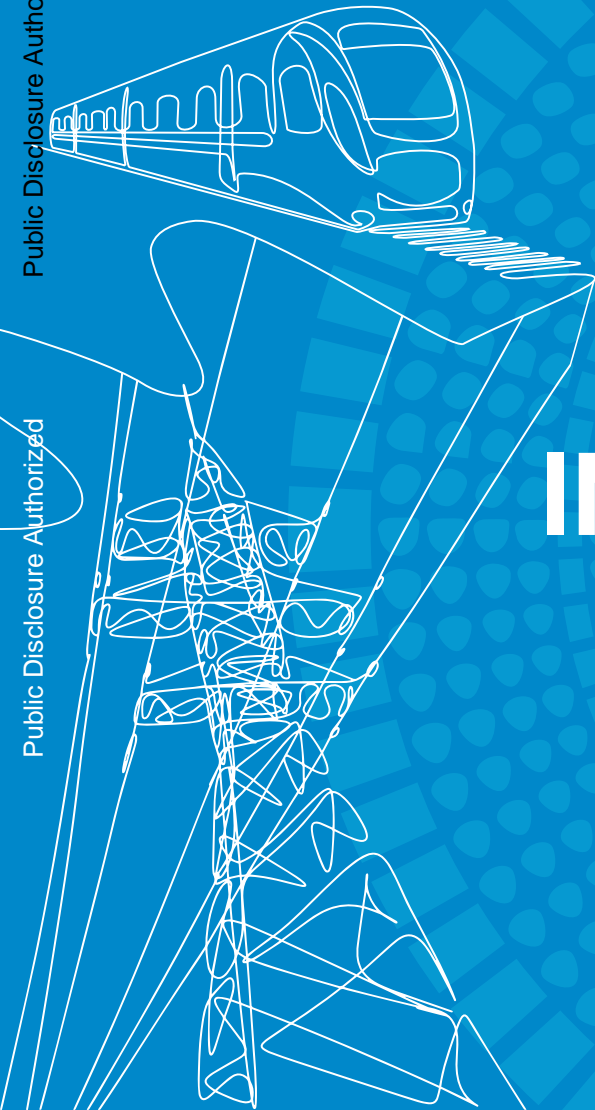
**SAFETY FIRST:
THE ECONOMIC
COST OF CRIME
IN SOUTH AFRICA**

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The South Africa Economic Updates aim to contribute to policy debates in South Africa and beyond by providing independent, rigorous, and timely analysis connecting South Africa with global developments and helping to benchmark the country against international trends. Its stakeholders include the government, academia, and the media, as well as international partners and the wider population interested in South Africa's economic development. Each edition includes a section on recent economic developments and the country's outlook, followed by a special focus section discussing an issue pertinent to its development trajectory. For this edition, the focus section analyzes the economic cost of crime to the economy and policy options to address it.

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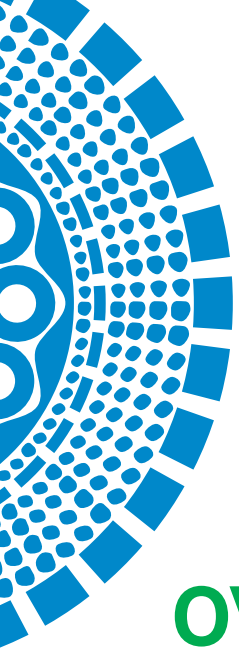
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ABBREVIATIONS AND ACRONYMS

FDI	foreign direct investment
GDP	gross domestic product
GI-TOC	Global Initiative Against Transnational Organized Crime
NPA	National Prosecuting Authority
SAPS	South African Police Service
SOE	state-owned enterprise
UNODC	United Nations Office on Drugs and Crime

The cutoff date for the data and analysis in this report is 1 November 2023.
All dollar amounts are US dollars unless otherwise indicated.



OVERVIEW

WHY FOCUS ON CRIME IN SOUTH AFRICA?

The rates of violent crime in South Africa are among the highest in the world. Crime regularly makes headlines in the international and local press, shaping perceptions and attitudes. A Google trend search shows that people in South Africa, the United States, and the United Kingdom have been the most likely to search for the word “crime” in news stories over the last 15 years.

The economy is on a low growth–low employment trajectory, with persistent poverty. Real growth in the gross domestic product (GDP) has been trending downwards since the global financial crisis (2008–09), and GDP per capita has contracted since 2015. Socioeconomic outcomes have been weak, with high unemployment, poverty, and inequality. Structural constraints, especially the deepening electricity crisis and the transport bottlenecks, have exacerbated these problems.

In this context, confronting the problem of crime and its socioeconomic costs is critical. President Ramaphosa said during the 2023 State of the Nation Address: “South Africa’s crime problem is at the root of the government’s drive for inclusive growth

in an effort to address the causal factors of poverty, unemployment, and inequality.” Yet few studies have estimated the cost of crime to the country, not least because some costs are very difficult to quantify. This report provides a brief analysis of crime in South Africa and offers an estimation of the impact of crime on the South African economy, focusing on economically motivated crimes.

The impact of crime is estimated to be at least 10 percent of GDP per year, comprising transfer, protection, and opportunity costs. Although not all these costs represent absolute welfare losses, they do penalize those households and businesses who are victims of crime, and the state, which spends large amounts on public order and safety. Hence, it represents a high “tax” on the economy that distorts the allocation of resources, constrains the country’s growth potential, and has negative distributional effects. This is especially important as South Africa already faces multiple constraints on growth, development, and fiscal sustainability. Understanding how crime undermines growth is vital for the design and implementation of appropriate policies to combat crime and mitigate its costs to the economy and society.

CHAPTER 1. THE STATE OF THE ECONOMY

Economic developments over the last 18 months have been a tale of two stories.

Macroeconomic policies have remained prudent and aimed at preserving macroeconomic stability. Monetary policy has been tightened to anchor inflation expectations: the Monetary Policy Committee of the South African Reserve Bank raised its policy rate from a low of 3.5 percent in October 2021 to 8.25 percent in May 2023. Headline inflation, which averaged 6.9 percent in 2022, has been decelerating since the first quarter of 2023 and averaged 6 percent over January–September. The fiscal deficit declined from 9.9 percent of GDP in fiscal year 2020/21 to 3.7 percent of GDP in fiscal year 2022/23, on the back of strong revenue and restrained expenditure growth. Government debt reached 70.9 percent of GDP at the end of fiscal year 2022/23, up from 57.2 percent in fiscal year 2019/20.

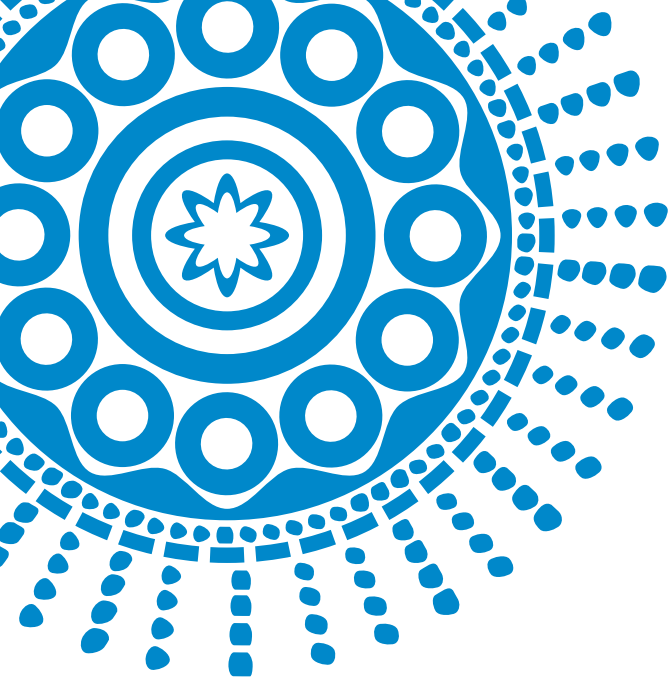
Nonetheless, both economic and social outcomes have weakened, driven by growing domestic constraints and the volatile global environment. The COVID-19 pandemic was followed by two years of higher growth, but economic activity has again slowed considerably. The deepening electricity crisis, other structural constraints (including transport bottlenecks), and the volatile global environment saw real GDP growth slowing to 0.9 percent in the first half of 2023. The post-COVID recovery did not extend fully to the job market, and employment continues to lag growth: the official unemployment rate remains extremely high at 32.6 percent in June 2023 (or 42.1 percent when discouraged job seekers are included). Rising prices, particularly of fuel and food, eroded people’s disposable income, with low-income households especially badly affected. Thus, poverty in South Africa remains widespread and inequality is among the highest in the world.

South Africa’s growth outlook is weak, and risks are tilted to the downside.

The outlook for growth is too low to reduce unemployment and poverty. The economy is expected to grow by 0.7 percent in 2023 and by 1.5 percent on average in 2024–26 as electricity supply constraints ease gradually. However, the slow pace of other structural reforms will continue to constrain the growth potential of the economy and per capita income gains. As South Africa is unable to provide jobs for its fast-growing working-age population, unemployment is likely to remain above 32 percent throughout the forecast period. The upper middle-income poverty rate is expected to decline only slightly to 62.5 percent by 2026, still above its pre-COVID level of 62 percent in 2019.

Fiscal and external balances are expected to remain sustainable, provided macroeconomic policies remain prudent. Inflation is expected to average 6 percent in 2023 before drifting down to 4.5 percent, which should allow a gradual easing of monetary policy. In the absence of shocks, the current account balance is projected to widen gradually to 3 percent of GDP in 2026, financed by net financial inflows. On the fiscal front, the government is expected to limit expenditure growth over the medium term to reduce fiscal deficits and public debt. The Eskom debt relief arrangement will affect the deficit trajectory for the next three years, weighing on the deficit despite the restraint in other expenditure. Public spending is anticipated to remain tilted towards current expenditure, however, and interest payments are expected to rise to 5.9 percent of GDP by fiscal year 2026/27. The public debt-to-GDP ratio is likely to continue rising to 79 percent in fiscal year 2026/27.





The authorities' commitment to improving primary balances (the difference between budget revenue and non-interest expenditure) is critical for ensuring debt sustainability, as the rate of economic growth is expected to be lower than the average rate of interest payable on public debt for the next few years.

This outlook is vulnerable to several risks, primarily on the domestic front. Externally, South Africa is exposed to portfolio flow reversals and rising global interest rates. Higher world energy prices could fuel domestic inflation, complicating monetary policy in

a context of weak domestic demand. The country is also vulnerable to climate shocks. Domestic risks include a slowdown in structural reforms ahead of next year's elections. Fiscal risks remain high, with spending pressure on public sector wages, social transfers, transfers to state-owned enterprises (SOEs), and rising debt-service payments.

What will it take for South Africa to achieve higher and more inclusive growth?

Moving away from the status quo requires broad-based economic reforms to address the persistent constraints on the underlying drivers of growth and the weak impact of fiscal policy on growth. Over the last 15 years, South Africa has invested two to three times less than fast-growing economies in physical and human capital, and productivity has declined. To reach its full economic potential, the country needs to bridge these growing gaps by investing in infrastructure, promoting innovation, investing in people, and strengthening institutions. The government is starting to address key constraints, especially in the energy sector, but reforms need to be bolder and faster to promote higher and more inclusive growth. Selected priority reforms are highlighted in Table 0.1.

TABLE 0.1. Key structural reforms to promote higher and more inclusive growth

Objective	Policy priorities
Unlock key structural constraints to growth	Accelerate planned reforms (for example under Operation Vulindlela) to address key economic bottlenecks, such as those in electricity and transport.
Restore confidence to promote higher private sector investment	Broaden the scope of reforms to improve private sector confidence by addressing constraints such as skills scarcity, weak product market competition, and the high incidence of crime, analyzed in detail in Chapter 2 of this report.
Improve the impact of fiscal policy on growth by freeing resources for investment in human and physical capital	Maintain expenditure restraint and shift the allocation of resources towards investment and basic service delivery.
	Improve the efficiency of spending by addressing leakages, as well as programs and department redundancies, etc.

Source: World Bank.

CHAPTER 2. THE ECONOMIC COST OF CRIME

The incidence of crime is very high.

Crime is prevalent in many forms in South Africa, but violent offenses are a particular concern. In the five years before the COVID-19 pandemic, the police recorded about 3,600 crimes per 100,000 people per year on average. Violent crime is especially high: South Africa is consistently among the five countries with the highest homicide rates, with 41.9 intentional homicides per 100,000 people in 2021. Its homicide rate is over six times the average for upper-middle-income countries and nearly 16 times that for high-income countries. The perception is that crime, particularly organized crime, is worsening. In 2023 South Africa ranked seventh out of 193 countries on the Global Initiative Against Transnational Organized Crime's (GI-TOC) Global Organized Crime Index, up from 19th out of 193 countries in 2021 (GI-TOC 2023; GI-TOC 2021).

Crime is damaging the economy.

This report estimates the economic impact of crime on South Africa to be at least 10 percent of GDP every year (Figure 0.1). This amount combines transfer, protection, and opportunity costs, all of which reduce the country's growth potential through the misallocation and inefficient use of resources within the economy. If businesses alone could invest some of the amount they spend on security in productive ventures instead, South Africa's growth potential could increase by about 1 percentage point. Ultimately, crime undermines the country's development objectives of high and inclusive growth.

Businesses are severely affected by crime. They face higher operating costs from their losses due to crime and spending on security and insurance. By making it harder to start and grow businesses, these costs contribute to the lack of dynamism of the private sector (such as weak activity growth and job creation) seen in the last 15 years. Crime is especially detrimental to micro, small, and medium

enterprises, few of which can afford these costs. The situation is compounded by a relatively newer form of crime, the theft of key public and private infrastructure networks, which greatly damages the country by reducing service delivery and constraining economic activity in many areas.

Crime reduces households' disposable income and affects their behavior. In a country where income inequality is already among the highest in the world, crime reinforces multidimensional inequalities (income, spatial, and opportunities), as vulnerable people have fewer resources to protect themselves against crime.

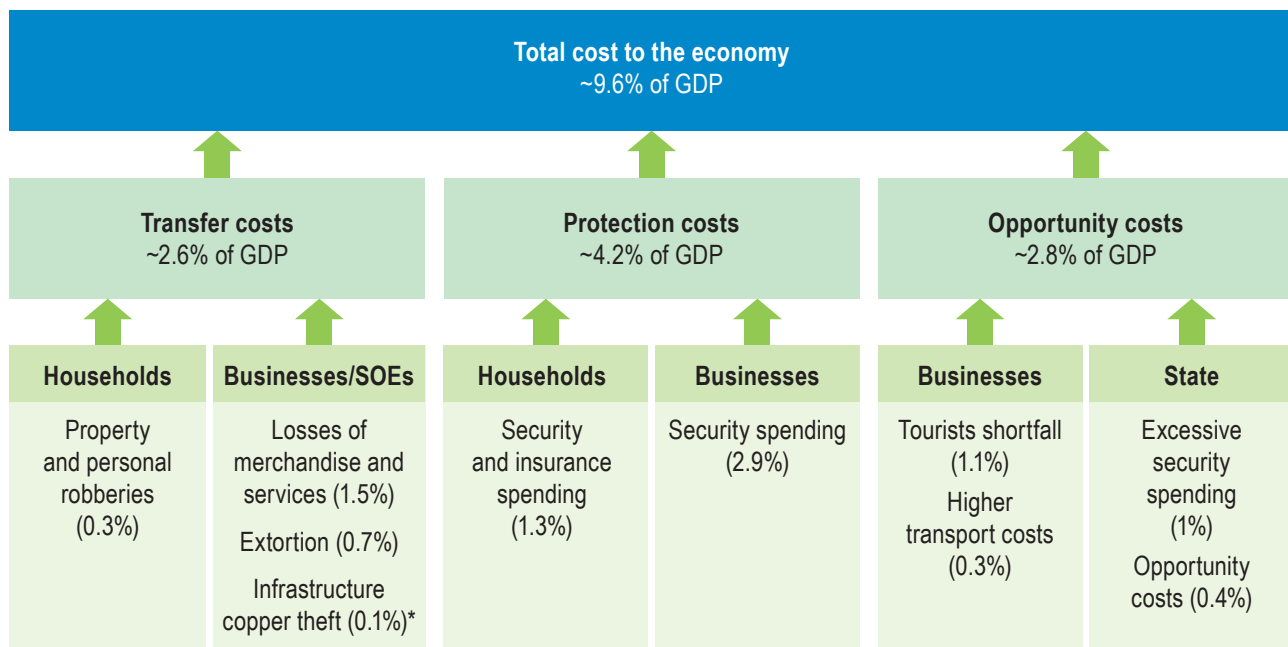
Finally, crime undermines the public sector. High crime requires higher public spending on policing and security, along with significant transfers to SOEs whose operations and financial soundness are damaged by infrastructure theft. This crowds out much-needed developmental spending. But weaknesses in public institutions to prevent, investigate, solve, and prosecute crime make it harder to fight crime, particularly organized crime, which thrives in the absence of a strong intelligence capacity.

Ultimately, crime has a multidimensional impact on growth, jobs, and inclusion. Weak public service delivery and poor socioeconomic outcomes break down trust in public institutions and contribute to social polarization. These outcomes can, in turn, translate into higher crime, making it even more difficult to break the cycle of poor socioeconomic outcomes and violence.

What will it take to address the challenge of crime?

Addressing high levels of crime requires interventions across a range of sectors. The drivers of crime are multidimensional, and an integrated approach is needed to tackle crime, including more effective detection and sanctions to increase the cost of committing crime; regulatory reforms to decrease its benefits; broader economic and social

FIGURE 0.1. Crime takes a heavy toll on the economy



Source: World Bank.

Note: * Some of these losses are incurred by private telecommunications providers.

policies to increase the expected returns from legal activities and to reduce social fragmentation and inequality; and interventions to prevent violence targeted to the people most at risk.

Reversing the decline in the quality of police services is a priority. International experience suggests that greater accountability in identifying and arresting criminals, better investigative capacity, and professionalizing the police force all help to disincentivize crime. Successful crime reduction in Bogotá and New York, for example, suggest that such reforms might meaningfully reduce crime relatively quickly.

Sustainably reducing crime requires addressing its root causes, which are anchored in the legacy of exclusion under apartheid. The weight of evidence suggests that reducing violence against children improves public safety in the long run. Examples of potentially successful interventions of evidence-based violence prevention (a relatively lower-cost initiative) include cognitive behavioral therapy and restorative justice practices involving the police. Finally, continued progress in addressing the legacy

of state capture and restoring the rule of law is critical in the fight against organized crime.

Addressing crime is complex and requires long-term efforts, but South Africa can implement targeted reforms right away to start reducing crime. Building on international experience as well as successful initiatives in the country, South Africa can take steps to start addressing the long-standing challenge of high crime rates. Given limited human and financial resources, a targeted approach focused on a few indicators and coordinated across government and stakeholders in the private sector and civil society could be an effective approach. Reducing the homicide rate, which has been increasing over the past decade and stands among the highest in the world, could be a priority given its impact on the perception of insecurity in South Africa and its economic implications. Tackling the rise in organized crime, which has thrived on the declining capacity of the police and justice institutions and has broad-based effects on economic activity, could be another priority. Targeted reforms that could be prioritized are summarized in Table 0.2.

More research is needed on the cost of crime and policies to combat it. Specifically, more work is needed on the opportunity costs of behavioral responses to high crime. For households, these include decisions to commute, where to accept jobs and at what wage, where to live, and how to prioritize spending. For entrepreneurs, the decisions are where and what businesses to start, whether to invest and create jobs, and how much to spend on security. For foreign investors, a more fundamental decision is whether to even consider South Africa as an investment destination. More could be done to understand these channels of transmission.

Research on the cost of crime should ideally include both theoretical and empirical analysis, and more specific data can be collected, notably through surveys. Other crimes can also be studied for a more comprehensive quantification of overall economic costs. Another dimension would be linking the cost of interpersonal and sexual violence to life outcomes, especially in children and young people, and studying the risks associated with continued social fragmentation. Such research could help understand how to break the cycle of violence and exclusion and contribute to high and inclusive growth for all in South Africa.

TABLE 0.2. Key reforms to start addressing the challenge of crime

Objective	Policy priorities
Prioritize objectives and define targets	Develop a strategy anchored around a few priorities for more effective action. Reducing organized crime and murders could be prioritized given their broad-based human and economic impacts and their alarming rising trend in recent years.
Improve policing effectiveness	Reinvigorate and scale up past initiatives such as the 2008 Gauteng Aggravated Robbery Strategy. Strengthen the South African Police Service (SAPS) through institutional reform to address the legacy of state capture.
Rebuild South Africa's investigative capacity, especially for complex crimes	Recruit and retain specialist skills required for complex investigations at the Directorate for Priority Crime Investigation (also known as the "Hawks") and the Special Investigating Unit. Pass the National Prosecuting Authority (NPA) amendment bill, which aims at enhancing the NPA's independence and ability to prosecute high-level crimes.
Reduce exposure to violence and exclusion of people at risk, which is linked to criminality	Scale-up evidence-based violence prevention programs through a rebalancing of resources within the public order and safety budget.

Source: World Bank.

CHAPTER 1: THE STATE OF THE ECONOMY



MAIN MESSAGES

- **The South African economy is on a low growth–low employment trajectory, with persistent poverty.** This trend has continued for over a decade, primarily driven by the lack of structural reforms. Growth in the real gross domestic product (GDP) averaged 1.7 percent a year in 2010–19, and GDP per capita has been contracting on average by 0.6 percent a year since 2015. The unemployment ratio stands at 32.6 percent in June 2023, and at about 42.1 percent when discouraged job seekers are included. Poverty remains very high, at 62.6 percent in 2022, based on the upper-middle-income country poverty line (\$6.85 per day at 2017 international prices).
- **Over the last 18 months, the country has been a tale of two stories: macroeconomic policies have been prudent, but economic and social outcomes have weakened, driven by growing domestic constraints and the volatile global environment.**
 - Macroeconomic policies remain relatively sound and credible, aiming to address high inflation and rising public debt. The key monetary policy rate was raised several times, and fiscal expenditure growth was limited.
 - However, the unprecedented domestic electricity crisis and transport bottlenecks constrained economic activity, and economic growth slowed to a mere 0.9 percent in the first half of 2023.

- 
- **The economy is expected to grow by 0.7 percent in 2023, with growth rising to an annual average of 1.5 percent in 2024–26.**
 - Reforms in the energy sector are expected to support a gradual reduction in scheduled power cuts (load-shedding), allowing economic activity to recover. However, with the population expected to grow by about 1.1 percent a year, per capita growth is likely to stagnate this year and increase to only 0.3 percent a year in the next few years. This means that by 2026, real GDP per capita is likely to remain below its 2019 level.
 - The fiscal and external balances are expected to remain under control, provided there are no additional external shocks and fiscal expenditure is controlled as planned. Both global and domestic risks are tilted to the downside.
 - **Looking ahead, South Africa will have to do more and better to escape its low growth–low employment trajectory and catch up with fast-growing middle-income countries.** It invested significantly less than many fast-growing economies over the decade to 2021, which contributed to a decline in productivity every year. Unlocking private and public investment in physical and human capital to increase productivity requires rebalancing and accelerating reforms across a broad range of sectors. This includes reducing the high incidence of crime, which has significant economic costs.
- 



RECENT DEVELOPMENTS

ECONOMIC ACTIVITY

In 2023, real GDP growth returned to its low pre-pandemic trend, hampered by the worsening electricity crisis and transport bottlenecks.

After a short-lived post-pandemic rebound in 2021 and early 2022, economic activity in South Africa has slowed. The growth in GDP fell from 4.7 percent in 2021 to 1.9 percent in 2022 and 0.9 percent in the first half of 2023.

Consumption side: Private consumption still contributed to growth, as households continued to spend savings accumulated during the pandemic. However, this was limited by high unemployment, tighter macroeconomic policies, and weak confidence. Consumer spending grew by 0.7 percent on an annual basis in the first half of 2023, down from 2.5 percent in 2022 and 5.8 percent in 2021 (Figure 1.1). Inventory accumulation also supported growth in the first half of 2023, after significant destocking during the pandemic. In contrast, the external sector continued to weigh on growth, reducing GDP growth by 1.4 percentage points in the first half of 2023 as imports grew faster than exports. Investment rebounded by 4.8 percent in 2022 and 5.9 percent in the first half of 2023 on an annual basis, driven by investment in alternative energy (especially renewables). However, the investment-to-GDP ratio remains below its pre-pandemic level, at 15.1 percent of GDP in the first half of 2023, as against 16.2 percent in 2019, amid weak business confidence. The RMB/BER Business Confidence Index has been declining since mid-2021.

Activity side: Half the sectors in the economy—mining, manufacturing, utilities, construction, and trade and tourism—have not yet recovered to their pre-pandemic levels in real and seasonally adjusted terms. Others,

notably transport and finance, performed better in 2022 and the first half of 2023 (Figure 1.2):

- The transport sector grew by 7.4 percent (after averaging only 1.2 percent in 2018–19), boosted by post-pandemic activity after the government removed all remaining mobility restrictions in June 2022.
- Finance and real estate grew by 2.8 percent on average, comparable to its 2018–19 rate. With real interest rates at historically low levels in 2022, the expansion of financial services was broad-based and included financial intermediation and real estate services.
- Mining and manufacturing, which had rebounded strongly in 2021, had a negative impact on growth mainly because of more intense load-shedding, poor rail operations, and weak global and domestic demand. Industrial production data for July 2023 show that the economy began the third quarter of 2023 on a weak footing amid persistent domestic constraints and slowing external demand.
- Construction rebounded strongly in the first half of 2023, increasing by 4.2 percent in annual terms, but its post-pandemic recovery remains weak relative to other sectors.

Three major factors contributed to lower economic growth and a comparatively weaker post-pandemic recovery in South Africa: the electricity crisis, transport bottlenecks, and a less supportive global environment.

- **The electricity crisis:** It has been a major factor behind the economic slowdown in the last two years. Load-shedding increased exponentially; in only the first nine months of 2023, the country suffered more load-shedding than in the previous seven years combined (Figure 1.3). Most sectors were affected, but mining, manufacturing, and trade and tourism were particularly exposed. Load-shedding increases firms' operating costs (including the cost of acquiring expensive backup diesel generators), affects confidence, and

discourages new investment, especially in energy-intensive activities such as mining, utilities, and construction. However, the search for alternative sources of energy, encouraged by government incentives, is starting to support investment in renewable energy and battery storage.

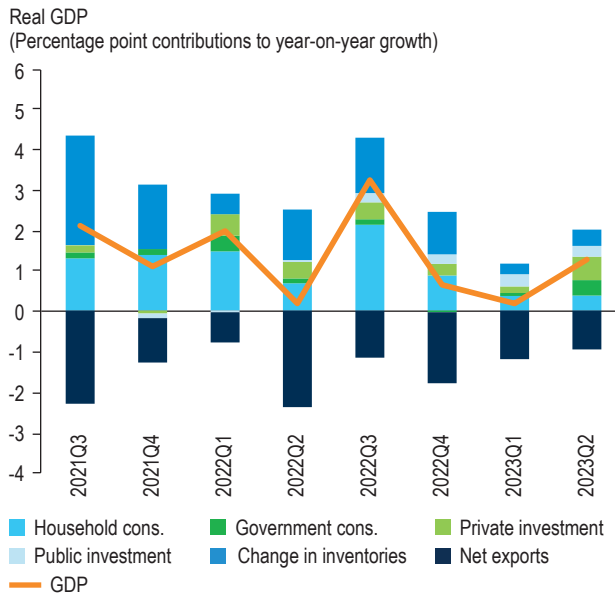
- **Transport bottlenecks:** Growing operational problems, notably insufficient maintenance and infrastructure theft have damaged port and rail performance, affecting major transport corridors—especially for commodity exports—and creating bottlenecks for domestic and international trade. Rail exports volumes fell by 30 percent between fiscal years 2018/19 and 2022/23. Higher volume transported by trucks has led to congestions on the main road corridors as well as delays of over seven hours in border crossings to Mozambique. Concurrently, South Africa’s main ports have suffered from operational inefficiencies. The ports of Gqeberha, Durban, and Cape Town were ranked between 291st and 344th out of 348 for container port efficiency in the 2022 Container Port Performance Index.
- **A less supportive global environment:** The global post-pandemic recovery has been dragged down by the war in Ukraine and the broad tightening of monetary policy to contain inflation worldwide. Global growth in 2023 is set to be below historical averages, with the advanced economies expected to perform relatively worse. This weaker global outlook has weighed on commodity prices. South Africa benefited from a decline in international oil prices by 21 percent year-on-year in the first nine months of 2023, but the prices of most of its export commodities also fell. For example, the price of coal declined by 53 percent. Global risk aversion also negatively affected emerging markets, especially South Africa, resulting in currency depreciation and persistent net portfolio outflows.

These constraints exacerbated the other structural challenges that have reduced economic dynamism over the last 15 years. GDP growth has been slowing

since the global financial crisis, declining from an average annual rate of 4 percent in 1999–2008 to 1.7 percent in 2010–19, and real GDP per capita has been contracting since 2015. Many factors contributed to this trend. Some were external, such as the end of the commodity super cycle that started in the early 2000s and ended after the global financial crisis. But domestic constraints were also significant. In addition to the factors mentioned above, the scarcity of skills, the skewed distribution of land and productive assets, limited competition in product markets, policy uncertainty, and deteriorating capacity all undermined confidence, investment, and hence, growth (World Bank 2018). Low dynamism in the private sector was exacerbated by the rapid decline in fiscal space, driven by a decrease in revenue in the context of the end of the commodity boom, weakening activity, deteriorating capacity at the South African Revenue Service, and an increase in committed expenditure.

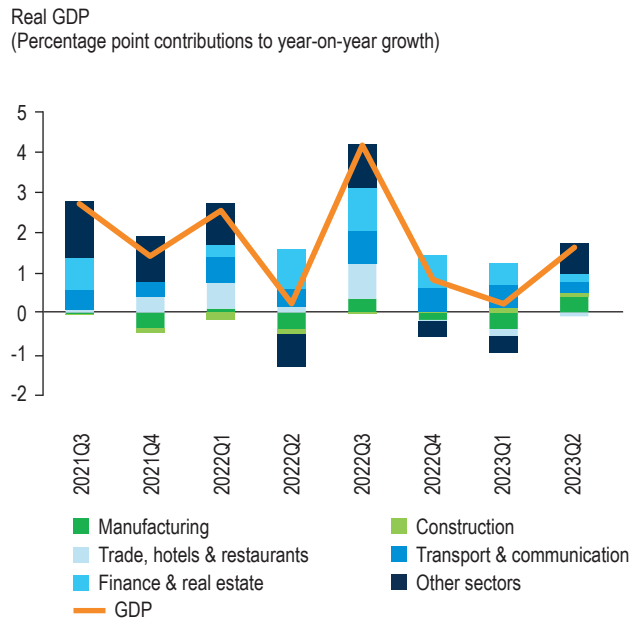
Growth is expected to be very weak in 2023, with South Africa underperforming not just the world economy but also most emerging economies. The economy is expected to grow by 0.7 percent in 2023 as intense load-shedding continues to disrupt activity in key sectors. In contrast, the world economy is expected to grow by 3 percent and emerging and developing economies by 4 percent (IMF 2023b). Based on this forecast, economic growth in South Africa would average only 0.3 percent a year in 2019–23, significantly below growth in other emerging and developing economies, highlighting the weakness of the recovery after the pandemic shock (Figure 1.4). On the spending side, persistently high inflation, high interest rates, the depressed labor market, and fiscal restraint are expected to continue to constrain domestic consumption. Apart from the renewable energy sector, weak business confidence is anticipated to keep private investment low. Lower commodity prices and transport bottlenecks are projected to continue to limit the external sector’s contribution to growth.

FIGURE 1.1. Household consumption growth is fading



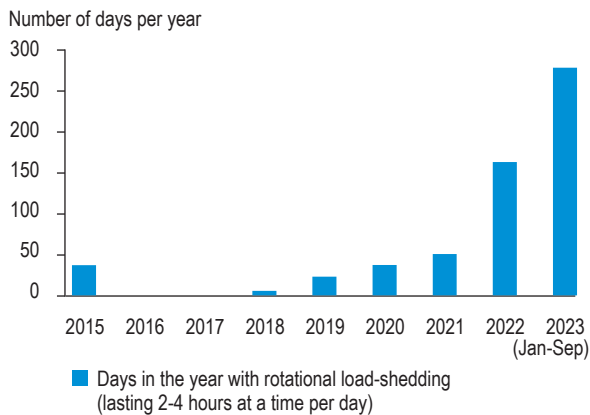
Source: Statistics South Africa.

FIGURE 1.2. Recovery in many sectors remains weak



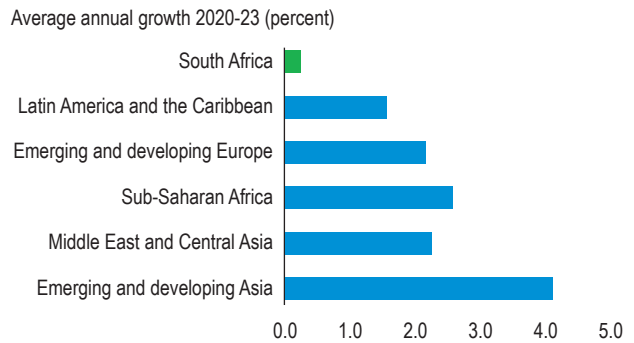
Source: Statistics South Africa.

FIGURE 1.3. Electricity load-shedding intensified in 2023



Source: Council for Scientific and Industrial Research, EskomSePush, World Bank.

FIGURE 1.4. The post-pandemic rebound has been relatively weak



Source: IMF World Economic Outlook, October 2023 database; World Bank.

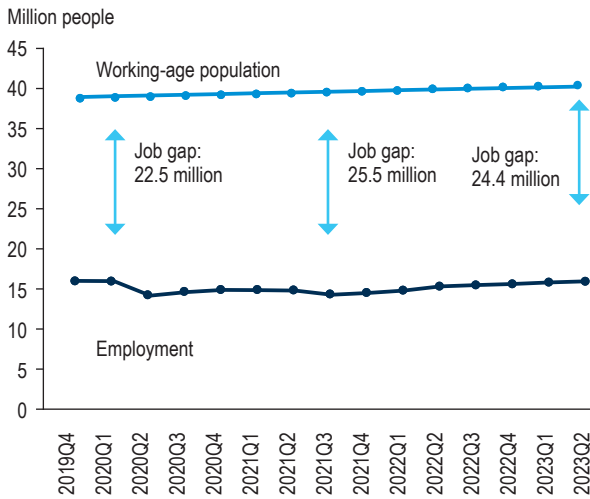
THE LABOR MARKET

Too few jobs are created, which hinders poverty reduction.

The recovery in employment is too weak to create meaningful opportunities for new entrants to the labor market. South Africa lost 2.3 million jobs to the pandemic in the first half of 2020, but it created only about 1.8 million jobs between 2022 and mid-2023. During this time, the working-age population grew by around 860,000 people.

Previously discouraged workers also returned to the job market, leading the labor force to increase by 1.8 million (Figure 1.5). The unemployment rate remains very high at 32.6 percent in June 2023, and up to 42.1 percent when discouraged job seekers are included. Given the weak job creation relative to the growth of the working-age population, South Africa has one of the lowest employment ratios in the world (Figure 1.6). Young people remain especially vulnerable, with the unemployment rate of 15- to 24-year-olds standing at 60.7 percent in June 2023.

FIGURE 1.5. South Africa has a persistent employment gap



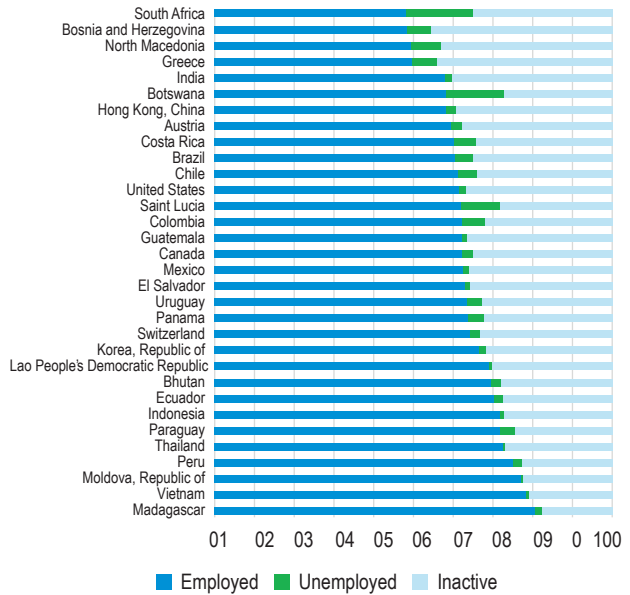
Source: Statistics South Africa.

Labor market outcomes are constrained by both the lack of economic dynamism and rigidities in the labor market. The growing workforce means a growing need for jobs, but the lack of dynamism in the private sector has limited job creation. Even those sectors that drive economic growth are capital- or skills-intensive, whereas most of the labor force has limited skills. Labor market rigidities, such as stringent wage-setting mechanisms through bargaining councils, contribute to mismatches in the job market (Duval and others 2021). High transport costs and the fact that people live far away from potential jobs also discourage work, as they contribute to high reservation wages, or the lowest amount for which workers would be willing to accept a job (Figure 1.7; Morisset 2023).

The weak job market effectively entrenches high poverty. Labor income and poverty are closely linked, including in South Africa (see, for example, Leibbrandt and others 2010), because labor earnings are the main source of income for poor workers. Based on the upper-middle-income poverty line (\$6.85 per day, at 2017 international prices), the country’s poverty rate is estimated to have eased only slightly to 62.6 percent in 2022 from the pandemic peak of 63.6 percent in 2020—hovering around levels of over a decade ago. Relative to 2019, an extra 1.5 million people were estimated

FIGURE 1.6. The employment ratio is among the lowest in the world

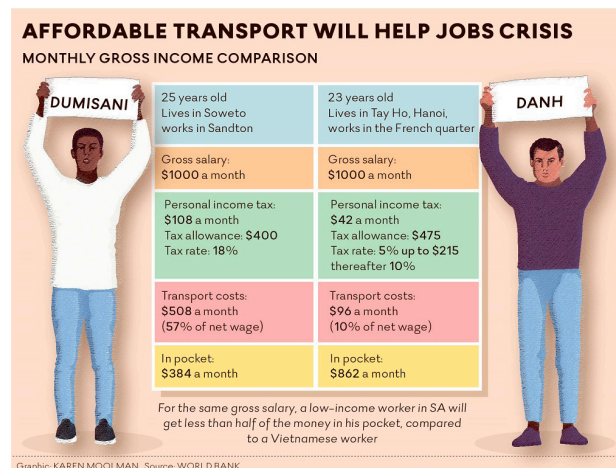
Share of the population 25+ years old that is... (2022 data)



Source: ILOSTAT.

to live in poverty in 2022. Without stronger GDP growth, the unemployment rate is likely to stay at about 32.5 percent in 2023, and poverty is not expected to decline. South Africa also remains among the most unequal countries in the world, with a Gini coefficient estimated at 0.63 (2014 data). Rooted in the legacy of apartheid, inequality is multidimensional across income, assets, and opportunities.

FIGURE 1.7. High transport costs penalize work



Source: Morisset 2023.

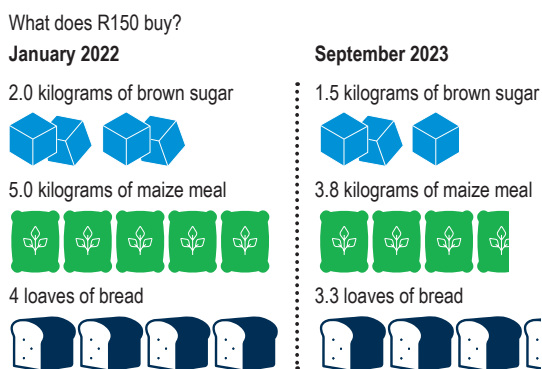
PRICES

Inflation has started to fall, driven by lower global commodity prices and tighter monetary policy.

Since peaking at 7.8 percent in July 2022, inflation has been slowing, but it remains above the midpoint of the central bank’s 3–6 percent target range. Headline consumer price inflation has been on a declining trend since the first quarter of 2023, supported by lower fuel prices and slowing food inflation. It reached 5.4 percent in September 2023, above the two-year low of 4.7 percent in July. Food and non-alcoholic beverages inflation has eased back into the single digits but remained high at 8.1 percent in September, while fuel prices picked up again. Core inflation stood at 4.5 percent, a 13-month low.

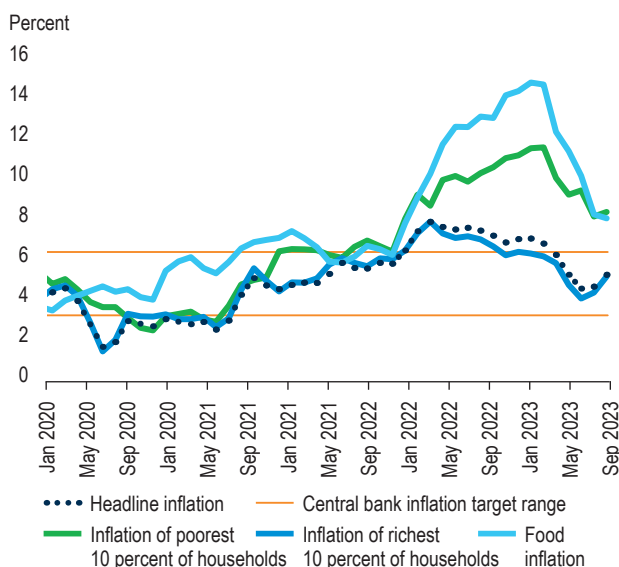
High prices disproportionately hurt poor people. The rising prices of fuel and food in particular have eroded people’s disposable income, with low-income households worst affected (Figure 1.8). The rate of inflation faced by the poorest 10 percent of households reached 8.3 percent in September 2023, 3 percentage points higher than the rate facing the richest 10 percent of households (Figure 1.9).

FIGURE 1.8. Recent inflation means a rand now buys much less food



Source: Statistics South Africa, World Bank.

FIGURE 1.9. Poorer households face disproportionately higher prices



Source: Statistics South Africa.

Inflation is projected to average 6 percent in 2023, down from 6.9 percent in 2022. Upside risks to prices stem from the secondary effects of administrative price increases (such as electricity tariffs), the depreciation of the rand, food price developments globally and in South Africa (especially in the context of the ongoing avian flu outbreak), and operational costs associated with load-shedding.

EXTERNAL SECTOR

The current account is weakening, as global commodity prices are less favorable and domestic transport bottlenecks hinder exports.

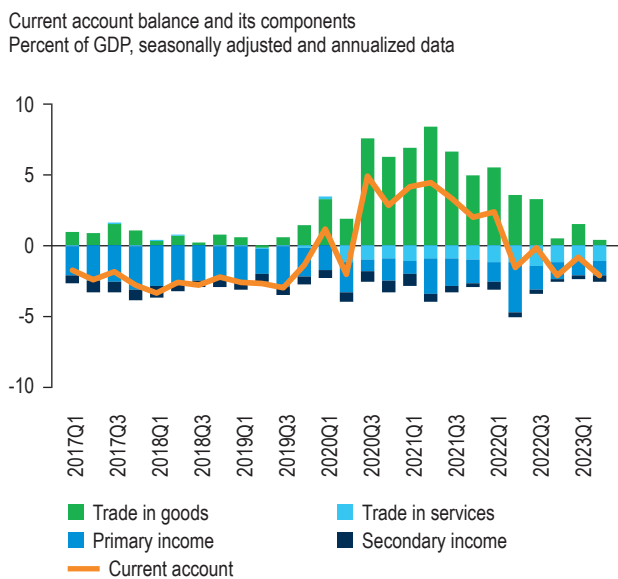
In the less favorable global environment, the current account returned to its long-term trend of deficits.

South Africa’s terms of trade deteriorated by 15.3 percent between the second quarter of 2021 (a historical high) and the second quarter of 2023, as import prices—driven by fuel costs—increased faster (by 24.9 percent) than export prices (by 5.8 percent). Although the trade balance has remained positive, it has been declining and could no longer compensate for the relatively large deficits in the income balance. Therefore, the current account

deficit stood at 1.6 percent of GDP in the first half of 2023 and is projected to reach 2.2 percent of GDP for the year (Figure 1.10). The weakening current account balance also reflects the rebalancing between domestic savings and investment following the pandemic. After peaking at 17.4 percent of GDP in the third quarter of 2021, the gross savings rate decreased to 14.8 percent in the second quarter of 2023, whereas the investment balance increased from 13.9 to 17.1 percent of GDP.

The external sector was also negatively affected by domestic conditions. On the trade side, devastating floods in Durban affected port activity in the second quarter of 2022 and strikes interrupted rail freight at the end of that year. Poor operational performance and theft of the railway network constrained export capacity, which meant South Africa could not fully reap the benefits of higher global commodity prices. For example, the volume of coal exports was about 30 percent lower in 2022 than in 2018, despite the global price being three times as high (Figure 1.11). Finally, the escalating electricity crisis not only restrained activity and exports but also boosted imports of renewable energy inputs, generators, and energy-related products. This included diesel for Eskom to run its emergency open-cycle gas turbines amid reduced domestic refining capacity.

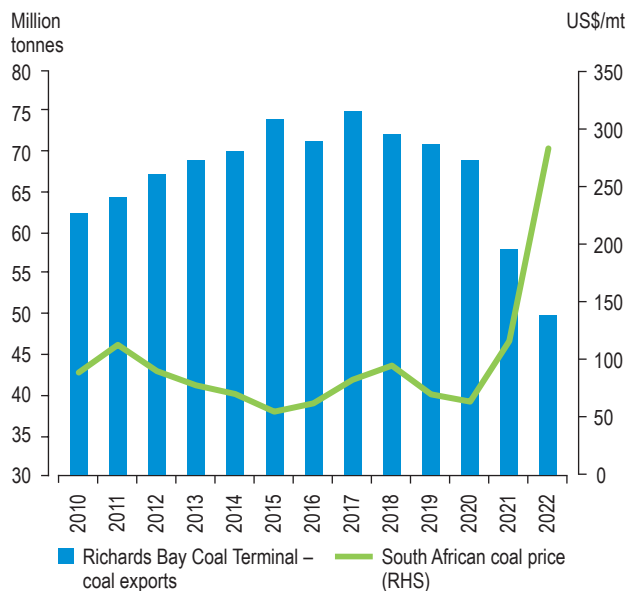
FIGURE 1.10. The current account slid back into deficit in 2022



Source: South African Reserve Bank, World Bank.

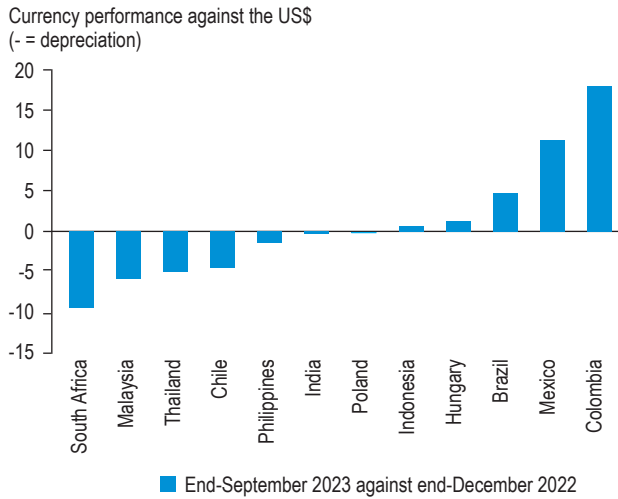
Domestic factors have reduced South Africa's attractiveness to foreign investors. Geopolitical tensions, higher global interest rates, and weaker global growth prospects make investors more risk-averse, and they are more likely to differentiate among emerging economies based on their fundamentals, negatively impacting South Africa. This was compounded in February 2023 when South Africa was grey-listed by the Financial Action Task Force for weaknesses in its anti-money-laundering and combating the financing of terrorism framework. The rand depreciated and has underperformed its emerging market peers to date in 2023 (Figure 1.12). Net portfolio investment outflows continued in the first half of 2023, and the share of foreign investors' holdings of domestic government bonds fell from over 43 percent in early 2018 to 25.2 percent in September 2023. Net inflows of foreign direct investment (FDI) have been muted relative to other middle-income countries over the last decade (Figure 1.13). However, there has been some recent interest in renewable energy projects. Overall, the current account deficit remains adequately financed. The Reserve Bank's international reserves increased by nearly \$600 million in the first nine months of the year to \$61.1 billion at the end of September 2023.

FIGURE 1.11. Coal export volumes fell despite higher global prices



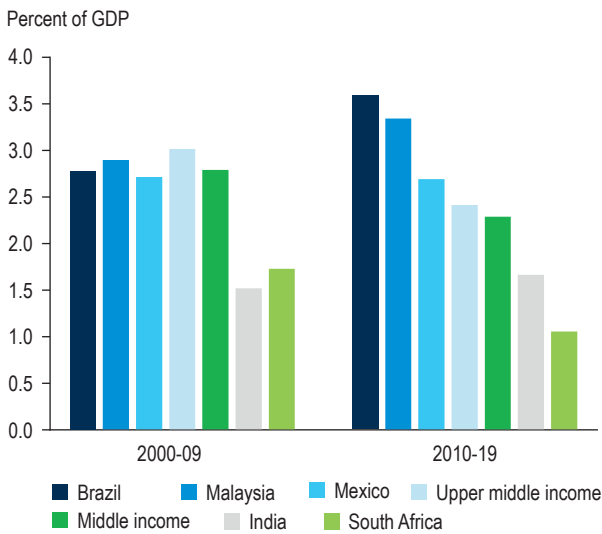
Source: Richards Bay Coal Terminal, World Bank.

FIGURE 1.12. The rand underperformed emerging market currencies in the first nine months of 2023



Source: South African Reserve Bank, World Bank.

FIGURE 1.13. Net FDI inflows weakened relative to other emerging markets in the last decade



Source: World Development Indicators database (World Bank, various years).

MONETARY POLICY AND THE FINANCIAL SECTOR

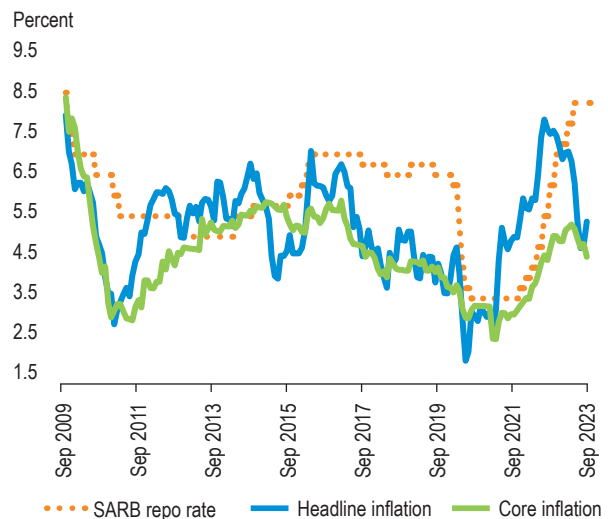
The monetary policy stance has tightened in response to inflationary pressures.

Monetary policy has become more restrictive to anchor inflation expectations. The Reserve Bank’s Monetary Policy Committee raised its policy rate by 125 basis points in the first half of 2023, following a cumulative increase of 325 basis points in 2022. Thus, the policy rate increased from a low

of 3.50 percent in October 2021 to 8.25 percent in May 2023 (Figure 1.14). In July and September 2023, the Reserve Bank left the policy rate unchanged, marking a pause in its tightening cycle after 10 consecutive rate hikes. It is expected to maintain a tight policy stance in the short term to manage inflation expectations in line with its inflation target range.

South Africa’s financial sector has demonstrated resilience to global circumstances and the domestic slowdown. Credit growth in the private sector remained firm despite the tighter monetary policy and the deteriorating economic outlook. Total loans and advances increased by 7.6 percent year-on-year between January and September 2023 (or 1.5 percent in real terms), as against 7.8 percent in 2022 (0.9 percent in real terms) and 1.9 percent in 2021 (-2.5 percent in real terms). The faster growth in the first half of 2023 was driven by business loans and mortgage credit to households, supported by low real interest rates. However, monthly data indicate a decelerating trend. The banking sector is well capitalized and profitable, with commercial banks reporting strong capital and liquidity buffers, although exposure to government securities has increased. Nonperforming loans remain moderate.

FIGURE 1.14. The policy rate is at its highest level in over 14 years



Source: South African Reserve Bank, World Bank.

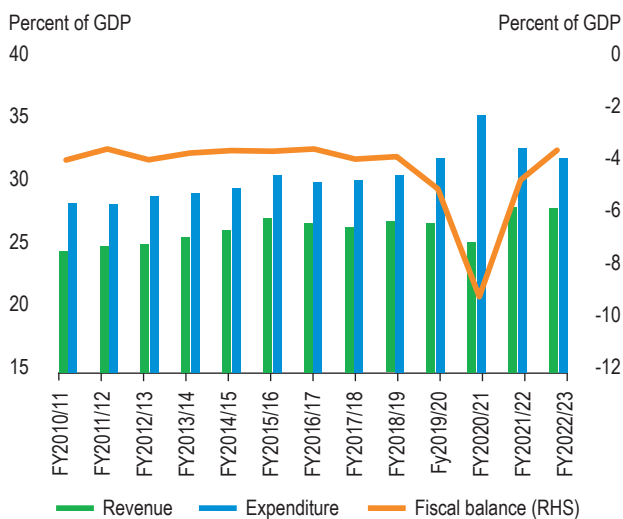
FISCAL POLICY

In a less supportive global environment, persistent spending pressures undermine fiscal sustainability and the impact of fiscal policy on growth.

The fiscal deficit improved after the pandemic—although still large—slowing the increase in debt (Figure 1.15).ⁱ The combination of high global commodity prices, the post-pandemic domestic rebound, and fiscal restraint all supported the reduction in the deficit, which declined from 9.9 to 3.7 percent of GDP between fiscal years 2020/21 and 2022/23. Revenue strongly outperformed budget estimates, by 3.6 and 1.9 percent of GDP in fiscal years 2021/22 and 2022/23, and it was mostly

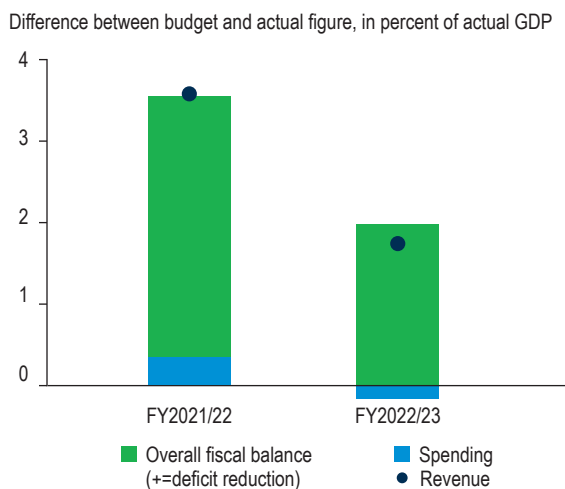
used to reduce the deficit (Figure 1.16). Expenditure declined from 35 percent of GDP in fiscal year 2020/21 to 31.9 percent in fiscal year 2022/23. The main reductions were in current transfers, the public sector wage bill, and transfers to SOEs; capital expenditure was largely stable. The public debt-to-GDP ratio rose by more than 10 percentage points during the COVID-19 pandemic, from 57.2 to 70.9 percent of GDP between fiscal years 2019/20 and 2022/23. However, the composition of debt remained favorable. At the end of 2022, over 90 percent of public debt was denominated in local currency, and the average maturity of public bonds was about 12 years, one of the longest among middle-income countries (Figure 1.17 and Figure 1.18).

FIGURE 1.15. Fiscal deficits remain large



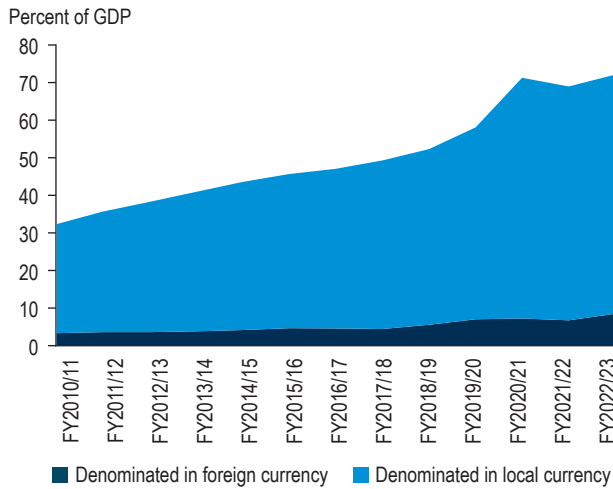
Source: National Treasury, World Bank.

FIGURE 1.16. Revenue overperformance was used to reduce budget deficits



Source: National Treasury, World Bank calculations.

FIGURE 1.17. Public debt is mostly denominated in domestic currency



Source: National Treasury, World Bank.

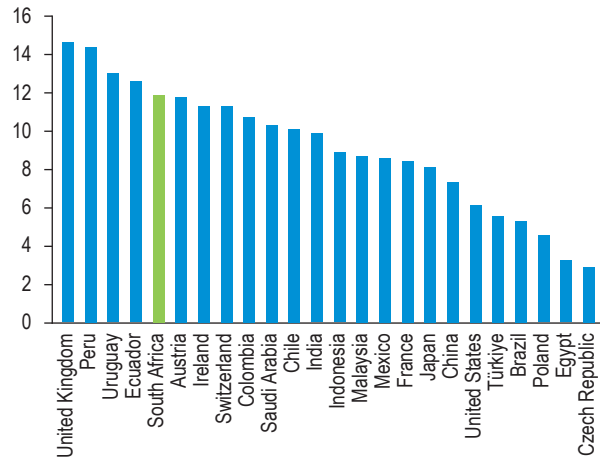
However, spending pressures have persisted, affecting the efficient use of limited resources. Despite government efforts to rebalance spending from consumption to investment, persistent pressures (especially higher negotiated wage increases, cash requests from SOEs, the inability to unwind the COVID-19 social relief of distress grant as planned, and rising debt service costs) have reduced the scope for structural shifts in the allocation of resources (Figure 1.19). Capital spending averaged 2.4 percent of GDP over the last two fiscal years, and it is about 1 percentage point of GDP below its level a decade ago (Figure 1.20). Despite the broadening of social spending and the extension of the social relief of distress grant, the value of social grants has eroded in real terms after peaking in fiscal year 2020/21 (Figure 1.21). The budgets of key developmental categories such as basic education, health, and the police have also contracted in real terms.

Weak revenue, rising debt service payments and persistent spending pressures have negatively impacted the fiscal outlook since the 2023 Budget was presented last February (Box 1.1).

- The revenue collection to date has been substantially weaker than projected in the Budget, driven by underperforming corporate

FIGURE 1.18. The debt maturity is relatively long

Average term to maturity, 2023 (years)
Top 10 and other selected countries



Source: IMF Fiscal Monitor, April 2023.

income tax and stronger VAT refunds. Lower global commodity prices and persistent domestic constraints have affected the profitability of the private sector (especially the mining sector), while higher investment and exports have boosted VAT refunds.

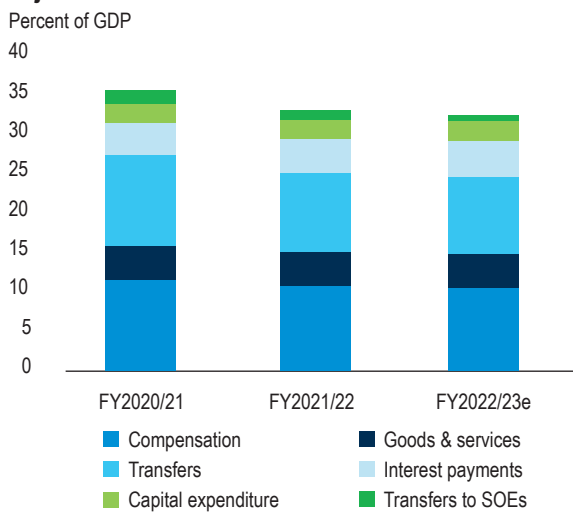
- Rising interest rates have made fiscal consolidation more difficult. Interest payments have been the fastest-rising spending category over the last decade, crowding out other spending. In a context of global monetary tightening and rising risk premium, the cost of financing increased between April and September 2023 (Figure 1.22).
- Pressures on non-interest expenditures have been contained so far, with higher allocations to wages accommodated through budget reallocation. However, this prevents government from scaling up much needed developmental spending (infrastructure and basic services delivery).

The financial positions of SOEs and municipalities remain fragile. The 2023 Budget sought to solve Eskom’s financial sustainability issues, but it is not the only troubled SOE. Over the last six years, for example, Transnet, Denel, and the South African National Roads Agency Limited all needed budget support. Overall, SOEs have received about

R266.6 billion in bailouts (4 percent of 2022 GDP) in the last decade. Recently, Transnet requested a cash injection from government to address its growing debt—which has not yet translated into additional budget commitment. The government’s contingent liabilities are sizable. Total approved guarantees to state-owned companies reached R448.1 billion

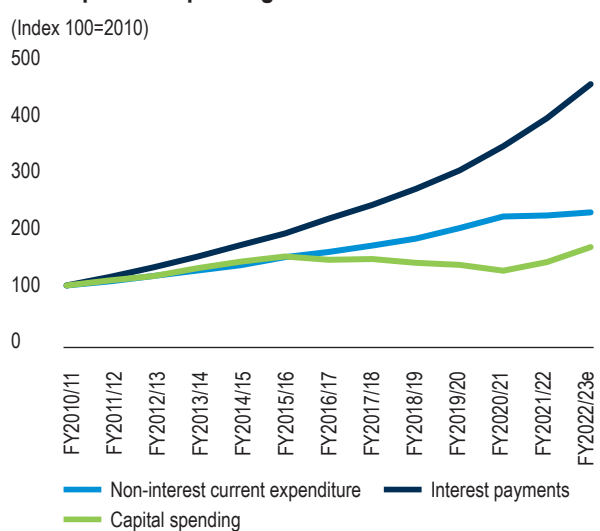
(6.7 percent of GDP) at end-March 2023, although most relate to Eskom. Local government finances are also fragile. The 2022 report on the State of Local Government Finance and Financial Management suggests that 66 percent of municipalities were in financial distress in fiscal year 2021/22 (significantly up from 26 percent in 2010/11).

FIGURE 1.19. Spending rigidities constrain the fiscal adjustment



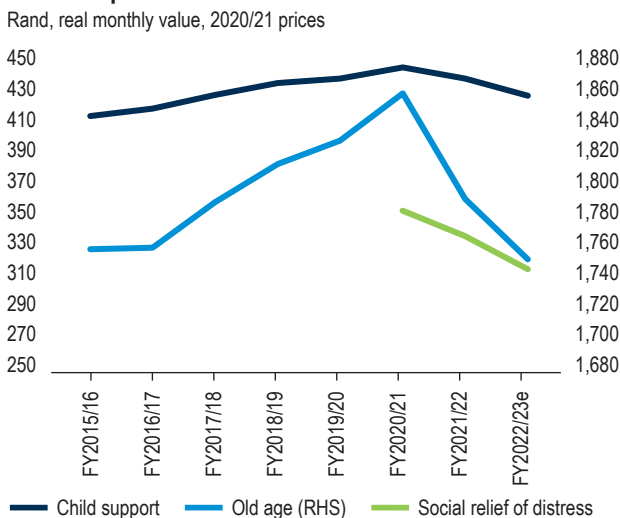
Source: National Treasury, World Bank.

FIGURE 1.20. Interest payments are crowding out developmental spending



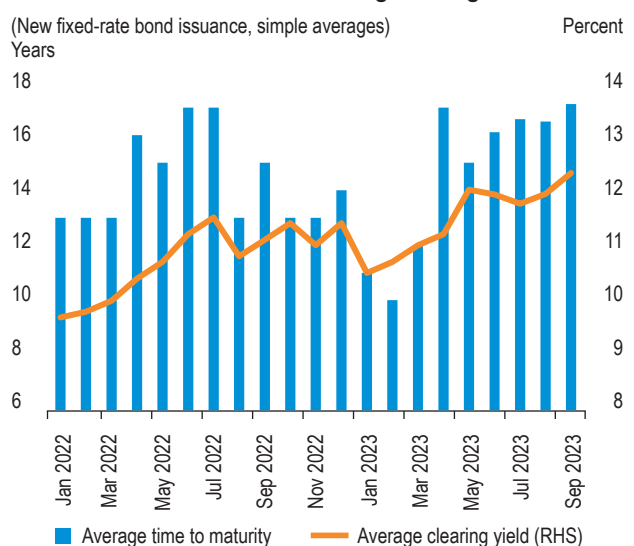
Source: National Treasury.

FIGURE 1.21. The real value of social grants has fallen since the pandemic



Source: National Treasury, Statistics South Africa, World Bank.

FIGURE 1.22. The cost of financing is rising



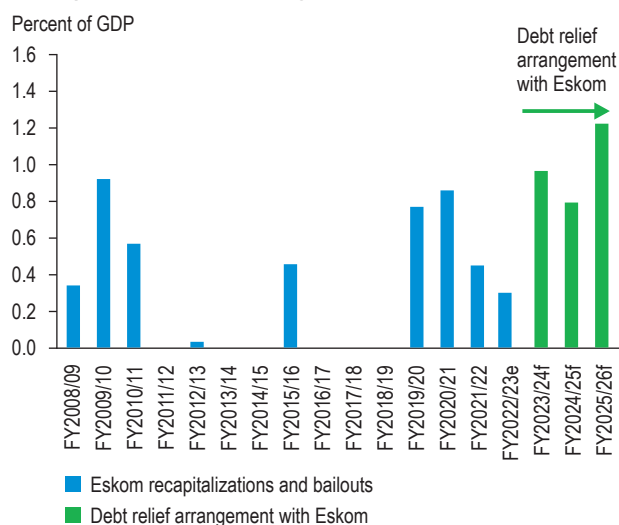
Source: National Treasury, World Bank calculations.

BOX 1.1: MAIN FEATURES OF THE 2023 BUDGET AND MEDIUM TERM BUDGET POLICY STATEMENT

The 2023 Budget aimed at maintaining a prudent fiscal policy, anchored on expenditure growth restraint. The medium-term fiscal framework envisaged limited expenditure growth of 4.5 percent a year in fiscal years 2023/24–2025/26, down from 7.9 percent in fiscal years 2015/16–19/20, and below the projected inflation rate.

The Budget also aimed to address Eskom’s financial difficulties and remove contingent liability risks. The National Treasury has injected cash into Eskom almost every year since fiscal year 2008/09, without conditionality. The new debt relief arrangement for Eskom provides transparent financial relief to the utility, along with conditions for reforms to improve its financial and operational sustainability. The deal amounts to R254 billion (about \$15 billion) over three fiscal years (Figure B.1.1). The transaction, recorded in expenditure rather than financing in the World Bank framework, represents 1.1 percent of GDP in fiscal year 2023/24, 0.9 percent in fiscal year 2024/25, and 1.4 percent in fiscal year 2025/26.

FIGURE B.1.1. The government has injected cash into Eskom without conditions for many years before the three-year debt relief arrangement



Source: National Treasury.

The Medium Term Budget Policy Statement presented in November seeks to maintain the Budget’s objective, but weaker revenue and higher interest payments negatively impacted the fiscal trajectory. Fiscal revenue was revised down by 0.6 percentage points of GDP for fiscal year 2023/24 (R43 billion) compared to the budget. The medium-term outlook for revenue was also revised downward, by about 1 percentage point of GDP per year. Debt service costs were revised up by 0.2 percentage points of GDP in fiscal year 2023/24 (R16 billion) and by another 0.3 percentage points of GDP per year in the next two years. As a result, although non-interest expenditure pressures were addressed through reallocation of resources, the fiscal trajectory has worsened, and several risks remain unaddressed (especially related to social transfers, wages, and SOEs). The fiscal deficit (including the Eskom debt relief arrangement) was revised from 5.2 to 6.1 percent of GDP in fiscal year 2023/24; from 4.7 to 5.5 percent of GDP in fiscal year 2024/25; and from 4.6 to 5.6 percent of GDP in fiscal year 2025/26. The government is now projecting that debt will peak at 77.7 percent of GDP in fiscal year 2025/26 instead of 73.6 percent of GDP at the time of the budget.

Source: National Treasury.

ECONOMIC OUTLOOK AND RISKS

In a context of weak global growth and without bold structural reforms, the economy is expected to grow only modestly in the next few years (Table 1.1). The global medium-term growth forecast is the weakest in decades, driven by tight economic policies, geopolitical tensions, and economic fragmentation. Global growth is projected to ease to 2.9 percent in 2024, according to the October 2023 World Economic Outlook of the International Monetary Fund (IMF 2023b). On the back of weak global demand and the slow pace of structural reforms beyond the energy sector, economic growth in South Africa is expected to rise to only around 1.5 percent a year in 2024–26. Per capita growth is projected at about 0.3 percent a year in that period, which means real GDP per capita is expected to remain below its 2019 level by 2026.

The weak growth projections imply that high unemployment and poverty will persist over the medium term. The expected growth is too low to raise per capita income and improve socioeconomic conditions. Unemployment is projected to remain above 32 percent throughout the forecast period. Ongoing research by the World Bank suggests that the pace at which growth contributes to reducing poverty depends on factors such as the provision of basic services, key basic infrastructure, and the economic and demographic structure. Given South Africa's challenges in delivering basic services and addressing economic constraints, its already weak

growth is likely to be even less effective at reducing poverty. The poverty rate is projected to decline only slightly to 62.5 percent by 2026, still above its pre-pandemic level of 62 percent in 2019.

Inflation is projected to slow gradually to 4.5 percent, allowing monetary policy to be eased, as inflation expectations converge towards the midpoint of the Reserve Bank's target range. A gradual easing of monetary policy will be important to avoid unnecessary contractionary effects. These projections assume that additional shocks to import prices and the local currency remain limited. Current account deficits are expected to persist, gradually increasing to 3 percent of GDP by 2026, but external stability should remain sound.

The weak growth outlook will also continue to undermine fiscal sustainability. The government is expected to maintain its focus on expenditure restraint as the main contributor towards lower deficits and debt stabilization. But the weak revenue outlook and rising debt service costs will make fiscal consolidation more difficult. The deficit is projected to reach 6.2 percent of GDP in fiscal year 2023/24, gradually falling to 4.8 percent in fiscal year 2026/27, driven by slower growth in wages, and social and SOE transfers. The allocation of spending will, however, remain tilted towards current expenditure. Capital spending is projected at 2.3 percent of GDP, which is insufficient to support infrastructure investment and growth. The public debt-to-GDP ratio is projected to reach 79 percent in fiscal year 2026/27. The government's commitment to improving primary balances (the difference between budget revenue and noninterest expenditure) is critical for stabilizing the debt-to-GDP ratio as, on current projections, GDP growth is expected to remain below the average interest rate paid on debt over the next few years (Figure 1.23). The primary balance is projected to become positive in fiscal year 2025/26, after the end of the debt-relief arrangement with Eskom. Interest payments are projected to continue increasing, reaching 5.9 percent of GDP in fiscal year 2026/27.

TABLE 1.1. Economic trends and forecasts, 2020 to 2026

	2020	2021	2022	2023e	2024f	2025f	2026f
National accounts and prices (annual percentage change)							
Real GDP growth, at constant market prices	-6.0	4.7	1.9	0.7	1.3	1.5	1.6
Private consumption	-6.1	5.8	2.5	0.7	1.7	1.6	1.6
Government consumption	0.9	0.5	1.0	0.7	-0.8	-0.4	0.9
Gross fixed capital formation	-14.6	0.6	4.8	6.4	5.3	4.5	4.1
Exports, goods and services	-12.0	9.1	7.4	3.2	3.0	3.0	3.0
Imports, goods and services	-17.6	9.6	14.9	7.0	4.5	3.5	3.5
Real GDP growth, at constant factor prices	-5.5	4.4	1.9	0.7	1.3	1.5	1.6
Agriculture	17.8	7.4	0.9	6.5	2.0	2.0	2.0
Industry	-12.1	6.2	-2.5	-1.6	0.5	1.1	1.6
Services	-4.1	3.8	3.4	1.0	1.5	1.5	1.6
Real GDP per capita growth	-7.3	3.6	0.8	-0.4	0.1	0.4	0.5
Inflation (consumer price index)	3.3	4.5	6.9	6.0	4.9	4.5	4.5
Labor market							
Unemployment rate (%)	30.9	33.8	32.8	32.7	32.5	32.4	32.2
Balance of payments (% of GDP)							
Current account balance	1.9	3.7	-0.5	-2.2	-2.8	-2.8	-3.0
Net foreign direct investment	1.5	9.7	1.6	2.0	1.5	1.5	1.5
Fiscal accounts (% of GDP)							
General government balance (incl. Eskom deal)	-9.9	-4.6	-3.7	-6.2	-6.1	-6.4	-4.8
Primary balance	-5.7	-0.4	0.9	-1.1	-0.7	-0.8	1.1
Revenue and grants	25.1	27.8	28.2	27.2	27.1	27.2	27.2
Expenditure (incl. Eskom deal above the line)	35.0	32.4	31.9	33.4	33.1	33.6	32.0
Current expenditure	31.1	28.9	28.8	29.6	29.4	29.2	29.2
Wages and compensation	11.3	10.6	10.3	10.3	10.3	10.1	10.0
Goods and services	4.3	4.2	4.3	4.4	4.3	4.2	4.2
Current transfers (incl. social grants)	11.2	9.7	9.5	9.6	9.4	9.1	9.0
Interest payments	4.1	4.3	4.6	5.1	5.3	5.7	5.9
Other current expenditure	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital expenditure	2.3	2.3	2.5	2.5	2.3	2.3	2.3
Other expenditure (incl. Eskom deal and transfers to other SOEs)	1.6	1.2	0.7	1.3	1.4	2.1	0.5
Debt	70.1	67.8	70.9	74.8	76.2	78.5	79.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

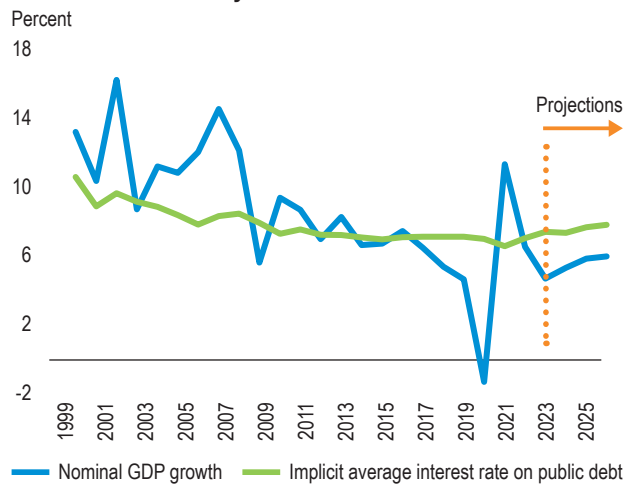
Global risks are tilted to the downside and could weigh on the outlook for growth and macroeconomic balances.

- Global risks include additional financial stress, driven by slower than expected growth and tighter than expected monetary conditions. An escalation in geopolitical tensions, conflicts, or social unrest would also negatively affect the world economy. More frequent or severe natural disasters pose additional risks to the global outlook.
- South Africa is particularly exposed to a sudden reversal in portfolio inflows stemming from higher global interest rates or a worsening of its risk premium; this could further raise borrowing costs and crowd out more developmental spending. Unexpectedly high global energy prices could fuel inflation, complicating monetary policy in a context of weak demand and growth.
- The country is also vulnerable to more frequent climate shocks. Severe flooding in KwaZulu-Natal in April 2022 and in several provinces between February and September 2023 hampered growth by disrupting activity and damaging productive capacity and infrastructure, especially for transport. The World Bank Country Climate and Development Report for South Africa estimated that overall macroeconomic damages from climate risks could average up to 0.8 percent of GDP a year between 2022 and 2050.

Domestically, South Africa is vulnerable to slower implementation of structural and fiscal reforms, especially ahead of next year’s general elections. A further weakening of the political consensus and capacity for much-needed reforms would cloud growth prospects, which would complicate the revenue outlook and pose a risk for the fiscal deficit trajectory. Fiscal risks also remain particularly high, given ongoing spending pressures. Persistently weak labor market outcomes and high poverty create pressure on social grants and public sector wages, especially in the run-up to the elections. Distressed SOEs and subnational governments may

also need bailouts, especially Transnet. Inadequate operational capacity in SOEs may dampen economic activity and, therefore, revenue. For example, Transnet’s capacity bottlenecks constrained mining sector exports and, hence, revenue from custom duties and corporate taxes. A deviation from the budgeted fiscal path would translate into higher debt and interest costs, which would compromise fiscal and debt sustainability.

FIGURE 1.23. Debt dynamics remain unfavorable



Source: National Treasury, World Bank calculations.





POLICY PATHWAYS TO IMPROVE SOUTH AFRICA'S ECONOMIC OUTLOOK

South Africa will have to grow faster to escape the middle-income trap, reduce poverty and inequality, and preserve long-term fiscal sustainability.

This will require rebalancing economic policies and accelerating their implementation to: (a) boost economic dynamism and private sector job creation, and (b) create space for fiscal policy to support investment in human and physical capital and social safety nets in a sustainable manner. These objectives are interconnected. Between the late 1990s and the global financial crisis, higher growth rates led to higher job creation in South Africa. Fiscal policy also played an important role in reducing income inequality (World Bank 2014); however, weakening growth and revenue collection have put its sustainability at risk.

Persistently weak investment and human capital development have severely damaged the underlying drivers of growth (Table 1.2). A growth decomposition shows that between 2010 and 2021, South Africa invested 2–3 times less in physical capital and 1.5–2 times less in human capital than did successful upper-middle-income countries. This

meant that its total factor productivity (a measure of how efficiently a country uses its human and capital resources to produce goods and services) declined by 0.72 percent a year, even as it grew by over 1 percent a year on average worldwide. Low productivity contributed to a significant decline in South Africa's trend growth in that decade compared with the decade before the global financial crisis. The causes of low productivity in the country have been extensively studied; they include an education system unable to produce the skills needed in the modern workplace, aging and badly maintained transport and logistics systems, an electricity infrastructure unable to provide industry with consistent inputs at a reasonable cost, the spatial and asset ownership legacy of apartheid that locks many South Africans out of the formal economy, and the degradation of institutions and governance (Shah 2022; World Bank 2018).

South Africa urgently needs to bridge the gaps in investment and productivity to raise its economic potential. Low investment and productivity losses in a rapidly changing global environment have created various challenges that limit the country's growth potential. To support higher growth, it needs to deliver quality infrastructure (notably to connect people and businesses), promote innovation, invest in people, and strengthen institutions. In all these areas, South Africa's relative position has eroded over the past 15 years, especially in comparison with successful East Asian economies or India (Figure 1.24 to Figure 1.27). Institutions are particularly important for development (Acemoglu and Robinson 2008; Rodrik 2008). Although the

TABLE 1.2. South Africa had lower physical and human capital accumulation and declining productivity
Compound annual growth rates, 2010–22 average (percentage points)

	South Africa	Vietnam	Thailand	Malaysia	India	Indonesia	Türkiye
Capital stock	2.91	7.36	2.75	4.65	7.42	5.49	6.26
Labor	1.18	1.13	0.10	2.20	0.76	1.84	2.39
Total factor productivity	-0.72	1.06	0.69	0.55	2.69	0.42	0.82
Real GDP	1.21	5.88	2.17	4.22	5.45	4.45	5.54

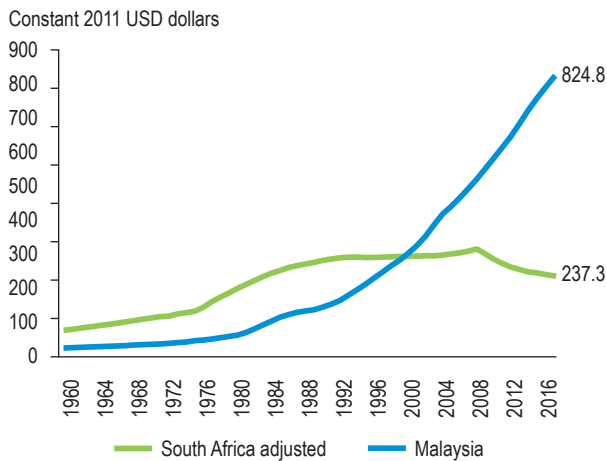
Source: World Bank.

country's state capacity remains high relative to other emerging markets, it is weakening rapidly because of corruption and declining skills among civil servants, especially at the local level. Reforms to promote a more vibrant private sector would support higher activity, job creation, exports, and ultimately growth, while also helping to reduce poverty and inequality.

Confronted with the electricity crisis and transport and logistics bottlenecks, the government has begun to act, but reforms need to be bolder and implemented faster. Many areas in need of reform were highlighted in previous Economic Updates. Restoring confidence and boosting private investment will require addressing key constraints on private sector activity, including infrastructure, safety and security, and skills.

Given the limited fiscal space, improving the efficiency and allocation of public spending is critical for fiscal policy to support higher and inclusive growth. Despite relatively high levels of expenditure by international standards, in many sectors (see for example the discussion on police spending in the next chapter) outcomes have not been commensurate to the resources spent. In this context, improving spending efficiency would help improve service delivery, even in a context of limited resources. This includes addressing leakages

FIGURE 1.24. The stock of public capital is declining



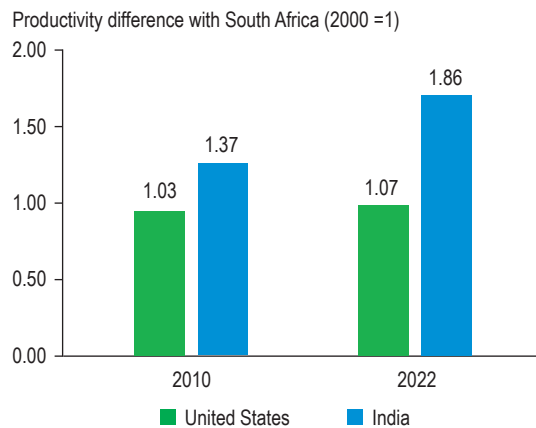
Source: IMF database, World Bank calculations.
 Note: The public stock is adjusted by assuming a 10% depreciation rate (rather than 5%) of the existing capital and a diversion of 10% of annual gross investment from its intended allocation.

and corruption and improving the allocation of spending. Enhancing accountability and capacity, notably at the subnational level, is also important. Strengthening procurement processes to avoid overpaying for goods and services would help reduce waste. Improving the maintenance of public infrastructure is another precondition for a more competitive private sector. Using expenditure reviews to better link the allocation of spending to program outcomes and avoiding ad hoc reallocations of resources to address emerging pressures would help prioritize spending in the fiscal framework and increase the impact of fiscal policy. Better delivery of basic services, such as health and education, will be critical for improving opportunities for all South Africans and decisively addressing high levels of poverty and inequality.

Firm political commitment to reform could also boost growth in the short run. Credible and consistent economic policies, combined with a strong political consensus, could restore confidence quickly. Improving the perception of South Africa's outlook could open the door to more dynamic private investment, which would support economic growth and job creation.

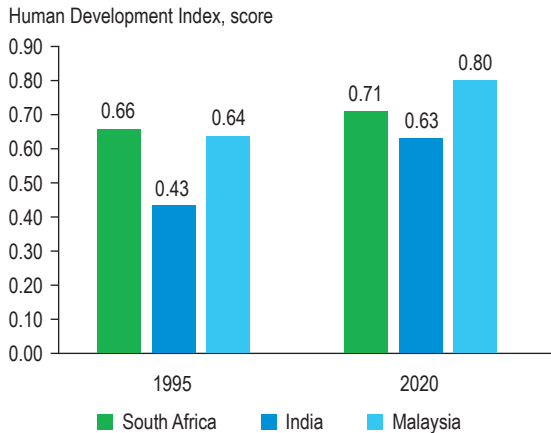
One important challenge in South Africa is the high incidence of crime. It affects the country's economic performance through multiple channels; this is the focus of Chapter 2.

FIGURE 1.25. South Africa is moving away from the productivity frontier



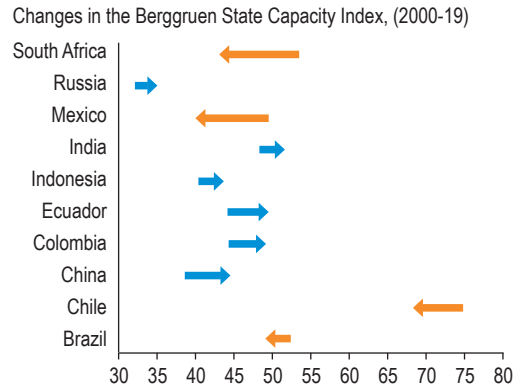
Source: World Development Indicators database (World Bank, 2010, 2022).

FIGURE 1.26. It is losing its comparative advantage in human capital



Source: United Nations.

FIGURE 1.27. State capacity is declining fast



Source: Berggruen Governance Index.

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CHAPTER 2: THE ECONOMIC COST OF CRIME IN SOUTH AFRICA



MAIN MESSAGES

- **Crime is prevalent in South Africa, but violent offenses are a particular concern.** The rate of homicide in the country is among the highest in the world. After a significant drop following the end of apartheid, the homicide rate has crept up again, increasing from 30 to 42 per 100,000 people over the past decade. Overall, the police recorded about 3,600 crimes per 100,000 people annually over the last five years preceding the pandemic, about two-thirds of which were economic crimes; however, underreporting is widespread. Domestic organized crime is also increasing.
- **High crime rates damage the economy and contribute to the misallocation and inefficient use of resources, inflicting an estimated cost of at least 10 percent of GDP every year.** This amount—which represents R700 billion (\$38 billion) in 2023—combines transfer costs associated with stolen property, protection costs, and opportunity costs (Box 2.1). Crime reduces firms' competitiveness, crowds out productive private and public spending, damages basic infrastructure, and affects people's quality of life, all of which contribute to the misallocation of resources in the economy, reducing the country's growth potential and the welfare of its citizens. Given the difficulty in quantifying some costs, this is a conservative estimate, and the overall economic and social impacts of crime are probably much higher. Ultimately, crime undermines the country's development objectives of high and inclusive growth.

- **Crime has direct and indirect negative impacts on businesses, households, and the state.** Businesses are severely affected by crime. Combining the direct losses in income and assets and the cost of prevention, the annual impact of crime on firms is estimated around 6.5 percent of GDP. This reduces South Africa's competitiveness, job creation, and economic activity. Similarly, crime affects the quality of life of households, especially in urban areas. The impact of economic crime on households is estimated at about 2 percent of GDP. Finally, crime contributes to the deterioration of network infrastructure through theft. All major infrastructure networks, including transport, electricity, and communication, have been affected. Although the direct and indirect costs of infrastructure theft to operators are already substantial, they represent only a fraction of the overall damage to the economy.
- **Crime also reinforces inequality, already among the highest in the world.** All households and firms are vulnerable to crime, but their capacity to protect themselves (through private security) and mitigate the impact of crime (through insurance) depends primarily on their income. Thus, most South Africans and micro and small enterprises are largely unprotected against crime, especially in marginalized areas. In this way, crime reinforces multidimensional inequalities in income, spatial dynamics, and economic opportunities. As crime is prevalent in marginalized communities, where people are often more at risk of engaging in criminal activity, it reinforces the cycle of violence and exclusion.
- **More effective public spending is needed to win the battle against crime, as well as measures to help prevent violence rooted in poverty and exclusion.** Although spending on public order and safety has long been significant, service delivery has not been efficient. The capacity of the police to solve crime has declined over time, fueling growth in criminal activities and reducing people's trust in the police and justice institutions. More is also needed to prevent violence—a known driver of criminality—by addressing exclusion and inequality of opportunity, especially among people most at risk.
- **Past experiences in South Africa and abroad suggest that well-designed and implemented policies, targeted to a few prioritized crimes, can yield results in the medium term.** Building on international experience as well as successful initiatives in the country, South Africa can take steps to start addressing the long-standing challenge of high crime rates. Given limited human and financial resources, a targeted approach focused on a few indicators and coordinated across different government agencies and stakeholders in the private sector and civil society could be an effective approach. Reducing the homicide rate, which has been increasing over the past decade and stands among the highest in the world, could be a priority given its impact on the perception of insecurity in South Africa. Tackling the rise in organized crime, which has thrived on the declining capacity of the police and justice institutions and has broad-based effects on economic activity, could be another priority.



INTRODUCTION

Crime has long been high in South Africa, especially violent offenses. South Africa is regularly among the top 10 countries with the highest rates of violent offenses and in the top five with the highest homicide rates (based on data from the United Nations Office on Drugs and Crime (UNODC)). Although crime is much discussed and regularly makes headlines, there are few estimates of its costs, partly because of the difficulty in quantifying them. Previous studies have estimated the cost of crime and the expenditure to combat it in the range of 8–14 percent of GDP a year (see Alda and Cuesta 2011; Institute for Economics and Peace 2022).ⁱⁱ

Understanding how crime reduces the country's growth potential is vital for developing the right policies to combat it and mitigate its impact. Crime exacerbates the many other challenges constraining South Africa's socioeconomic prospects. At a time when the country needs to implement much-needed structural reforms to restart growth, create jobs, and create the conditions for reducing poverty and inequality, confronting the problem of crime and its socioeconomic costs is critical.

This chapter is structured around five key "findings". Focusing on economically motivated crime, the chapter highlights the negative impact of crime on socioeconomic outcomes as South Africa seeks to restart growth and improve inclusion. The first finding uses official statistics to show that crime is elevated by international standards. The next three assess the direct and indirect impacts of such crime on businesses, households, and network infrastructure. The fifth discusses the role of the government, especially through budget allocations, and the relationship between declining police performance and the emergence of private security services. Drawing on international examples of successful reform, the chapter concludes with some policy directions, highlighting the need to improve the efficiency of the police and justice institutions and to invest in violence prevention. Given South Africa's legacy of exclusion, broad macroeconomic and structural policies to promote higher growth and job creation are critical for building a more resilient society and economy and reducing poverty and inequality (World Bank 2018a).

BOX 2.1. TYPOLOGY OF CRIMES COVERED AND METHODOLOGY FOR THE COST ESTIMATION

This analysis focuses on economically motivated crime and does not cover all categories of crime. Domestic organized crime is examined as an extension and relatively newer and more sophisticated form of economic crime, which includes extortion and theft of public infrastructure and may sometimes involve corruption or collusion with public sector officials. However, a detailed analysis of corruption is beyond the scope of this chapter. International organized crimes (such as human trafficking, theft of fauna and flora, weapons, drugs, money-laundering, and cyber-crimes) are also beyond the scope of this analysis, given their specific determinants and the transnational nature of the policy responses needed to combat them. In terms of the SAPS data typology, economic crimes in this analysis include robberies and burglaries, hijackings, arson and malicious damage to property, commercial crime, shoplifting, and other theft. The crimes that are not discussed in detail in the chapter include noneconomic crimes such as murders, interpersonal and sexual offenses, along with other crimes detected by the police, such as illegal possession of firearms, drug-related crime, and driving under the influence of alcohol. Violence, especially homicide and interpersonal or gender-based violence, can devastate households. The chapter touches on such crime but does not analyze or cost it, given its specific dimensions and broad-based intangible impacts.

BOX 2.1: Continued

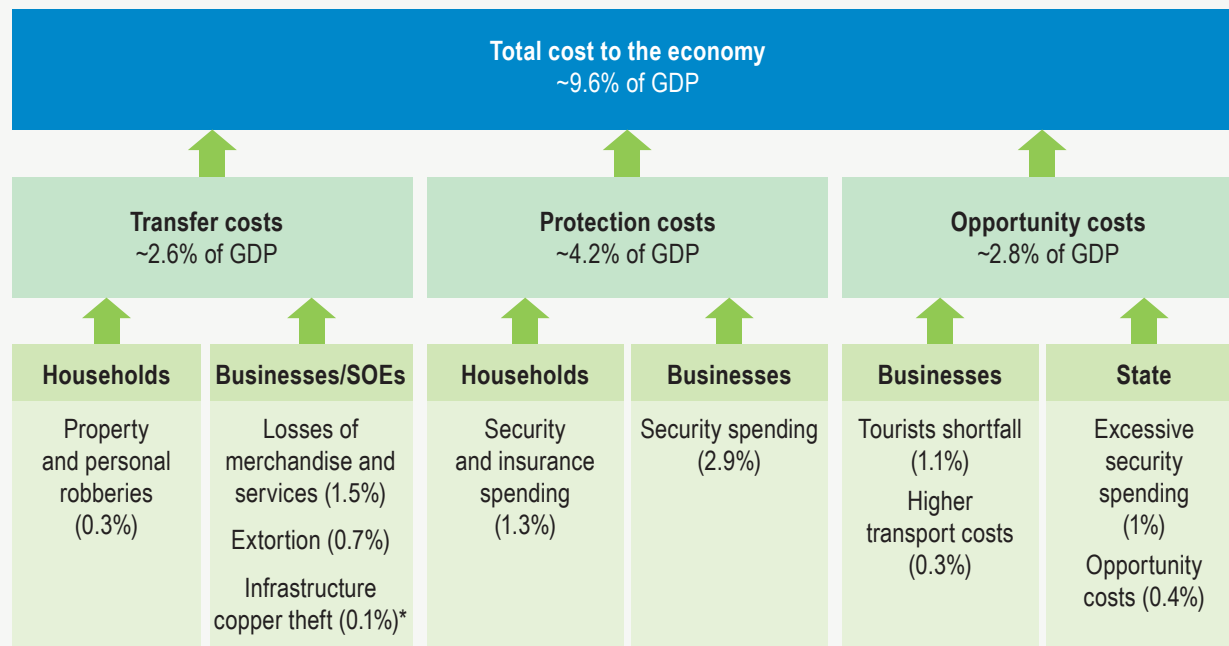
The costing exercise uses the accounting methodology that has been widely used in similar studies. Notably this is the methodology followed in Alda and Cuesta (2011) for South Africa, and Jaitman (2017) for several Latin American countries. All these studies highlight the challenge of estimating the welfare cost of crime and the caveats associated with limited available data. The costing exercise aims to quantify costs and losses that would not be observed in the absence of crime. However, it is not a dynamic modeling exercise that allows an estimate of the impact of crime on the decisions of economic agents or the transfers across sectors and agents. In effect, not all costs represent economic losses (e.g. security spending). Although some costs stem from the objective destruction of assets, and hence value, others represent distributional shifts. In this context, the overall impact of crime for South Africa, estimated in this chapter at 10 percent of GDP annually, should not be interpreted as a 10-percentage points reduction in nominal GDP growth. Still, the hypothesis in this report is that these impacts contribute to the misallocation and inefficient use of resources in the economy and thus negatively affect its size and dynamism. They can be grouped into three categories (Figure B2.1):

- **Transfer costs** of the stolen property from households and businesses are estimated around 2.6 percent of GDP. They do not necessarily represent an absolute welfare loss for the economy as a whole given that the stolen goods do not disappear and continue to be used, though not by their initial owners. They do, however, represent a welfare cost for those who suffer the loss, and they impact firms' and households' decisions and behaviors.
- **Protection costs** (security and insurance spending) are estimated around 4.2 percent of GDP. Again, they are not a "sunk" cost for the economy as a whole, as they benefit sectors that contribute to GDP and job creation. Yet they do represent a tax on households and firms that distorts their consumption and investment decisions.
- **Opportunity costs**, which include foregone economic opportunities by the private sector estimated around 1.8 percent of GDP, and foregone developmental public spending because of excessive spending on public order and safety compared to peers by about 1 percent of GDP.

This overall estimated cost is a conservative estimate, as it only covers economic crime, and many costs are not accounted for because of the lack of data to estimate them. For example, medical costs; foregone wage because of incarceration, incapacitation, death, or stolen working devices (car, computer, etc.); and intangible costs related to trauma, changes in routines and behaviors, distrust in the police, etc. are not costed. All of these are likely to be significant in South Africa, as the evidence presented in the chapter suggests.

The estimation of the cost of crime is derived primarily using surveys to firms and households. The World Bank Enterprise Survey data do not distinguish between different forms of crimes and include theft, robbery, vandalism, arson, internet hacking, and fraudulent internet transactions. The costing exercise uses "objective" measures available in the survey related to the incidence of crime, losses from crime, and cost of security spending. For the household surveys used in the chapter (the Living Conditions Survey, the Victims of Crime, and later the Governance, Public Safety and Justice Surveys, and the Survey of Employers and the Self-Employed), a similar typology is followed. From among the crimes listed in the surveys, the empirical analysis covers robberies; motor vehicle hijacking; theft of personal property; theft of bicycle and motorcycle; theft out of motor vehicle; motor vehicle vandalism/damage; housebreaking/burglary; home robbery; theft of livestock, poultry, and other animals; theft of crops planted by households; deliberate damaging or destruction of dwellings; and motor vehicle theft. It excludes assaults, fraud, corruption, and sexual offenses. The analysis also uses estimates from network industries (especially SOEs) and sectoral analysis to discuss the impact of crime on specific sectors.

FIGURE B2.1. Crime takes a heavy toll on the economy



Source: World Bank.

Note: * Some of these losses are incurred by private telecommunications providers.

FINDING 1: CRIME IS HIGH RELATIVE TO OTHER COUNTRIES.

Crime is prevalent in many forms, but violent offenses are a particular concern. South Africa is consistently among the five countries with the highest homicide rates. Its homicide rate is over six times the average for upper-middle-income countries and nearly 16 times that for high-income countries (Figure 2.1). South Africa had some success in fighting violent crime after the end of apartheid, and the rate of intentional homicide dropped from 60 to 29.7 per 100,000 people between 1994 and 2011. However, it gradually rose again to 36.7 in 2019, and although the lockdown restrictions on mobility and access to alcohol during the pandemic saw a reduction in overall crime, the homicide rate kept rising, to 41.9 in 2021.

The discussion about crime cannot be separated from that about inequality:

- **Crime both causes and is caused by inequality.** Crime and violence undermine development, reducing the opportunities open to already vulnerable, marginalized people (Gramckow and others 2016). At the same time, inequality, social fragmentation, and weak governance are generally associated with higher levels of crime. Thornton and others (2022) find an inverted U-shaped relationship between property crime (burglary) and income and inequality: property crime increases with income and inequality up to a point where people’s awareness of their vulnerability to crime leads them to acquire protection, which in turn leads to a decrease in crime. Krammer and others (2023) show that higher inequality increases the risk of crime faced by businesses: a one decile increase in the Gini coefficient is associated with a 4 percent increase in the risk of crime. They also find that this negative impact is stronger at lower levels of trust.

- **Persistent inequality is rooted in the legacy of apartheid.** Despite some progress towards addressing poverty and expanding access to basic services like water and electricity, racial inequalities have largely persisted since 1994. Historical disadvantages broadly continue to determine income, wealth, and opportunity (World Bank 2018a; Willman and others 2018). As such, the economic transition from a system of exclusion under apartheid remains incomplete. Furthermore, over a decade of low economic growth and declining trust in the government, driven by state capture and failed service delivery, has fueled discontent, as evidenced by the ongoing decline in voter turnout. This incomplete transition means that many South Africans are still excluded from job opportunities and, hence, from joining the middle class, making the social contract more fragile (Cloutier and others 2022).

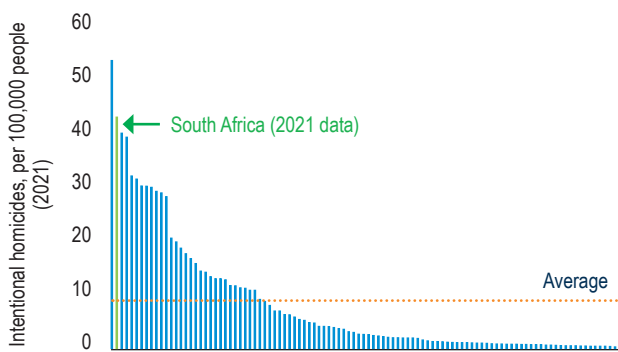
Yet, even when controlling for income inequality, crime levels remain very high. South Africa has much higher rates of homicide than do countries with similar levels of income inequality, such as Botswana, Eswatini, Namibia, or Zambia. This highlights the multidimensional drivers of crime and violence in the country (Figure 2.2).

About two-thirds of the crimes recorded by the SAPS are explained by economic motives (Figure 2.3). Economic crimes are motivated by economic gain

or resource acquisition (Thornton and others 2022) or involve intentional damage to property. The nature of economic crime has evolved, shifting from individual perpetrators to more sophisticated organized crime; this contributes to the perception of worsening crime. Worryingly, the ratio of violent economic crime is increasing, rising from one in five in fiscal year 2011/12 to one in four in fiscal year 2019/20. Relative to its peers at a similar level of development, South Africa stands out on various violent offenses recorded by the UNODC (Figure 2.4).

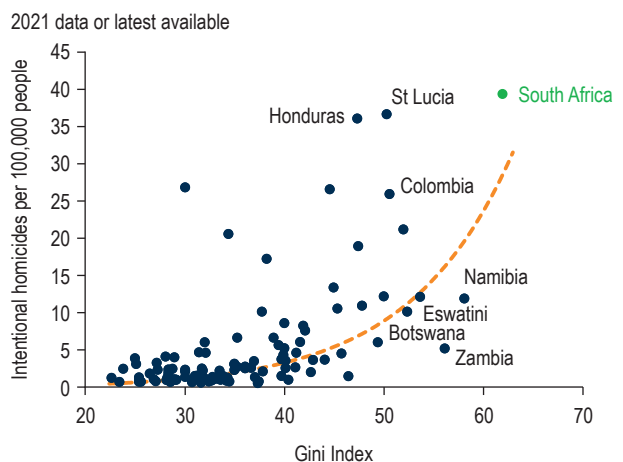
These numbers are likely to understate the true incidence of crime, which is significantly underreported in official statistics. Distrust of the police and the expectation of poor service, often associated with police misconduct, explain much of the underreporting, especially in poorer communities. This is exacerbated by distance and other difficulties in accessing police services, fear of retaliation (especially in cases of extortion), and limited economic incentives, because poor people seldom have insurance. Survey data shed some light on the magnitude of underreporting: just over half of households and a third of micro, small, and medium enterprises in urban areas who experience crime do not report it (McDonald 2008; Stats SA 2019a). Also, some evidence suggests that the police may fail to record some crimes reported to them (e.g. Commission of Inquiry in Khayelitsha 2014).

FIGURE 2.1. Homicide rates are among the highest in the world



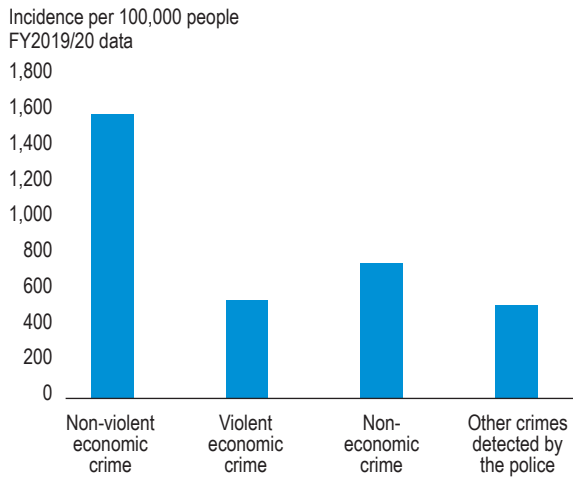
Source: UNODC, World Development Indicators database (World Bank, 2021).

FIGURE 2.2. Crime is comparatively high, even after controlling for inequality



Source: World Development Indicators database (World Bank, various years).

FIGURE 2.3. Most crime is economically motivated

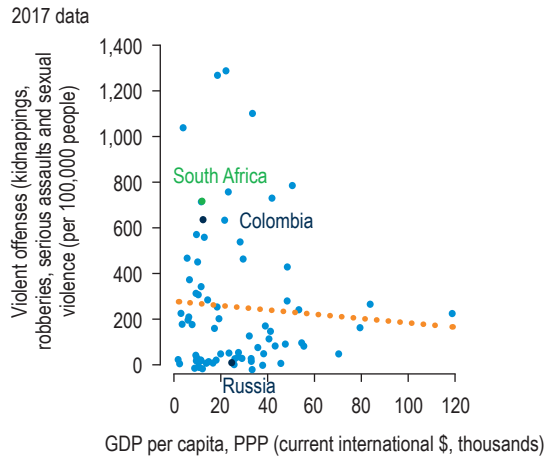


Source: SAPS, FY2019/20 data.

Organized crime has risen significantly in the past decade. Defined as criminal activities that are planned, coordinated, and conducted by structured groups, organized crime tends to be more sophisticated and adaptable than more traditional, individual forms of crime. In 2021 South Africa was ranked seventh out of 193 countries on the GI-TOC Global Organized Crime Index (GI-TOC 2023). The incidence of extortion, kidnapping, and organized robbery (such as cash-in-transit heists or vehicle hijackings) has increased significantly over the past decade (GI-TOC 2022). SAPS data show a threefold increase in kidnappings and a doubling in carjackings between fiscal years 2012/13 and 2021/22 (Figure 2.5). In interviews, several business owners noted that criminals have become more sophisticated and organized, making it more difficult and expensive to fight them. There are several drivers behind the rise in organized crime, especially the deteriorating capacity of the police. There was also an increase in illicit trade during the COVID-19 pandemic as a result of the government’s complete ban on some products, such as alcohol and tobacco, at the beginning of the pandemic response.

Intentional damage to property during social unrest has also increased. South Africa has seen a rise in public protests, some of which are violent and accompanied by damage to property. The SAPS data on crowd management interventions as a result of public disruptions or violence shows

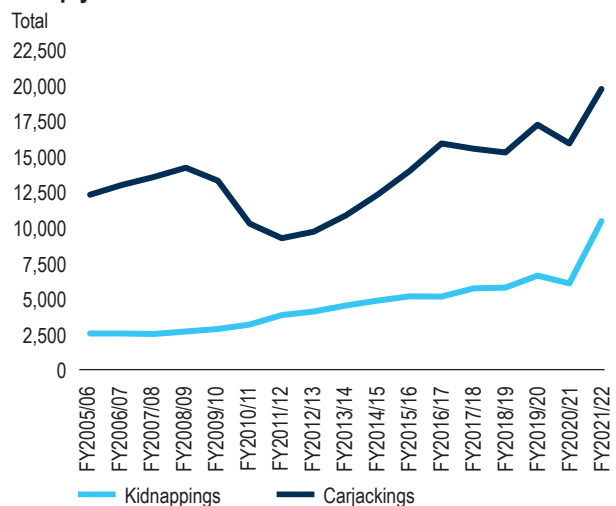
FIGURE 2.4. Rates of violent crime are also comparatively high



Source: UNODC, World Development Indicators database (World Bank, 2017). Note: The chart includes country data from the UNODC databases only. These should be interpreted with caution given different reporting rates and definitions among countries.

that these incidents have increased from about 750 per year in fiscal years 2006/07–2008/09 to an average of 3,900 per year in fiscal years 2017/18–2019/20. In July 2021, Gauteng and KwaZulu-Natal saw several days of violent social unrest, with over 350 deaths and significant destruction of public and private property. Over 200 shopping centers and warehouses were looted and at least 100 network towers and automatic teller machines vandalized. The unrest caused unprecedented economic disruption, with direct losses estimated at R20 billion (0.3 percent of GDP) and an overall economic impact of as much as R50 billion, or 0.8 percent of GDP (Erasmus 2022).

FIGURE 2.5. Kidnappings and carjackings have risen sharply



Source: SAPS.

FINDING 2: BUSINESSES ARE SEVERELY AFFECTED BY ECONOMIC CRIME.

The annual impact of crime on businesses is estimated at about 6.5 percent of GDP. This includes the direct losses in income and assets, as well as the related security costs. According to the 2020 World Bank Enterprise Survey, about one in eight formal businesses are affected by crime every year, and they lose on average 11 percent of their sales to crime; this adds up to about 1.5 percent of GDP.ⁱⁱⁱ These losses occurred despite over 60 percent of firms paying for security, amounting to about 2.9 percent of GDP for the sector. Protection costs are rising fast. Criminals are becoming more sophisticated, and digital security services and more frequent patrols are needed to combat their activities. Also, in the face of increasing risks, insurance costs have soared, making products such as power batteries effectively “uninsurable.”

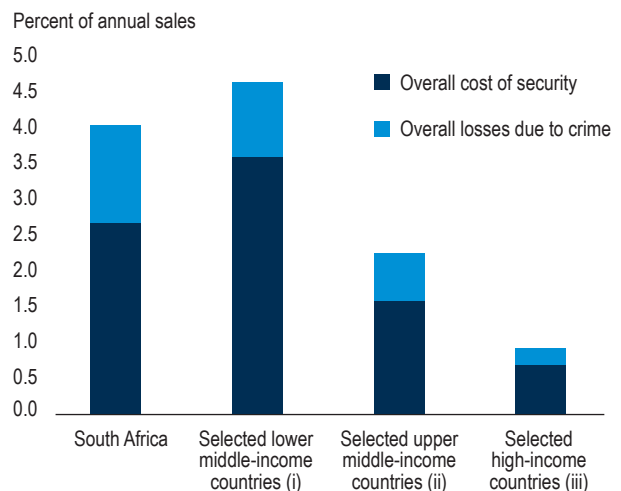
The losses due to crime for formal businesses in South Africa are higher than in most upper-middle-income and high-income countries (Figure 2.6). Losses in South Africa are about 30 percent higher than the average in Indonesia, Morocco, and Nigeria, twice as high as the average in Brazil, Colombia, Russia, Thailand, and Türkiye, and up to six times higher than in a selected group of high-income countries. These average figures mask significant variations, which depend on business characteristics:

- **In the formal sector, larger firms are relatively more affected.** About 21 percent of large firms were affected by crime, as against 11 percent of small and medium ones (Figure 2.7). Those who did fall victim to theft and vandalism saw higher losses, averaging 17 percent of their sales, as against only 10 percent for smaller firms.
- **Services firms and exporters are more vulnerable.** Businesses in the services sector report more crimes and losses than manufacturing firms.

The construction sector faces specific extortion problems linked to well-organized mafias, dubbed “local business forums,” that invade construction sites and demand a ransom or a stake in development projects, often violently. The losses for this sector were estimated at about R40.7 billion (0.7 percent of GDP) in 2019.^{iv} The road freight sector has faced more truck hijackings, especially in Pretoria, Johannesburg, Durban, Gqeberha, Bloemfontein, and Cape Town, often targeting fuel, electronics, and food and beverages (TT Club & BSI Screen Intelligence 2020). Exporting firms also see crime as a bigger constraint on doing business. The mining sector is particularly affected, being exposed to extortion and murder, often because of illegal mining.

Informal businesses are also highly vulnerable to crime. At least 10 percent of informal businesses are exposed to economic crime every year, including burglary, robbery, and theft; some surveys suggest much higher numbers, up to 50 percent (McDonald 2008; Stats SA 2019b). For informal microbusinesses, McDonald (2008) estimated the cost of crime at 20 percent of their annual revenue. But very few informal businesses can afford to protect themselves—only about 1 percent spend money on security.^v

FIGURE 2.6. South African firms face a high cost from crime



(i) includes Indonesia, Morocco, and Nigeria.

(ii) includes Brazil, Colombia, Russia, Thailand, and Türkiye.

(iii) includes Croatia, Czech Republic, Hungary, Poland, Romania, and Uruguay.

Source: Enterprise Surveys, www.enterprisesurveys.org (World Bank, various years).

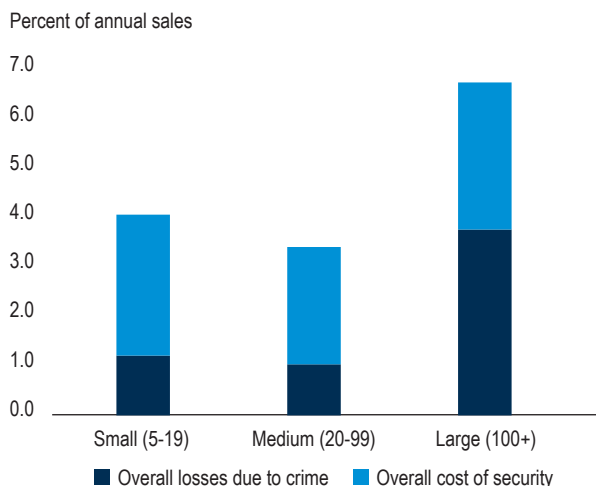
Economic crime increases the cost of doing business, reducing the dynamism of the private sector and the country's growth potential. If businesses alone could have invested a third of their security spending in 2015–19 in productive ventures instead, South Africa's growth potential could have increased from about 1 percent a year to 1.7 percent, and up to 2.3 percent if such investment also led to higher productivity. The unequal access to mitigating mechanisms (security and insurance) between large and small firms contributes to the weak dynamism of the private sector, characterized by a lack of medium firms. It is also particularly detrimental to the economic dynamism of underprivileged areas, contributing to lower job creation and income generation in areas that are typically isolated from economic centers.^{vi} In this context, crime further hinders South Africa's transformation through broad-based private sector-led growth and the reduction of income, opportunity, and spatial inequalities.

- **Crime diverts resources from productive uses:** Spending almost 3 percent of their sales on security means firms have less to invest in new technologies and innovation; in this way, the opportunity cost of protection spending has significant implications for growth. Also, the loss

of products to theft is a highly unpredictable tax that distorts business decisions. If the impact of crime is passed through to final prices, this hurts consumers and reduces the firm's local and even international competitiveness. Data from the World Bank Enterprise Survey show that firms that are more affected by crime (that have higher losses relative to the value of their sales) have lower sales (Figure 2.8). Jeke and others (2021) also find that property crime has a significant negative effect on investment.

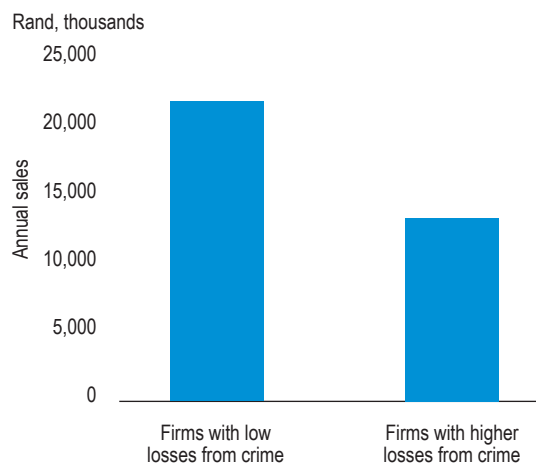
- **Crime hampers the efficient allocation of resources in the economy:** By increasing the costs of transport, crime negatively affects the movement of products and people. For example, workers will hesitate to accept jobs in remote or dangerous areas, particularly at night. In general, the combination of poor public transport, expensive commuting, and crime makes job searches more difficult and costly and raises reservation wages (World Bank 2018b). Also, businesses may stop deliveries or increase delivery fees in areas considered unsafe; this again reinforces disparities.
- **Crime makes it more difficult for emerging firms to succeed, especially small and medium ones:** The high cost of crime discourages the creation

FIGURE 2.7. Among formal firms, large ones are more affected by crime



Source: Enterprise Surveys, www.enterprisesurveys.org (World Bank, 2021).

FIGURE 2.8. Higher losses from crime reduce firms' sales



Source: Enterprise Surveys, www.enterprisesurveys.org (World Bank, 2021).
 Note: Firms are categorized into the higher/low loss category if their losses from crime were above/below the median value.

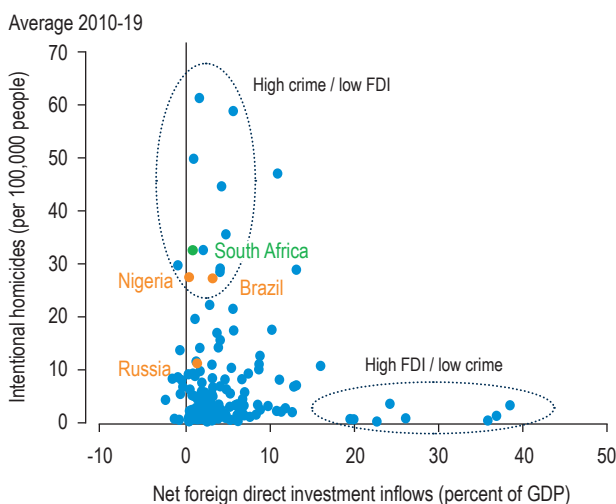
of new firms: a 1 percentage point increase in total crime is estimated to reduce business entry by 0.53 percent (Mahofa and others 2016). The same negative effects are seen in the informal sector—between 10 and 30 percent of potential entrepreneurs do not start or invest in a business because of crime (McDonald 2008; Stats SA 2015a). In poorer areas, crime seems to have the worst impact on the smallest and most successful entrepreneurs, which creates a significant barrier both to the creation of new businesses and to their formalization. In townships such as Diepsloot and Khayelitsha, crime was the most reported constraint on doing business (Cichello and others 2011; Mahajan 2014). This particularly affects women entrepreneurs because of their vulnerability to violence, which makes them less likely to operate in areas perceived as dangerous (Mahajan 2014). GI-TOC (2022) also found that firms affected by crime were about 20 percent less likely to create jobs. Despite their vulnerability to crime, few informal businesses have sufficient financial resources to protect themselves—only about 1 percent of them spend on security (McDonald 2008; UNDP 2021).

- **Crime discourages foreign investors:** Cross-country data from 2010–19 confirm a negative correlation between crime rates and FDI inflows

(Figure 2.9). Although no studies specifically assess the impact of crime on FDI in South Africa, the 2017 Executive Opinions Survey of the World Economic Forum shows that crime is deemed the second most problematic factor for doing business in South Africa, after corruption. Empirical evidence in Italy, Mexico, and the Organisation for Economic Co-operation and Development also shows that certain crimes, especially violent ones, deter FDI, and that the impact is higher in the services sectors (Ashby and Ramos 2013; Brown and Hibbert 2019; Cabral and others 2018; Daniele and Marani 2011; Stone 2006).

- **Crime hinders international tourism,** a crucial sector for the creation of low- to middle-skilled jobs. Using monthly data spanning a decade, Moyo and Ziramba (2013) find that crimes such as car hijackings, sexual offenses, murders, and kidnappings significantly reduce tourism to South Africa. The Tourism Business Council also argues that crime, followed by deteriorating infrastructure (such as roads, electricity, and water), is deterring tourists. In 2019 the potential shortfall of visitors because of safety concerns was estimated at 5–10 million a year (Yende 2019). Based on official statistics on tourists’ spending, this could represent a loss of 0.7–1.5 percent of GDP and of 80,000–300,000 jobs.^{vii}

FIGURE 2.9. FDI inflows are negatively associated with crime



Source: World Development Indicators database (World Bank, various years).



FINDING 3: CRIME ALSO AFFECTS HOUSEHOLDS, ESPECIALLY IN URBAN AREAS, AND REDUCES THEIR QUALITY OF LIFE.

Crime affects all households in South Africa. According to the latest publicly available Living Conditions Survey (Stats SA 2015b), one in five households were victims of crime in fiscal year 2014/15, even if many do not report these incidents to the police (Figure 2.10).^{viii} Theft of personal property, housebreaking, and robberies are the most common types of economic crimes against households (Figure 2.11).

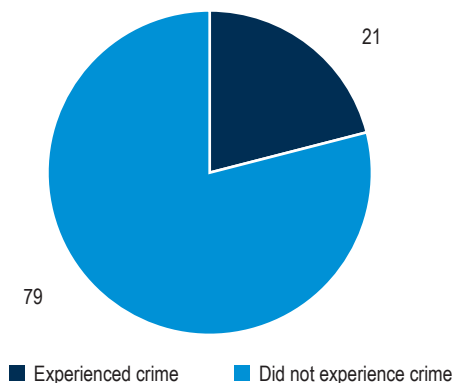
Households in urban areas are more likely to fall victim to economic crime. The share of households affected by economic crime in fiscal year 2014/15 was 24.6 percent in metro areas and 17.9 percent in nonmetro areas. Similarly, police record more crime in Johannesburg, Pretoria, Cape Town, and Durban than in the rest of the country (Figure 2.12 and Figure 2.13). Indeed, more than 10 percent of all economic crimes are recorded in only 20 police

stations (fewer than 2 percent of the total), mostly in major urban areas.

The cost of economic crime to households is estimated at around 2 percent of GDP. No recent data are available on households' direct losses from robbery, but Alda and Cuesta (2011) estimated these costs at about 0.3 percent of GDP in 2007. Crime prevention (both security and insurance) account for another 4.7 percent of households' nonfood expenditure, or about 1.3 percent of GDP. This means that, according to the Living Conditions Survey of fiscal year 2014/15, the typical South African household spent more on security than on education and health combined (4.3 percent of their nonfood budget). The overall cost of crime to households is probably much higher, because noneconomic contact crimes are excluded from this analysis. The direct and indirect costs of contact crimes, including medical costs, lost productivity, and emotional harm, represent the brunt of the harm crime inflicts on households. Alda and Cuesta (2011) estimated these costs at around 5 percent of GDP in 2007. Other costs are more difficult to quantify, such as labor income foregone because vehicles, computers, or other vital property have been stolen.

FIGURE 2.10. Crime affects one in five households every year

Percentage of households that . . .
(FY2014/15 data)



Source: Statistics South Africa 2018.

FIGURE 2.11. Theft, housebreaking, and robbery are the main economic crimes

Proportion of households who experienced at least one type of crime within a period of 12 months (FY2014/15 data)

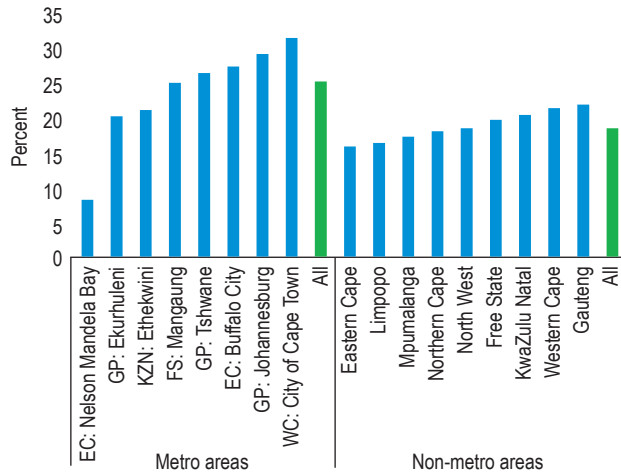


Source: Statistics South Africa 2018.

Crime is likely to reinforce inequality, not least because people’s access to protection is unequal. Whereas close to 70 percent of the richest households spend money on crime protection, only 5 percent of the poorest ones do so (Figure 2.14). Access to insurance is also unequal, and it remains concentrated in a small market that caters mostly to wealthy people. About 85 percent of adults do not use nonlife insurance, mainly because they cannot afford it (World Bank 2022). That said, insurance premiums are not extremely high relative to other middle-income countries. They comprise 0.3 percent of income per capita in South Africa, as against 1.3 percent in Brazil, 0.2 percent in Mexico, and less than 0.1 percent in Indonesia, for example. Crime also exacerbates inequalities through other channels. Using data for Mexico, Ajzenman and others (2014) find that violence affects real estate prices, the cost of which is entirely borne by low-income households.

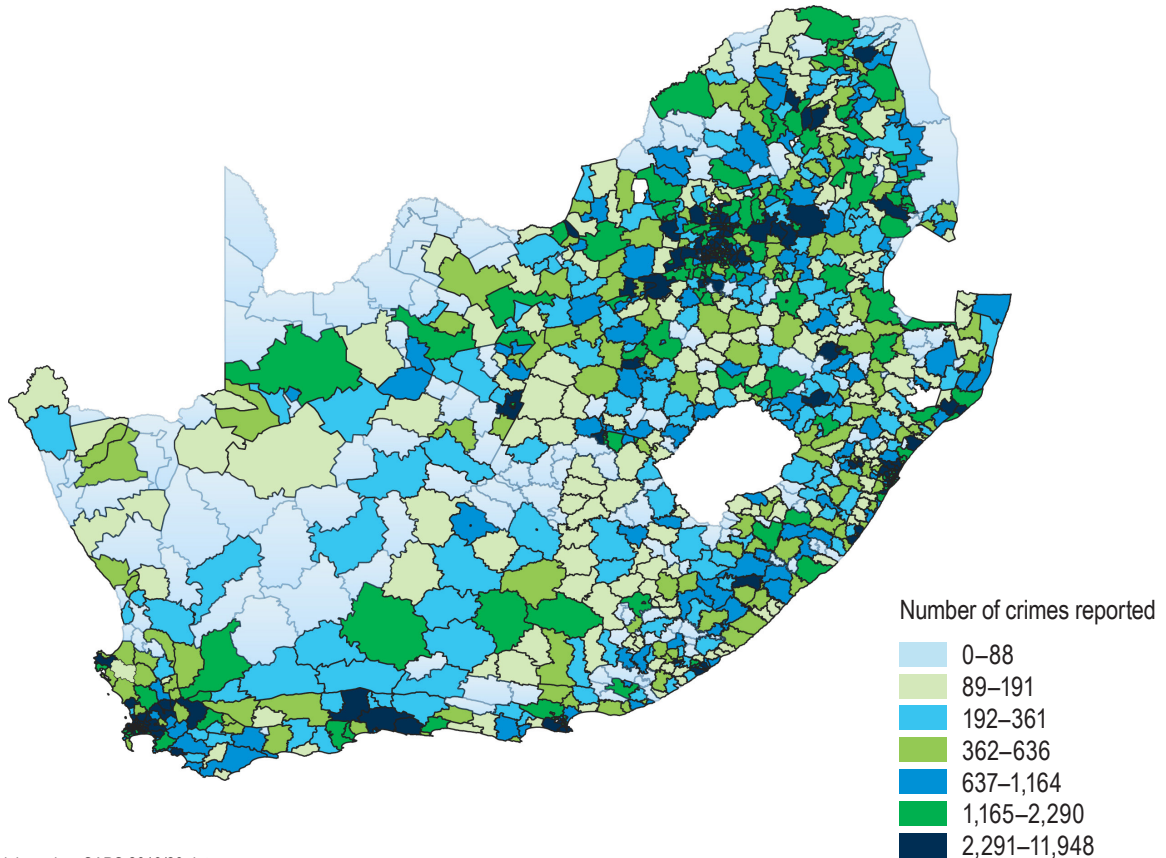
FIGURE 2.13. Metro areas are worst affected

Proportion of households who experienced at least one incidence of crime by geographical location (FY2014/15 data)



Source: Statistics South Africa 2018.

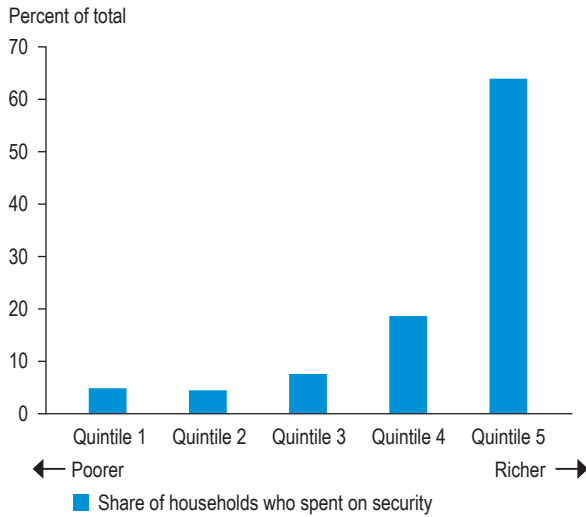
FIGURE 2.12. Reported crimes are concentrated in urban areas



Source: World Bank based on SAPS 2019/20 data.

Note: The data show the number of crimes rather than crime rates, as population data are not available at the police precinct level. However, crime rates at the metro level show that they are higher in urban areas.

FIGURE 2.14. Richer households can afford better protection against crime



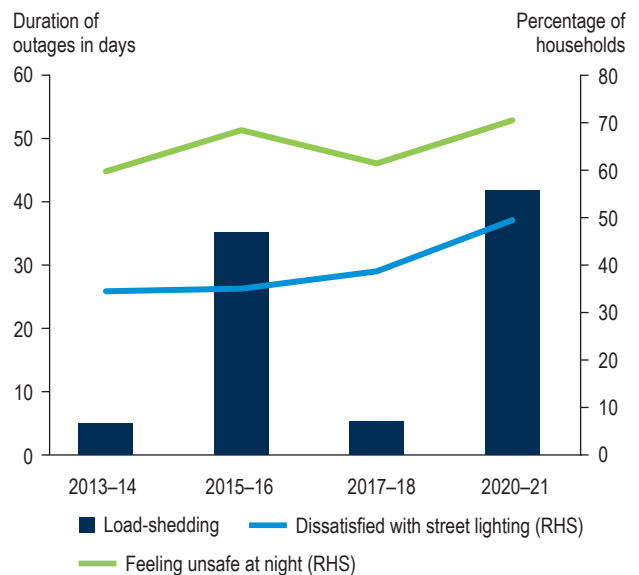
Source: Statistics South Africa 2018.

Most households do not feel safe. In Gauteng, about 30 percent of households saw crime as the biggest problem facing their community in fiscal year 2020/21, above unemployment, alcohol and drug abuse, a lack of basic services, and the high costs of living.^{ix} A large share of households (43 percent) think the problem is getting worse. Although around 80 percent feel safe during the day, the share of households feeling unsafe at night increased from 60 percent in fiscal year 2013/14 to 71 percent in fiscal year 2020/21. One reason could be load-shedding, which coincides with rising dissatisfaction with street lighting. This highlights the negative impact of the electricity crisis on both crime and the perception of safety (Figure 2.15).

Households adjust their behavior to avoid crime, which affects their quality of life. Powdthavee (2005) found that falling victim to crime negatively affects a household’s perceived quality of life. But even households in high-crime areas who had not personally experienced crime still had lower perceived levels of well-being. Because of the risk of crime, they are less likely to go outdoors, walk, use public transportation, or invest in their own business (Figure 2.16). In the 2015 Victims of Crime Survey (Stats SA 2015a), 12.6 percent of respondents reported not using public transport, 17.7 percent did not walk to work, and 13 percent avoided walking

to shops. These patterns were more pronounced among women-headed households, highlighting how poor public safety disproportionately holds back women. Households also spend less on leisure activities, such as restaurants and entertainment. Finally, crime contributes to emigration, especially among skilled workers with opportunities elsewhere. A recent survey by Standard Bank’s Offshore and Consumer & High Net Worth divisions showed that stability and safety were the main reasons behind the decision to emigrate (BusinessTech 2023). The country already faces skills shortages and can ill afford losing more of its skilled workforce because of crime.

FIGURE 2.15. Perceived safety is linked to street lighting and load-shedding



Source: Gauteng City-Region Observatory. Quality of Life Surveys Rounds 1-6. Johannesburg: GCRO [producer]. Cape Town: DataFirst [distributor], Council for Scientific and Industrial Research.

FIGURE 2.16. Crime affects households’ behaviour



Source: Statistics South Africa 2018.

FINDING 4: INFRASTRUCTURE THEFT COMPROMISES NETWORK SERVICES, AFFECTING EVERYONE.

All major infrastructure networks, including transport, electricity, and communication, are increasingly affected by theft (Figure 2.17). For example, Transnet Freight Rail estimates that the length of cable stolen from its infrastructure increased more than ninefold between fiscal years 2017/18 and 2022/23, from 120 to over 1,100 km. Concurrently, security-related incidents have increased by 143 percent over the network. In telecommunications, Vodacom reported 1,500–2,000 battery robberies every month (GI-TOC 2022). Telkom reported 650 batteries stolen per month in 2020 (Daniel 2021). In the energy sector, Eskom reported 3,226 incidents of theft of conductors, cabling, and related equipment in 2022 (Eskom 2022).

The direct costs of replacing stolen assets or repairing damaged ones during infrastructure theft are high:

- For three SOEs (Eskom, the Passenger Rail Agency of South Africa, and Telkom), the financial losses solely from copper theft could reach R7 billion per year, or about 0.1 percent of GDP, according to a recent statement by Eskom’s acting general manager (Zama 2022).

- Transnet Freight Rail estimates its net financial losses—in terms of operational disruptions and cable and battery replacement costs—from rail security incidents at about R1.4 billion a year over the last five years (Transnet 2023).
- Vodacom reported losing R120 million to theft and vandalism in 2020 (Moyo 2020). In 2019 MTN estimated the cost of replacing batteries at 100 sites at over R10 million (BusinessTech 2019), whereas Telkom put the cost of battery theft at R450 million in the first six months of 2023, corresponding to roughly 1,800 batteries stolen (Laurence 2023).
- Municipalities also incur heavy losses from infrastructure damaged or stolen during load-shedding, estimated at R1.6 billion in fiscal year 2022/23 (Adigun 2023).

Prevention and mitigation also impose a significant financial burden, given that network infrastructure is spread over large geographic areas. For example, in fiscal years 2018/19–2022/23 Transnet Freight Rail spent an average of about R1.5 billion a year on security; this amount is increasing steadily. Vodacom estimates that its security spending tripled in the last year. The increased sophistication in organized crime—in part linked to the declining capacity of the SAPS to investigate complex crimes—makes it more difficult to counter. A clear example of the complexity of the fight against infrastructure theft is the government’s decision to deploy the army to help protect Eskom’s infrastructure at the beginning of 2023 (Mkhabela 2023).

FIGURE 2.17. The extent of crime on infrastructure

Transport	Length of railway cable stolen increased sixfold between fiscal years 2017/18 and 2022/23 (from 120 to 1,100 km)
	Security-related incidents have increased by 179 percent over the last five years
Telecommunications	More than 2,000 batteries stolen per month at the main operators in 2020
Energy	In 2022, 3,226 incidents of conductor, cabling, and related equipment theft

Source: Eskom, Transnet, GI-TOC, World Bank.

Although the direct and indirect costs of infrastructure theft are a serious problem for the operators, they are only a fraction of the overall cost to the economy. Providers must replace stolen and damaged material and equipment and buy expensive security, instead of investing in new projects and technologies. Crime contributes to the deterioration of network infrastructure, which has a domino effect on firms and households. In the energy sector, theft increases load-shedding, and firms must either stop operating or run expensive backup equipment such as diesel generators. In the railway sector, the underutilization of the rail network means more freight on the road, which is expensive, creates bottlenecks, damages roads, and harms the environment. According to the Minerals Council of South Africa, the industry potentially lost R16 billion in export earnings in 2021 because of the decline in Transnet Freight Rail’s operational capacity, about 15 percent of which is estimated to be due to crime (Bulbulia 2022). Former Eskom Chief Executive Officer André de Ruyter estimated that the utility loses R12 billion per year to theft. Theft of conductors, cabling, and related equipment alone is estimated to have cost Eskom R316 million in 2022, up from R139 million in 2021 (Eskom 2022).

FINDING 5: MORE EFFECTIVE PUBLIC SPENDING IS NEEDED TO COMBAT CRIME SUCCESSFULLY.

Crime affects the state through several channels:

- To fight crime, the government allocates funding to the SAPS, the judiciary system, and correctional services. In 2021 it allocated about 2.7 percent of GDP (9.6 percent of total noninterest expenditure) to these activities—1 percentage point of GDP above the average for Organisation for Economic Co-operation and Development countries (Figure 2.18), and more than Colombia, another emerging economy with a history of violence.

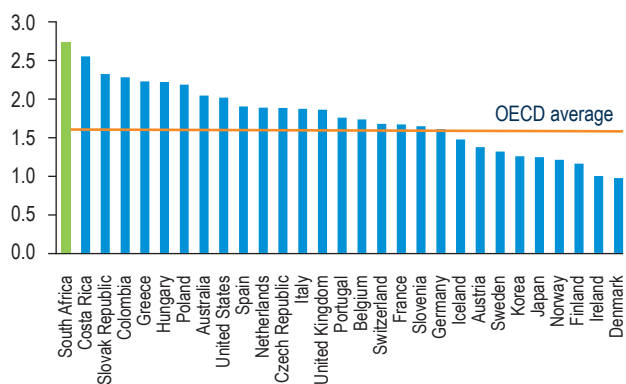
- Infrastructure theft undermines the operational and financial position of SOEs, such as Eskom or Transnet, which then require cash injections from the government; these injections undermine the sustainability of public finances.
- The state-owned South African Special Risk Insurance Association insures businesses against the destruction of their assets during social unrest. It had been in a strong financial position until the social unrest in July 2021, following which it faced claims of R37 billion (\$2.5 billion). Unable to meet these claims, it required a cash injection of R21 billion (0.3 percent of GDP) from the National Treasury in fiscal year 2022/23.

Despite the high levels of spending, the incidence of crime exceeds that of most other countries.

Figure 2.19 shows the correlation between spending on public security and the homicide rate for a sample of 34 countries in 2016–20. The homicide rate in South Africa is almost seven times higher than this correlation would have predicted, which underscores the inherent weaknesses in its police and justice system. However, despite the high spending, the density of police personnel in South Africa is low by international standards relative to its homicide rate (Figure 2.20). Although police density is not always well correlated with lower crime, the combination of a large budget envelope with moderate police density is uncommon and may not be effective.

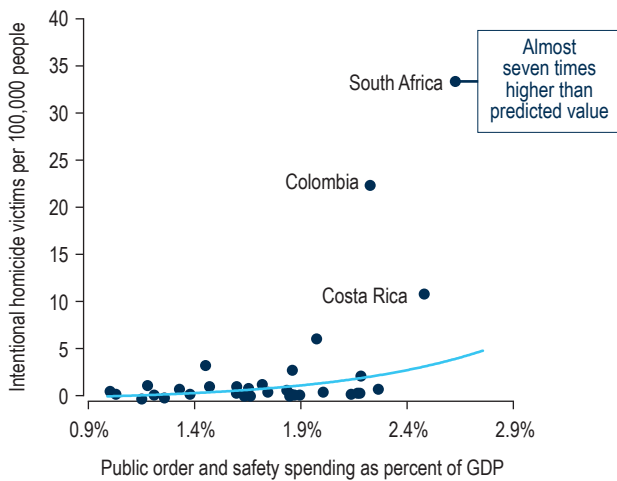
FIGURE 2.18. Spending on public safety and order is high

Percent of GDP
(2016-20 average)



Source: OECD, National Treasury.

FIGURE 2.19. Homicide levels are high relative to spending on public safety



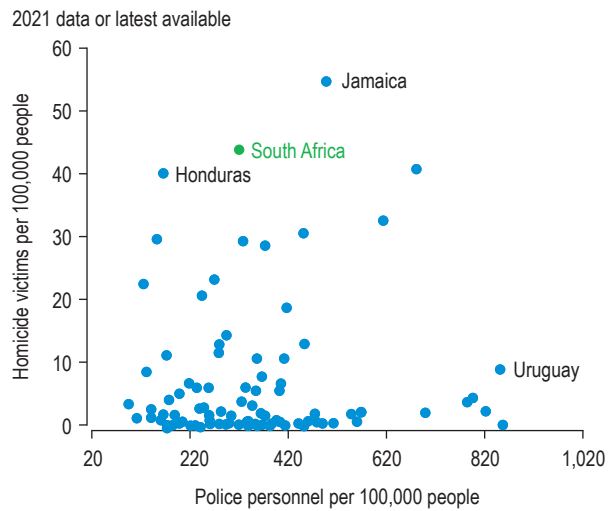
Source: National Treasury, OECD, UNODC, World Development Indicators database (World Bank, 2016-21), Eurostat.
 Note: Data shows averages for 2016 to 2021.

The ability of the police to solve crime has declined.

The share of murder dockets solved by the SAPS dropped from about one in three in 2011 (in line with international benchmarks) to less than one in six by 2021. For property-related crime, the resolution rate fell from 61 to 46 percent in this period. According to Transnet’s Chief Executive Officer, only 192 out of 4,800 cases of cable theft in 2022 led to convictions, or 1 in 25 (Burkhardt 2023). Similarly for Eskom, of the 3,226 cases of cable and related equipment theft in 2022, 244 led to arrests (1 in 13), up from 111 out of 3,765 incidents (1 in 34) in 2021 (Eskom 2022). Low resolution rates are partly explained by the decline in the police-to-population ratio, from one police officer for every 341 people in fiscal year 2011/12 to one for every 430 a decade later (Sachs and others 2022).

Years of mismanagement and corruption have weakened service delivery. Since 2009, nine different National Police Commissioners have been nominated—many of whom have left office amid allegations of misconduct or corruption (Burger 2021). The Commission of Inquiry into State Capture (known as the Zondo Commission) also documented extensive corruption and political interference at senior levels of the SAPS, along with cases of collusion between the police and organized crime in 2009–18, the period of state

FIGURE 2.20. Police density is low relative to the level of crime



Source: UNODC, World Development Indicators database (World Bank, various years).

capture (Dolley 2022; Hosken and others 2022; Republic of South Africa 2022). The 2019 Global Corruption Barometer reported the SAPS as the most corrupt government institution in South Africa (Transparency International 2019). Despite this, there have been limited changes at the SAPS. The capacity of the police has been further hampered by weak recruitment processes, inadequate training, and a wage structure that increases average pay to the detriment of new hires. Promotion policies have not been linked to results, which has affected morale and performance. These trends hampered the development of special units, the retention of skilled employees, and spending on technology. The judicial system faced the same challenges as the SAPS, especially during the state capture era, but has been reinvigorated by various recent initiatives (February 2019).^x Since 2019 about 70 percent of the NPA’s leadership has been replaced, and its personnel numbers increased from 4,083 in fiscal year 2019/20 to 5,473 two years later.

The poor performance of the police, and to some extent the judiciary, helped create a sense of impunity among criminals and may have contributed to crime. Crime becomes more attractive when the probability of being caught is low, with studies suggesting an elasticity ranging from 0.4 to 0.6. Applying these values to South Africa suggests

the decline in cases resolved by the police led to an increase in murders of 20.4–30.6 percent and in property theft of 9.8–14.7 percent between 2011 and 2021 (Curry and others 2016).

Weak service delivery also eroded trust in the police. Public trust in the police fell from almost 50 percent in fiscal year 2005/06 to less than 30 percent in fiscal year 2019/20, and trust in the judiciary fell by over 20 percentage points in that period (Figure 2.21). The sharp decline in trust helps explain the general underreporting of crime. This in turn reduces the ability of the police to resolve cases, which then leads to even more crime. Communities and public cooperation are vital sources of information for combating crime and maintaining public safety. Vigilantism has also increased, presenting its own challenges, as vigilante justice is estimated to be responsible for 10–15 percent of all murders (Newham 2022). Also, vigilante groups tend to become involved in criminal activities over time (Rodgers 2007).

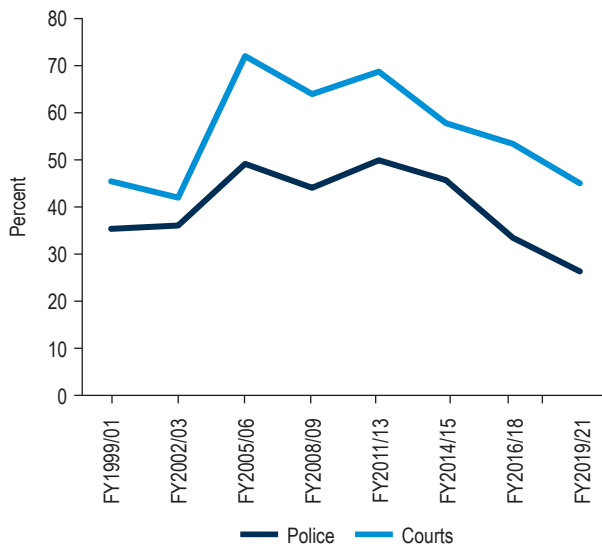
As the quality of public services declined, households and businesses increasingly turned to private services. According to data from the Private Security Industry Regulatory Authority, there were

four times more registered, active private security officers than police officers in 2021, up sharply from 2.5 to 1 in 2014. This ratio is also significantly higher than those of other upper-middle-income and high-income countries in 2014 (Figure 2.22). Private security companies often have more sophisticated capabilities, as they increasingly use digital technology for armed response and patrol routes, or to track criminals. However, there are regulatory concerns: in some cases, these firms employed unregistered agents, or used or dealt in firearms without complying with the Firearms Control Act (Dolley 2023).

The rapid development of private security services is an imperfect substitute for government. Poor households are left unprotected, as most cannot afford these expensive security services. Weak policing also contributed to the growth of extortion networks in poor areas, forcing businesses to pay for “protection” as well as construction mafias (GI-TOC 2022; Irish-Qhobosheane 2022). Recently two waste collection companies retreated from several Cape Town townships after an agent was killed, and they received additional threats from local extortion groups about paying “protection fees.” Finally, private security companies are not legally allowed to perform many police duties, such as investigation, which ultimately limits their impact.

FIGURE 2.21. Trust in the police and justice is falling sharply

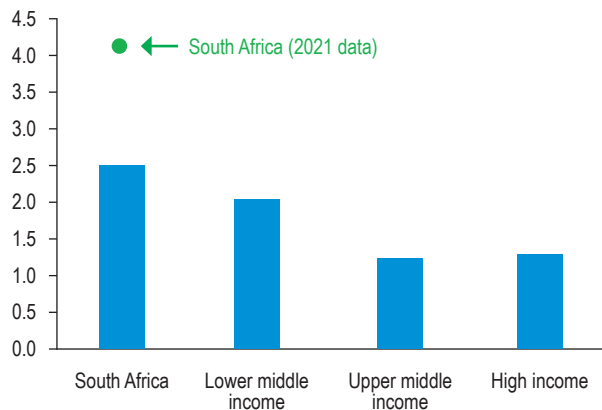
Percent of respondents who answered “a lot” or “somewhat” to “Do you trust the police/courts...?”



Source: Afrobarometer.

FIGURE 2.22. Private security security guards vastly outnumber police officers

Private security guards to police officers (ratio, mid-2010s data)



Source: Private Security Industry Regulatory Authority, Provost 2017.

THE WAY FORWARD: WHAT WILL IT TAKE TO ADDRESS SOUTH AFRICA'S CRIME CHALLENGE?

Key stakeholders in South Africa agree that urgent, decisive, and focused action is needed to reduce crime. The government has long recognized crime prevention as a national priority. After the end of apartheid, it adopted the National Crime Prevention Strategy in 1996, followed by several other strategic policies, including the 2022 Crime and Violence Prevention Strategy. However, the approach has remained mostly focused on policing, and implementation has been uneven (Newham 2005). Building on longstanding initiatives such as Business Against Crime, the private sector is increasingly participating in the design and implementation of policies to address crime. In June 2023 the government and organized business

renewed a partnership to remove structural constraints on inclusive growth, with crime as one of their three priorities.

The drivers of crime are multidimensional, and an integrated approach is needed to address crime (Box 2.2). Crime theories suggest that actions can encompass more effective detection and sanctions to increase the cost of committing crime; regulatory reforms to decrease the benefits of crime; broad economic and social policies to increase the expected returns from legal activities and to reduce social fragmentation and inequality; and targeted interventions of violence prevention in at-risk populations. Broad-based structural reforms were discussed in Chapter 1. This section focuses on policies and international experience in the functioning of the police and justice systems, and the prevention of crime and violence through targeted interventions. Although the costing exercise was limited to economic crime, the discussion of policy options is broader. This is because different types of crime are linked, and policies to address economic crimes cannot succeed in isolation from policies to address violence and improve governance.

BOX 2.2. THEORETICAL APPROACHES TO THE CAUSES OF CRIME

Sound theoretical analysis can help anchor strategies to tackle crime. There is a vast literature on the drivers of crime; Ahmad and others (2014) identify four categories of these:

- The **rational choice theory** (Becker 1968): Individuals make a rational choice to engage in criminal activities based on a cost-benefit analysis. The decision to engage in crime depends on the expected returns to crime (versus the returns to legal activities) and the probability and cost of being caught.
- The **routine activity theory** (Cohen and Felson 1979): In the absence of effective controls, crime occurs opportunistically if a motivated perpetrator is presented with an attractive target.
- The **social disorganization and social control theories** (Hirschi 1969; Shaw and McKay 2010): Crime is more likely to occur in conditions of social fragmentation and weak social institutions.
- The **social learning theory** (Burgess and Akers 1966): Vulnerable individuals can fall into crime through several channels and may be encouraged to participate in the culture of violence around them (such as gangs).

Sources: Ahmad and others 2014; see also Galiani 2023.

South Africa has important strengths that, combined with well-designed and implemented policies, can effectively combat crime. National policies and laws are sound and often in line with best international practices. The civil and business sectors are strong and active and are supported by a transparent press. The country also engages effectively in international cooperation. Given limited human and financial resources, a targeted approach focused on a few indicators and coordinated across different government agencies and stakeholders in the private sector and civil society could be more effective. Reducing the homicide rate, which has been increasing over the past decade and stands among the highest in the world, could be a priority to improve the perception of insecurity in South Africa and improve confidence. Tackling the rise in organized crime, which has thrived on the declining capacity of the police and justice institutions and has broad-based effects on economic activity, could be another priority.

International evidence suggests that problem-oriented policing and focused deterrence policies are most effective at reducing crime and violence (see a meta-analysis by Ahmad and others 2014; Abt and Winship 2016; Gramckow and others 2016). Focused deterrence combined with problem-oriented policing, which involves a broad range of interventions beyond deterrence, have shown positive results where they have been implemented (Figure 2.23). International experience suggests that effective initiatives target a specific problem, involve a broad range of stakeholders, and combine punishment measures with targeted social and community services. On the other hand, iron fist or zero tolerance policies, or policies that target minor offenders, are found to have little impact on violence and can even reduce trust in the police.

FIGURE 2.23. The police problem-solving model has proved effective at reducing crime



Source: Gramckow and others 2016, Arizona State University Center for Problem Solving Policing.

STRENGTHENING THE POLICE AND JUSTICE SYSTEMS

Addressing the decline in police capacity is a priority to effectively combat crime in South Africa. There is a need for sound institutional reform of the police to address the legacy of state capture that has been extensively documented. It includes the need to strengthen leadership, analytical, and strategic capabilities; develop multi-sectoral partnerships; and promote innovation. Successful examples of crime reduction worldwide often involve similar elements of policing reform (Figure 2.24). Greater accountability in identifying and arresting criminals, which reduces the number of both criminals and prospective criminals (as the risk of being caught increases), appears to be effective at disincentivizing crime. It also contributes to a virtuous circle: as the police become more effective, trust in policing improves, and with growing support from the community they become even more effective at

controlling other types of crime. Interventions to strengthen the security sector seem to be more successful if they focus on professionalization rather than equipment (Kleinfeld 2018). As a counterexample, the recent denunciations of abuse by the Gauteng Crime Prevention Wardens show the risks associated with poorly trained and professionalized security (Heywood 2023; Pongweni and Lebakeng 2023). South Africa has seen some successful interventions in the past that could be reinvigorated and scaled up, such as the 2008 Gauteng Aggravated Robbery Strategy (Box 2.3). This would align with priorities identified in the partnership between the private sector and government, including the need to modernize the 10111 facility, to promote data-driven approaches in crime policing, to strengthen the forensic service, and to prioritize crime investigation and prosecution.

FIGURE 2.24. Successful crime reduction initiatives share similar characteristics

<p>Bogotá decreased rates of robbery and murder by 70 and 78 percent in 1994–2004</p>	<p>By focusing on police training, crime intelligence, and investigation, the police of Bogotá increased their arrest and detention rates of wanted suspects by over 500 percent without increasing the number of police officials and despite the rising unemployment in the area.</p>
<p>New York City decreased robberies by 77 percent in 1990–99</p>	<p>New York City employed more officers; changed how the police were deployed, evaluated, and managed; and ensured better coordination of intelligence and criminal investigations by tasking specialized detective units with identifying and arresting perpetrators.</p>
<p>Medellín reduced murders by 80 percent in 2003–05</p>	<ul style="list-style-type: none"> • An iron fist policy (Operación Orión), which had significant but mostly short-term effects, was combined with a ceasefire and demobilization of paramilitary groups, which had longer-term effects. • However, the murder rate increased sharply in 2008–13, probably because the extradition of key leaders of demobilized groups in 2008 upset the balance of power. It shows how organized crime can reinvent itself, requiring constant and evolving responses.
<p>Boston reduced youth homicides from 44 a year in 1991–95 to 26 in 1996 and 15 in 1997</p>	<ul style="list-style-type: none"> • The Boston Gun Project focused on homicide victimization among young people in Boston. After convening an interagency practitioners group, the project assessed the nature and causes of youth violence. It then targeted a reduction in youth homicides by confronting illicit firearm providers and creating a strong deterrent to gang violence.

Sources: Medina and others 2011, Newham 2009.

BOX 2.3. LESSONS FROM THE GAUTENG AGGRAVATED ROBBERY STRATEGY

The Gauteng Aggravated Robbery Strategy was developed in 2008 to combat the “trio crimes” (residential and business robberies, and hijackings) on the rise in the province. It drew on the Gauteng Information on Police Performance System implemented in 2006, which enabled regular monitoring of crime and police responses.

The first set of interventions relied heavily on deploying additional personnel into “hotspots” to engage in highly visible activities, such as roadblocks, stops and searches, and increased patrols, but these had only a limited impact on crime.

Subsequently, more granular research into the drivers of trio crimes allowed a more targeted approach. The analysis found that perpetrators were well organized and experienced, having scaled up from petty to trio crimes. Attacks were well planned, and because police processes were weak, this meant few arrests and prosecutions; thus, there were no real disincentives to committing these crimes.

Drawing on these findings, the Gauteng Aggravated Robbery Strategy was developed. It included: (a) better crime intelligence and analysis of trio crimes; (b) the establishment of specialized trio crime investigating units; (c) better forensic support; (d) faster response times to emergency calls; (e) intelligence-led roadblocks and larger police presence in specific areas to disrupt criminals; (f) the establishment of the Gauteng Crime Management Centre; and (g) better trio crime case management through the criminal justice system.

The implementation of the strategy contributed to a decrease in hijacking by 32 percent, in residential robbery by 20 percent, and in non-residential robbery by 19 percent from 2009 to 2011. It also demonstrated that effective action could be taken without major increases in police numbers. The strategy was implemented by less than 400 of the 34,000 police officials then stationed in the Gauteng Province. Its success hinged primarily on good crime intelligence, with detectives who were provided with the ability to focus exclusively on these trio crime cases.

Source: Newham 2009.

PREVENTING CRIME AND VIOLENCE THROUGH TARGETED INTERVENTIONS

Sustainably reducing crime requires addressing root causes linked to poor socioeconomic outcomes.

As noted, crime is geographically concentrated. A successful strategy for addressing crime cannot be reduced to the police and justice system alone; it also requires policies that address socioeconomic disadvantages and other adverse conditions that can predispose individuals to crime. A large share of adults in South Africa have experienced adverse childhood events, such as emotional, sexual, or

substance abuse; domestic violence; poverty; discrimination; or community disruptions. A study done in Soweto found that an alarming 99 percent of adults there had had adverse childhood experiences (Lancaster 2023). Evidence suggests that such early experiences affect outcomes later in life, including mental and maternal health, or risky behaviors, which increase people’s vulnerability to engaging in crime and violence. Importantly, children’s experience of violence negatively affects their educational outcomes, further deepening inequalities in the labor market later in life. UNICEF and others (2022) estimate the overall cost of violence to children in South Africa at 5 percent of GDP in 2015.

Evidence-based violence prevention has demonstrated some success, generally with fewer financial resources than other interventions.

Cognitive behavioral therapy and restorative justice practices involving the police can support community development and help reduce violence (Abt and Winship 2016; Ahmad and others 2014; Gramckow and others 2016; Klugman 2023). Examples include keeping young people at school for longer and reducing people’s exposure to interpersonal violence. Reducing violence against children has been shown

to contribute to long-term improvements in public safety. These policies need to be coordinated across multiple government agencies, and in partnership with other stakeholders. Figure 2.25 provides some examples of good international practices for supporting people at risk and helping to reduce or prevent crime. Despite the demonstrated potential of such interventions, South Africa’s spending on programs that can prevent violence is less than 10 percent of its spending on criminal justice (Gould and others 2017).

FIGURE 2.25. Multisectoral early-stage interventions can help reduce crime

<p>Programs that keep adolescents and young adults in education and training</p>	<p>The <i>Abrindo Espacos</i> program in Rio de Janeiro and other states in Brazil showed success in reducing youth violence. The program consisted of keeping schools open during weekends for youth to participate in cultural and sport activities. A violence index used to evaluate the program was found to be lower in participating schools than in control-group schools.</p>
<p>Cognitive behavioral therapy interventions</p>	<p>The <i>Becoming a Man</i> program in Chicago provided participants with group counseling once a week, along with one session of after-school sports programming. During the program, participants were 44 percent less likely to be arrested for violent crimes and 36 percent less likely to be arrested for other crimes. Participants were also more engaged in school.</p>
<p>Early childhood education</p>	<p>Preventive Treatment Programs in Montreal reduced gang involvement by helping to prevent antisocial behavior among 7- to 9-year-old boys from a low socioeconomic background who had previously displayed disruptive behavior in kindergarten. It improved school performance, reduced delinquency and substance use, and showed that combining parent training and childhood skills development may steer some children away from gangs before they reach mid-adolescence.</p> <p>In Jamaica, the <i>Reach Up and Learn</i> program, which promoted early childhood stimulation, contributed to lower crime rates, better mental health, and 25 percent higher earnings two decades later.</p>

Source: World Bank 2006, Abt and Winship 2016, Ahmad and others 2014.

TACKLING THE CHALLENGE OF ORGANIZED CRIME

Continued progress in addressing the legacy of state capture and restoring the rule of law is critical for tackling organized crime. Organized crime is a key source of corruption in the police and judicial systems, and it facilitates a range of other crimes. Several authors have shown how corruption, weak government, and distrust in the government are associated with higher levels of crime, notably homicides (Fearon 2011; Kleinfeld and Barham 2018; Roth 2009). Continuing to address corruption and

political capture, including in the police and justice systems, is critical to addressing organized crime. Rebuilding South Africa’s investigative capacity, especially of complex crimes, could be accelerated. This could include recruiting and retaining specialist skills required for complex cases at the NPA, the Directorate for Priority Crime Investigation (also known as the “Hawks”), the Special Investigating Unit, and passing the NPA amendment bill, which was tabled in Parliament in August 2023 and aims to enhance the NPA’s independence and ability to prosecute high-level crimes.

Although many international reviews of combating organized crime focus on drug-related gangs, some findings are relevant for South Africa (Abt and Winship 2016). Generally, policies to empower civil society help to reduce organized crime. Where local corruption drives organized crime, moving law enforcement from the local to the national level could be effective, provided it has adequate political support. Better coordination among different levels of law enforcement can also be important. Legal and regulatory approaches targeting criminal organizations help reduce the benefits of crime and weaken crime networks, but they are vulnerable to political capture. Civil litigation and asset seizure targeting known crime kingpins are also effective at weakening organized crime. However, militarization or removing the leadership of organized gangs are likely to increase violence.

AVENUES FOR FUTURE RESEARCH

This chapter highlighted the high cost of crime to the economy, but more research is needed. The analysis in the chapter estimates the impact of crime on the economy to be at least 10 percent of GDP every year. This affects South Africa's economic dynamism and reduces its growth potential. Caveats to the analysis have been highlighted; more than anything, this chapter aims to stimulate the conversation on the cost of crime and policies to tackle it. Several areas deserve more research:

- **Many effects of crime are difficult to quantify,** especially the opportunity costs of behavioral responses to the high incidence or perception of crime. These include, for households, decisions to commute, accept jobs where and at what wage, where to live, and how to prioritize spending; for businesses, where and what businesses to start, whether to invest and create jobs, and how (much) to spend on security; and for foreign investors and tourists, whether to consider South Africa as a potential destination. Such research could include theoretical and empirical analysis, notably through surveys to quantify these opportunity

costs and their long-term effects on GDP and the country's growth potential.

- **Other crimes can be incorporated** into this framework for a more comprehensive quantification of economic costs. For example, did the declining capacity of the police to investigate complex crime influence the decision by the Financial Action Task Force to put South Africa's anti-money-laundering and combating the financing of terrorism framework on its "grey list"? Evidence from other countries suggests this decision is likely to reduce FDI (Farias and de Almeida 2014; Kida and Paetzold 2021).
- Another dimension is **linking the cost of interpersonal and sexual violence to life outcomes,** especially in children and young people, and studying the risks associated with continued social fragmentation to better understand how to break the cycle of violence and exclusion.
- A detailed **impact analysis of fiscal spending on the police and justice system** could lead to more effective use of limited resources. Strategic analysis and planning to allocate resources where they are most needed, through an expenditure review of public spending on the police and justice institutions, could help improve service delivery. Potential topics include analyzing spending on police against police numbers and remuneration dynamics, or the spatial allocation of resources against a crime map.
- Better policy design and implementation require **better knowledge, data, and analysis.** Understanding reporting bias and better understanding the incidence of crime through various data sources are critical for developing targeted strategies. The research and planning units of the police also need more capacity, not least to help them study and adopt best international practices. Another dimension is the role of new data techniques, including emerging artificial intelligence techniques, in improving policing.

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ⁱ Fiscal years in South Africa start in April and end in March of the following calendar year. For example, fiscal year 2022/23 runs from April 2022 to March 2023.

ⁱⁱ Alda and Cuesta (2011) look at health, institutional, security, economic, and transfer costs, as well as disability-adjusted life years associated with deaths caused by crime. Institute for Economics and Peace (2022) includes costs such as security and military spending, firearms, internal conflict, and violence.

ⁱⁱⁱ Using the official statistics on sales in the retail and wholesale services and manufacturing sector, as well as income for tourism, construction, and road and rail transportation from Statistics South Africa.

^{iv} In 2019, 183 infrastructure and construction projects suffered disruptions linked to construction mafias (Irish-Qhobosheane 2022).

^v The survey focused on small and emerging businesses in inner-city areas, large townships, informal settlements, and densely developed suburban areas in the cities of Cape Town, Durban, and Johannesburg. It covered 446 businesses in retail, personal, and professional services; small manufacturing; and construction.

^{vi} See Bhorat and others 2018 for a succinct review of previous work on the impact of crime on the informal sector.

^{vii} Estimated using Statistics South Africa data on spending per visitor in 2019 and employment-to-visitors ratios in 2015–19.

^{viii} The crime incidence is higher in the Living Conditions Survey (about 20 percent) than in the Victims of Crime and the Governance, Public Safety and Justice surveys (about 10 percent) because of differences in how the questions on crime are formulated and structured. In the latter surveys, a selected respondent within a household answered for him- or herself, whereas in the Living Conditions Survey, only one person answered for all household members.

^{ix} The source is the biennial Quality of Life Survey, which measures the quality of life, socioeconomic circumstances, attitudes to service delivery, and other characteristics in the Gauteng City-Region. Several questions are related to safety and crime perceptions.

^x The NPA has been led by eight different heads since 2009, including three acting heads. In 2012 and 2018, the Constitutional Court intervened to declare leadership appointments invalid because of integrity issues and the irregular dismissal of a previous head. The politicization of the Authority through leadership appointments during the period of state capture severely undermined its work, leading to institutional decline and the loss of skilled professionals.

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