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EED IS FOR REAL EMPOWERMENT, whereas BEE has failed

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SYNOPSIS

BEE continues to fail and cannot be 'reformed'

Most South Africans have little faith in the capacity of BEE or other transformation policies to help improve their lives. A comprehensive opinion poll commissioned by the IRR and carried out in September 2016 (as a follow-up to a similar field survey carried out a year earlier) shows that only 3% of black South Africans see 'more BEE and affirmative action in employment' as the best way to improve their lives. Even fewer, a scant 1%, see 'more land reform' as helping in this way.

In addition, few black people derive any benefit from these policies. As the IRR's 2016 field survey shows, only 13% of blacks have been personally helped by employment equity rules, while 14% have benefited from BEE ownership deals and 9% have been awarded BEE tenders. Close on 15% say they have benefited from land reform, but many may have been thinking of the substantial sums the government has paid out in recent years to successful land claimants who preferred to take cash instead.

BEE in all its aspects thus helps only some 14% of blacks. It brings no benefits to the remaining 86%. Worse still, BEE harms the great majority by eroding public service efficiency, adding to fraud and inflated prices in public procurement, and helping to reduce investment, growth and employment.

Many BEE proponents claim that the solution lies in tightening up the relevant rules and ensuring their stricter enforcement. But no matter how much this is done, the millions of people still living in poverty – most of them poorly skilled and many of them unemployed – will never gain access to BEE deals, management posts, preferential tenders, or new small businesses to run. At the same time, the more unrealistic BEE obligations are ratcheted up, the more this will reduce the economic growth essential to upward mobility.

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What then is to be done?

Most ordinary South Africans are well aware of what they need to get ahead, as the IRR's field survey also shows. Almost 70% of black South Africans see unemployment and poor education as the key reasons for persistent inequality. In addition – in stark contrast to the ANC's rhetoric around land reform – 84% of blacks would prefer a political party which focuses on faster growth and more jobs, whereas only 7% would prefer one that focuses on land expropriation to redress past wrongs.

However, even if growth can be accelerated and many more jobs can be generated, most disadvantaged South Africans will still find it difficult to get ahead without much better education, housing, and health care. On the surface, the government is already committed to meeting these core needs and puts large amounts of tax revenue into doing so every year. But outcomes have long been dismal, while repeated promises to improve the state's performance have borne little fruit.

In the current financial year, South Africa plans to spend some R680bn on education, public health care, and housing (plus related community development). However, the country will again get little bang for the taxpayers' buck. Some 80% of public schools are dysfunctional, while between 84% and 94% of public hospitals and clinics are unable to comply with basic health care standards on such key essentials as infection controls and the availability of medicines. In addition, despite massive spending and the construction of some 3 million homes, the housing backlog has increased substantially since 1994, rather than diminished. Moreover, many of the houses provided by the state are so small, badly built and poorly located that the ANC itself describes them as 'incubators of poverty' that do more to entrench disadvantage than to overcome it.

What ordinary people think about a 'voucher' option

In the housing sphere, ordinary people have long been urging the state to transfer its housing subsidy directly to households, saying they could build better homes for themselves if they had access to this money. However, for the state to transfer cash in this way would be risky, as monies intended for housing could then easily be diverted to other purposes. By contrast, dedicated housing vouchers – funded out of tax revenues and redeemable solely for housing-related expenditure – would avoid the diversion problem.

But why stop at housing vouchers when the state's provision of education and health care is also so flawed and inefficient? And when education vouchers, in particular, are already being used in many other countries to give parents a real choice, promote competition, and drive up the quality of schooling?

Against this background, the IRR's 2016 field survey also asked respondents if they would like to have tax-funded education, health care and housing vouchers so that they could start meeting their own needs in these key spheres. Respondents were also asked if they thought tax-funded vouchers for education, health care and housing would 'help them get ahead more effectively than current employment equity and BEE policies'.

Enormous support for the voucher option was evident. Some 85% of blacks endorsed the idea of education vouchers, while black support for health care and housing vouchers was similarly high at 83% on each. Almost three-quarters of blacks (74%) said that tax-funded vouchers in these spheres would help them get ahead more effectively than current affirmative action and BEE policies.

> *Some 85% of blacks endorsed the idea of education vouchers, while black support for health care and housing vouchers was similarly high at 83% on each. Some 74% said vouchers would help more than BEE.*

How tax-funded vouchers would work

Education vouchers

Tax-funded education vouchers are already being used in both developed and developing countries, including the Netherlands (which introduced them as far back as 1917), Denmark, Chile, Colombia, and Guatemala. Vouchers have also been introduced in various cities in the United States and are particularly popular with black parents who have seen their children's schooling improve significantly as a result.

Low-fee private schools are already growing fast in South Africa in response to popular demand, but most poor people cannot afford them. Tax-funded education vouchers would change that, giving all parents a choice as to the schools they would like their children to attend. Schools would then have to compete for the custom of voucher-bearing parents, which would give them a real incentive to improve the quality of the education they provide. Few other interventions could have so immediate or comprehensive an impact in driving up the standards of schooling.

Parents armed with vouchers would not necessarily choose private schools, as they would have other options available. Some might choose the fee-paying state schools that presently perform well. Others would opt for the many 'charter' schools (state schools run by independent boards) that would be likely to develop. Some would decide to send their children to private schools run for profit. Others might prefer private schools run by religious institutions. Some persistently bad state schools would effectively be abandoned and thus forced to shut down. Their buildings could then be auctioned to private firms or other organisations, which would refurbish them before re-opening them again. Many of the state schools that now perform badly would improve substantially under the pressure to up their game.

Tax-funded vouchers could be provided to parents without increasing the country's already large education budget. Rather, much of the money the government now spends on paying teachers and running schools – about R243bn in the current financial year – could be redirected to parents in the form of vouchers worth about R20 000 per pupil.

Housing vouchers

Since 1994 the government has provided some 3 million 'free' RDP (Reconstruction and Development Programme) houses and roughly 1 million serviced sites. Over this period, the housing backlog has nevertheless increased from 1.5 million to 2.3 million units, while the number of informal settlements has gone up from 300 to 2 225, an increase of 650%.

At the same time, the housing subsidy has shot up from R12 500 per household to some R160 500 today, at which amount it was pegged in 2014. Yet despite this massive increase, the quality of the houses being delivered is often very poor. In addition, the pace of delivery has slowed to the point where it will take at least 20 years to provide homes for all those on the national waiting list, let alone meet new demand.

Housing policy needs a fundamental rethink to empower individuals, provide better value for money, and break the delivery logjam. Housing vouchers provide a way of achieving these key goals. These vouchers would be redeemable solely for housing-related purchases – and would go to some 10m South Africans between the ages of 25 and 35, who earn below a ceiling of, say, R15 000 a month.

> *People currently living in informal settlements would increasingly have other housing options available to them. Some would move into new housing complexes and others into new backyard or other flats. Informal settlements would become less crowded, making upgrading easier.*

The voucher would be worth, say, R800 a month, or R9 600 a year, and each recipient would continue to receive this voucher for ten years. Each beneficiary would thus receive close on R100 000 over this period. A couple would be able to pool their money and would thus receive nearly R200 000 over a decade. This amount could be topped up by their own earnings, which means a couple earning R5 000 a month could devote R1 000 of that to housing. Over ten years, this additional amount would boost their housing budget to close on R320 000. Such sums would help substantially in empowering people to build or improve their own homes, or obtain and pay down mortgage bonds.

The cost to the fiscus for 10m beneficiaries would be R96bn a year, and again this could be met by redirecting much of the current budget for housing and related community development. The voucher system would be much more effective in stimulating housing supply as each individual who receives a voucher will have a personal interest in ensuring its optimal use. Moreover, whereas current policy adds to housing demand by encouraging existing households to split up – so that each new household can qualify for a 'free' house – the new vouchers would remove this perverse incentive.

The voucher system and the market it would create would encourage the private sector to build many more houses and/or apartment blocks, or to revamp many more existing structures for housing purposes. Beneficiaries would also find it easier to gain mortgage finance, which would further stimulate new housing developments. Beneficiaries who already own their homes would be able to use their housing vouchers to extend or otherwise improve them. Some might choose to use their vouchers to build backyard flats, which they could then rent out to tenants also armed with housing vouchers and so able to afford a reasonable rental. This too would help increase the rental stock available.

People currently living in informal settlements would increasingly have other housing options available to them. Some would move into the new housing complexes and others into new backyard or other flats. Informal settlements would become less crowded, making upgrading easier. Those who choose to remain in them would be able to use their housing vouchers to buy building supplies, hire electricians, plumbers, and other artisans, contribute their own labour or 'sweat equity' to reduce costs, and gradually upgrade their homes.

With this voucher system in place, households would be empowered to start meeting their own housing needs, instead of having to wait endlessly on the state to supply them with a small, and probably defective, RDP home. Individual initiative and self-reliance would expand. The enormous pent-up demand for housing would diminish. With title deeds to homes also made available (as an essential complementary reform), a more normal housing market would develop. Accelerated housing delivery via the voucher system would also stimulate investment, generate jobs, and give the weak economy a vital boost.

Health care vouchers

Spending on public health services is budgeted in 2017/18 at R187bn, which is 12% of the total budget and almost 4% of GDP. However, despite the best efforts of many dedicated health professionals, standards of care are often poor. Reasons range from a shortage of doctors and nurses to bad management, persistent shortages of medicines and other consumables, and a widespread failure to comply with basic norms and standards in public hospitals and clinics.

In 2014, only 16% of the 417 public health facilities inspected by the Office of Health Standards Compliance (OHSC) complied with basic norms on infection control, clinical services, and the like, while 84% did not. More recent data (prised out of the OHSC by journalist Tamar Kahn and published in *Business Day* in November 2016) shows that only 6% of some 1 430 public facilities inspected over the past year years scored 70% or more on these basic norms: the level identified by the OHSC as 'a pass'.

> *The government refuses to allow the introduction of low-cost medical schemes, which could extend medical aid membership from roughly 9 million to some 15 million people. The state is also busy banning various low-cost health insurance policies.*

By contrast, South Africa's private health care system has long been rated one of the best in the world. Some 56% of doctors and specialists work in the private sector, as do some 50% of professional nurses. However, relatively few South Africans can afford the costs of private health care. This has much to do with high unemployment and low skills, but health minister Dr Aaron Motsoaledi instead blames the private sector for charging extortionate prices in its determination to put 'profits before people'. This accusation has little factual foundation. Often, moreover, it is the government's own regulations which have pushed up the costs of medical scheme membership and made private health care increasingly unaffordable.

Particularly important are rules requiring 'open' enrolment and 'community' (or non risk-rated) premiums. Under these provisions, no prospective member may be turned away, irrespective of age or illness, or made to pay a higher premium (though limited 'late-joiner' penalties and waiting periods for existing conditions are allowed). Even more important are rules requiring all medical schemes to provide all their members with 'prescribed minimum benefits' (PMBs) for some 300 specified conditions. Every medical scheme member, irrespective of how much cover they have signed on to receive, is entitled to these PMBs, which schemes must pay for 'in full'. Again, this pushes up medical scheme premiums for everyone.

At the same time, the government refuses to allow the introduction of low-cost medical schemes, which could extend medical aid membership from roughly 9 million to some 15 million people. The state is also busy banning various low-cost health insurance policies. Many of these are 'combination' policies which cover both the costs of hospitalisation and various primary health care services provided by general practitioners (GPs) and others.

The underlying purpose of these interventions is to push all South Africans into participating in the ANC's proposed National Health Insurance (NHI) scheme. The ANC claims that the NHI will provide all South

Africans with comprehensive and 'quality' health services, which will be free to all patients at the point of delivery. However, the NHI proposal is deeply flawed and is unlikely to succeed in this objective.

The NHI will do little to address poor management in public health care facilities, at least 84% of which fail to comply with basic health care standards and so cannot qualify to take part in the NHI. At the same time, the NHI will put an end to most medical schemes and the private health care system that these schemes make possible. In addition, the NHI will give the state control over every aspect of medical care: from the treatment protocols to be applied to the medicines to be prescribed. It will also empower the state to decide on the fees to be paid to all health professionals, as well as the prices of all medicines, devices, consumables, and the like.

The NHI will require enormous tax revenues (an estimated additional R210bn at its start) to implement. It will also vest all health care monies in a new NHI Fund, from which all payments will be made. Doctors and specialists are likely to wait months (if not years) to be reimbursed for the treatment they have already provided free of charge to patients. This could cripple them financially. Stock-outs of medicines and other essentials are also likely to worsen under the impact of long payment delays. Hence, though the demand for 'free' health services will rapidly expand under the NHI, the supply of such services is likely to diminish. Waiting times for all patients (other than a narrow political elite) will increase sharply. So too will popular anger and frustration at yet another unmet promise from the state.

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The NHI proposal should thus be abandoned. Instead, access to high quality health care should be secured through the introduction of health care vouchers, coupled with other reforms. Risk-rating in medical schemes should be restored, while low-cost medical schemes and health insurance should also be allowed. The mismanagement of public hospitals and clinics must be addressed by appointing people with the necessary experience to run them. Public-private partnerships should also be introduced, with administration outsourced to the private sector within parameters set by the government.

These reforms would meet the health care needs of most of those in formal employment, along with their dependants. But what of the millions who are jobless or earn too little to afford even low-cost medical schemes or health insurance? State-funded health vouchers would give them the chance to take part in the same system too.

These vouchers would be redeemable solely for health care purchases. With their help, recipients would be able to join low-cost medical schemes, at monthly contributions ranging (based on what the Council for Medical Schemes has proposed) from R180 to R240 per adult member per month. These members might have to use state hospitals but would gain access to a minimum package of primary services in the private sector. Health vouchers would also allow recipients to buy combination and other health insurance policies which (given the size of the risk pool) would have low premiums too.

How much would health vouchers cost? There are currently some 17 million households in South Africa, each with some three members on average. Assuming that 10 million of these households need health vouchers to meet annual costs of R10 000 per household, the overall sum required would be R100bn. Again, this could be funded by diverting some of the current public health care budget to meeting this key need.

State funded vouchers for education, housing, and health care would increase individual choice, promote competition, and drive up quality. They would greatly help to liberate the poor, while bringing a new dynamism into the economy. To help the economy grow still faster, South Africa also needs to shift away from present damaging BEE policies to a new system of 'economic empowerment for the disadvantaged' or 'EED', in which the voucher system would play an important part.

A shift from BEE to 'Economic Empowerment of the Disadvantaged' or 'EED'

EED focuses not on outputs in the form of numerical targets, but rather on providing the inputs necessary to empower poor people. Far from overlooking the key barriers to upward mobility, it seeks to overcome these by focusing on all the right '**E**s'. In essence, it aims at rapid **e**conomic growth, excellent **e**ducation, very much more **e**mployment, and the promotion of vibrant and successful **e**ntrepreneurship.

EED policies aimed at achieving these crucial objectives should be accompanied by a new EED scorecard, to replace the current BEE one. Under this revised scorecard, business would earn voluntary EED points for contributions of various kinds.

Business would primarily earn EED points for the investments it makes, the profits it generates, the jobs it sustains or creates, the goods and services it buys from other suppliers, the innovation it helps to foster, and the contributions it makes to tax revenues, export earnings, and foreign currency inflows. These are by far the most important contributions to upward mobility that the private sector can make.

Jobs and earnings are vital to the dignity and self-reliance of individuals. They also offer people the surest and most sustainable path out of poverty. The tax revenues that business contributes are also vital in meeting infrastructure, education, and other needs. Hence, it is only when businesses of every kind and every size – from the street vendor to the major corporation – are able to thrive and expand that real opportunity can be generated and full employment achieved.

> *Business would primarily earn EED points for the investments it makes, the jobs it sustains or creates, the goods and services it buys from other suppliers, the innovation it helps to foster, and the contributions it makes to tax revenues, export earnings, and foreign currency inflows. Business would also earn EED points for topping up vouchers for the poor and helping to find ways to reduce costs and improve quality.*

At the same time, the poor and disadvantaged cannot get ahead without sound schooling, much better living conditions, and (given South Africa's high burden of disease) effective health care. Tax-funded vouchers for education, housing, and health care would help to give the poor far more bang for the taxpayers' buck. They are thus a crucial element in the EED proposal. Under an EED system, individuals armed with tax-funded vouchers would be able to pay for the education, housing, and health care of their choice, as earlier described. Business would also earn EED points for topping up those vouchers for the poor and marginalised and for helping to find innovative ways to reduce costs and improve quality.

How EED would work in the mining sector, for example

In the crucial mining sector, where a damaging third iteration of the mining charter is soon to be introduced, an alternative EED scorecard is urgently required. Mining companies would then earn voluntary EED points for their contributions in four categories: economic, labour, environmental, and community or societal.

Economic contributions to production, capital expenditure, innovation, procurement, exports, and tax revenues would count the most. In the labour sphere, mining companies would also earn EED points for maintaining and expanding jobs and wages, upholding safety standards, and paying dividends to employees participating in employee share ownership programmes (ESOPS). In the environmental arena, companies would earn further EED points for contributing to rehabilitation funds, reducing water consumption, guarding against pollution, and finding innovative ways to minimise and reprocess waste. In the community or societal sphere, further EED points would be available for topping up education, housing, and health care vouchers for the poor in mining communities, and helping to improve the quality of provision in innovative and environmentally friendly ways.

Similar EED scorecards, which are geared to the needs of other sectors, could readily be drawn up. Most would be simpler than the mining scorecard, as mining poses particular challenges, generally not found in other spheres. Tunnelling (often deeply) under the ground is inevitably dangerous. It also has major environmental ramifications. An EED scorecard for the mining sector must take these factors into account, whereas EED scorecards in other sectors could generally be more straightforward.

EED is for real empowerment, whereas BEE has failed

For the past 23 years, South Africa has been chasing down the wrong policy path on BEE. As the then finance minister, Pravin Gordhan, said in 2010: 'South Africa's BEE policies...have not worked... BEE policies have not made South Africa a fairer and more prosperous country. They have led to small elite group benefiting and that is not good enough in terms of benefiting [the remainder].'

Instead of embarking on much-needed reforms to the present rules, the ANC is now using the evident failures of BEE to demand a new emphasis on 'radical economic transformation'. As President Jacob Zuma told Parliament in his State of the Nation Address (SONA) in February 2017, such transformation requires 'fundamental change' in 'the structure...of the economy', as well as in its 'ownership, management and control'.

More recently, both the president and the minister of rural development and land reform, Gugile Nkwinti, have stressed the need to amend the Constitution so as to allow expropriation without compensation. This is being touted as a vital mechanism to speed up land reform and return the land to 'the people'. Instead, however, it will witness the widespread nationalisation of farming land and many other assets. Any such rape of property rights will in time trigger further disinvestment, mounting job losses, runaway inflation, and ratings downgrades to sub-investment or junk status. It will also tip millions more South Africans into destitution and hunger.

> *The policy choices are becoming stark. The country can keep on with current transformation policies on employment equity, BEE, and land reform – and reap the bitter harvest that will surely follow as the economy falters even further. Or South Africans can grasp the policy nettle by recognising the failures of BEE and shifting to EED instead.*

The policy choices are becoming stark. The country can keep on with current transformation policies on employment equity, BEE, and land reform – and reap the bitter harvest that will surely follow as the economy falters even further. Or South Africans can grasp the policy nettle by recognising the failures of BEE and shifting to EED instead.

The benefits of such a shift would be enormous. With the BEE burden lifted, the private sector would once again be able to concentrate primarily on its core business, helping confidence to rebound. Moreover, with property rights restored and other key reforms in place, direct investment would begin to soar. Business and entrepreneurship would thrive, and jobs would rapidly expand. The skills of all South Africans would be used to the full, while new skills would soon be generated to help meet growing demand. With the need for labour increasing, wages would go up as well – not because of government fiat or violent strikes, but in response to market forces.

In this vibrant new environment, there would be very many more opportunities for people to earn their own income and take care of their own needs. They would also have real chances to climb the economic ladder in an economy growing so fast (at 7% of GDP a year) that it would double in size every ten years.

More than anything else, the voucher system and the wider EED approach would help put an end to what Democratic Alliance leader Mmusi Maimane has described as the present 'insider/outsider' dichotomy. Wrote Mr Maimane in January 2017:

> At present, 16 million people in our country are dependent on the welfare of the state, and a further 9 million are without a job. That's 25 million South Africans who are left out. Empowering those individuals economically is true radical transformation. Until we create an economic environment whereby those 25 million South Africans have access to the economy, transformation remains cosmetic and ineffectual.
>
> It is the poor who need help. It is the unemployed, the shack dwellers, the subsistence farmers, the social grant recipients, the single mothers, the child-headed households and the homeless who rely on government for their survival. And they have been let down... Economic transformation which is truly radical would see the economy being opened up to those who have been left out.

Most South Africans understand and endorse the need to end the current insider/outsider dichotomy and give the disadvantaged a real chance to get ahead. Since BEE offers no tangible prospect of achieving this, it is time to shift to EED instead.

PART ONE: THE IRR'S 2016 FIELD SURVEY

The ruling African National Congress (ANC) introduced BEE and other transformation policies many years ago, and has steadily been tightening them up since 2012. Against this background, the IRR has for some time felt the need to probe what ordinary South Africans think about these policies. The IRR's second comprehensive opinion poll was carried out in September 2016, as a follow-up to a similar field survey carried out a year earlier. The results of the 2016 field survey on BEE in all its key aspects are set out below. Where noticeable differences are evident, these results are also contrasted with those obtained in 2015.Overall, the outcomes of the 2016 field survey echo the 2015 one in showing that BEE benefits only some 14% of black South Africans. Public belief in BEE's capacity to help poor black people is also now diminishing, but it still remains far higher than the practical impact of these interventions can begin to warrant.

Since its last national conference in December 2012, the ruling African National Congress (ANC) has steadily been intensifying its black economic empowerment (BEE) and other transformation policies. It has tightened up the Employment Equity Act of 1998 by reducing defences and more than tripling fines for firms battling to fill unrealistic racial targets. It has significantly changed the BEE requirements in the generic codes of good practice, making them far harder to fulfil. Through repeated shifts in its preferential procurement rules, it is gradually nudging up the BEE ownership requirement from 25% to 51%, so putting property rights and business autonomy increasingly at risk.

In the land reform sphere, it has re-opened the inefficient and damaging land claims process, warned of imposing (often unrealistic) ceilings on the size of commercial farms, and even talked of introducing a one-hectare-per-household limit on all land acquired by the state for restitution or redistribution.

In the mining sector, far from bringing the mining charter into line with the generic codes, as BEE legislation requires, it is demanding that mining companies maintain 100% scores on ownership, housing and skills development at all times, failing which their mining rights may be cancelled. In the land reform sphere, it has re-opened the inefficient and damaging land claims process, warned of imposing (often unrealistic) ceilings on the size of commercial farms, and even talked of introducing a one-hectare-per-household limit on all land acquired by the state for restitution or redistribution. It has also come close to enacting expropriation legislation that conflicts with the Constitution in various ways. In addition, both President Jacob Zuma and Gugile Nkwinti, minister of rural development and land reform, have recently spoken of amending the Constitution to allow expropriation without compensation – so echoing what the Economic Freedom Fighters (EFF) have been demanding for the past three years.

Against this background, the IRR has again felt the need to probe the views of ordinary South Africans on BEE and other 'transformation' policies. In 2015, the IRR first commissioned a nation-wide field survey to probe these issues. That survey was conducted in September 2015, and its results were published in April last year. In September 2016 a similar field survey was again carried out for the IRR. The results of this opinion poll are set out in the tables and analysis which follow, while key differences from the results obtained in the 2015 survey are highlighted.

The sampling, fieldwork, and data-processing for the IRR's 2016 opinion poll was again carried out by MarkData (Pty) Ltd, an organisation with some 30 years' experience in conducting field surveys for public, private, and civil society organisations. Like its 2015 predecessor, the 2016 field survey was an 'omnibus' one, which was carried out across the country through personal face-to-face interviews. These were conducted by trained and experienced field teams in the languages chosen by respondents themselves.

For the 2016 field survey, a multi-stage cluster probability design was applied to yield a representative sample of 2 291 people, all of whom were aged 16 or more. To ensure representative coverage, households were selected from all nine provinces. They were also drawn from ten socio-economic categories, these being traditional rural areas; informal urban shack areas; urban hostels and other collective dwellings; urban black areas; urban 'coloured' areas; urban Asian or Indian areas; urban mixed areas; metro and big city areas; town areas; and rural commercial farms.

Racial representivity was secured through the spread of the people selected for interviewing. The sample consisted of 1 788 black people, making up 78.0% of the total, 212 coloured people (9.2%), 65 Indian people (2.8%), and 226 white people (9.9%). This categorisation of respondents according to race was unavoidable, given the purpose and subject matter of the study.

Roughly half the respondents were between the ages of 16 and 34, while their educational profile mirrored that of the country. Some 26% of those interviewed were not economically active, while 36% were unemployed (on the expanded definition, which includes those not actively seeking work). The rest had jobs, mostly in the formal sector.

The results of the 2016 survey are set out in the text and in the tables which follow. Notable differences from the 2015 outcomes are highlighted in the context of each table.

Best way to improve lives

In one of the first questions put to respondents, the IRR's 2016 survey asked how people's lives could best be improved. It gave them four options to choose from, as set out in *Table 1*. Most people saw 'more jobs and better education' as the key way to improve people's lives, with 75% of all respondents endorsing this option. Much the same proportions of blacks (73%) and whites (77%) shared this perspective. Some 21% saw the solution as lying in better service delivery. Roughly 3% thought people's lives could best be improved through 'more BEE and affirmative action in employment policies', while only 1% thought this outcome could be achieved via 'more land reform'.

Table 1: 2016 IRR field survey

Best way to improve lives	*Total*	*Black*	*Coloured*	*Indian*	*White*
More jobs and better education	74.5%	73.0%	87.2%	66.5%	77.0%
Better service delivery	21.2%	22.8%	10.8%	27.3%	20.5%
More BEE/AA in employment	2.8%	3.0%	0.6%	5.5%	1.7%
More land reform	1.0%	1.0%	1.3%	0.6%	0.7%

These results are generally similar to those obtained in 2015, when 78% of all respondents saw 'more jobs and better education' as the key to improving lives, and 15% thought the solution lay in better service delivery. That 21% now stress the need for better service delivery (a roughly six percentage point increase) shows how concern about government inefficiency in the provision of key services is growing. Also noteworthy are the small shifts in how black people, in particular, see transformation policies. In 2015 some 5% of blacks wanted 'more BEE and affirmative action in employment policies', but in 2016 that proportion was down to 3%. In 2015, 2% of blacks wanted 'more land reform', but in 2016 that percentage was down to 1%.

Affirmative action in employment

The 2016 field survey went on to ask a number of additional questions probing attitudes to affirmative action in employment. The Employment Equity Act of 1998 requires all designated employers (generally those with 50 employees or more) to make 'reasonable progress' towards demographic representivity at all levels of the workplace. Though 'quotas' are formally prohibited, employers in both the public and private sectors are expected to use racial 'targets' to correct any 'under-representation' of black people at board, management, and other levels. Failure to do so is punishable, under the 2013 amendments to the statute, by maximum fines of R1.5 million or 2% of annual turnover (whichever is the larger) for a first such offence, rising to R2.7 million or 10% of annual turnover (again, whichever is the larger), for a fifth consecutive transgression of this kind within three years.

The government often claims that the Employment Equity Act is needed to help the poor. It also suggests that the masses will rise up in revolt if the statute's racial targets are not met. Against this background, the IRR's 2016 survey again asked respondents to explain how they themselves saw the use of racial targets in employment. Various questions were posed in this regard.

Should the best person be given the job, regardless of race?

Respondents were asked whether 'the best person should be given the job, regardless of race'. Their answers are shown in *Table 2*. Overall, 82% of respondents agreed that people should be appointed to jobs on merit, rather than race. Roughly 17% disagreed. Among black South Africans, 79% wanted appointments to be based on merit, rather than race. Among minority groups, support for merit-based appointments was even higher, at 96% among coloured people, 80% among Indians, and 94% among whites.

Table 2: 2016 IRR field survey

Do you believe that the best person should be given the job, regardless of race?	*Total*	*Black*	*Coloured*	*Indian*	*White*
Yes	82.4%	79.4%	96.1%	79.5%	93.5%
No	17.6%	20.6%	3.9%	20.5%	6.5%

Among blacks, support for merit appointments was down by roughly six percentage points from the 85% figure recorded in 2015. This suggests that persistent racial rhetoric condemning the skilled white minority for its continued preponderance in the most senior posts in the private sector may be having an increased impact on grassroots opinion.

Has affirmative action in employment helped poor black South Africans?

The 2016 survey, like its 2015 predecessor, then went on to probe the extent of public support for the government's oft-repeated claim that affirmative action in employment is important for redress and 'helps poor black people'. The results (see *Table 3*) show that this much repeated message still has a major, but now declining, impact on public opinion. In 2015, 53% of all respondents agreed with this statement, but in 2016 this proportion was down to 42%. Among blacks, the proportion in agreement dropped from 54% in 2015 to 40% in 2016.

Table 3: 2016 IRR field survey

Has affirmative action helped poor black South Africans	*Total*	*Black*	*Coloured*	*Indian*	*White*
Yes	42.1%	39.8%	45.0%	58.3%	52.4%
No	57.9%	60.2%	55.0%	41.7%	47.6%

Is affirmative action in employment helping your community?

The 2016 survey then dug a little deeper by asking people if affirmative action in employment was in fact helping their community. Once respondents were asked to consider the practical impact of affirmative action on people known to them, their answers were very different, as set out in *Table 4*. Now a much more limited proportion of respondents – 29% in 2016, down from 34% in 2015 – agreed that affirmative action was helping people in their community. Among blacks, 31% agreed that this was so, well down on the 37% who had agreed with this in 2015.

Despite the shifts apparent from 2015 to 2016, the data once again points to one of the most important findings of the IRR's field study. It demonstrates a major disconnect between what people expect affirmative action to do for the poor in general and what it in fact achieves in their own communities.

Table 4: 2016 IRR field survey

Is affirmative action helping your community?	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	29.1%	31.4%	16.7%	22.9%	24.0%
No	70.6%	68.6%	82.9%	71.9%	74.8%

Has affirmative action in employment helped you personally?

Next, the 2016 survey drilled down deeper still by asking people if affirmative action in employment had helped them personally. Their answers now shifted further (see *Table 5*). Whereas 42% thought affirmative action of this kind helped poor blacks in general, only 12% of all respondents (down from 15% in 2015) agreed that such affirmative action had helped them personally. Among blacks, 13% said they had personally benefited from affirmative action, whereas 87% had not. In 2015, by contrast, 17% of blacks said they had personally gained from affirmative action, while 83% had not.

The 2016 results again suggest that South Africans have been conditioned into believing that affirmative action in employment helps to advance the poor. In practice, however, the policy bypasses the great majority and assists only a relatively small elite. The gulf between perception and reality shows how well the government's messaging has succeeded – and how badly the policy has worked for most black South Africans.

Table 5: 2016 IRR field survey

Has affirmative action in employment helped you personally?	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	11.9%	13.0%	8.1%	11.8%	6.2%
No	88.0%	87.0%	91.5%	82.9%	93.8%

On what basis should people be appointed to jobs?

The 2016 survey then described various ways in which affirmative action in employment could be implemented and asked respondents to choose between these options (see *Table 6*). Some 8% of all respondents and 10% of blacks supported the first option: that 'only black people should be appointed to jobs for a very long time ahead'.

Roughly 11% of all respondents supported our second option: that 'only black people should be appointed until those in employment are demographically representative'. Since this is essentially what the Employment Equity Act (EE Act) requires, it is striking that so few people agreed with this choice. Though support for this option was strongest among black South Africans, only 13% in fact endorsed it.

To allow the tracking of trends over time, this question was largely modelled on similar ones posed by the Helen Suzman Foundation (HSF) in field surveys in 1996 and 2000. In the 1996 HSF survey, endorsement was also strongest among black respondents, with 19% agreeing that 'only black people should be appointed until those in employment are demographically representative'. However, in the HSF's 2000 survey, support for this option among blacks came in at 13% instead. As the IRR's survey shows, black support for the EE Act's approach stood once again at 13% in 2016, some 16 years later.

Table 6: 2016 IRR field survey

Who do you think should be appointed to jobs in South Africa?	***Total***	***Black***	***Coloured***	***Indian***	***White***
Only blacks for a long time ahead	8.1%	9.6%	2.1%	1.1%	3.9%
Only blacks till demographically representative	11.3%	12.9%	2.8%	15.2%	5.6%
Appointments should be made on merit, with special training for the disadvantaged	62.7%	62.8%	66.4%	67.8%	57.5%
All appointments should be made on merit alone, without such training	17.6%	14.6%	26.9%	15.9%	33.0%

Though the long-term trend has thus remained much the same from 2000 to 2016, there are also some notable differences in outcomes here from 2015 to 2016. In 2015 some 6% of all respondents and 7% of blacks supported the second option: that only blacks should be appointed until demographic representivity had been achieved. But in 2016, by contrast, the equivalent proportions were 11% and 13%.

Why this upward shift should have occurred is unclear, especially as so few blacks (13% in 2016) report any personal benefit from the EE Act. However, recent amendments to the Act (which triple the fines payable for failures to fulfil racial quotas) may have contributed to these changes in people's perceptions. So too may the ANC's increasing condemnation of alleged white 'over-representation' at senior levels in the private sector. In repeatedly voicing this accusation, the ANC and a host of other commentators overlook the fact that business cannot easily attain 77% black representation in senior posts when more than half South Africans are under the age of 25 and only 6% of blacks have the tertiary qualifications often needed or advisable for such positions.

The shift from 2015 to 2016 on the second option has also had an impact on responses to the third option: that appointments should be made on merit, with special training for the disadvantaged. In 2015 this option was endorsed by 70% of all respondents and by 71% of blacks. In 2016 support for this option came down to 63% among respondents in general, and also among blacks. This roughly eight percentage-point decrease within the black group suggests that some blacks who earlier endorsed the third option now want a stronger focus on demographic representivity. This is a disturbing outcome when the age and skills profile of the black population makes this goal so difficult to achieve, especially at senior levels.

Should race be used in senior municipal job appointments?

Municipal efficiency has a major bearing on service delivery, which in turn affects the lives of all South Africans and especially the poor. So the IRR's 2016 survey again asked whether senior municipal job appointments should be based on political or personal contacts, on race, or on merit. The answers are given in *Table 7*. Roughly 2% of all respondents thought job appointments should be based on political or personal contacts. However, 5% of them (up from 1% in 2015) thought such appointments should be based on race. By contrast, 91% (down from 94% in 2015) thought appointments should be based on 'ability to do the job'.

Support for race-based appointments was again strongest among blacks, standing at 6% in 2016, as opposed to 1% in 2015. Yet, despite the increase in support for race-based appointments evident in 2016, a huge preference for competence over racial identity was nevertheless again apparent.

Table 7: 2016 IRR field survey

Appointments to senior municipal jobs to be based on	*Total*	*Black*	*Coloured*	*Indian*	*White*
Political contacts	1.8%	2.0%	0.9%	0.0%	2.1%
Personal contacts	2.2%	2.3%	1.4%	0.0%	2.4%
Race	5.4%	6.2%	1.2%	7.3%	2.3%
Ability to do the job	90.5%	89.4%	96.5%	92.7%	93.1%

Should race be used for senior jobs in business?

The IRR then followed up by asking if senior jobs in the private sector should be based on political or personal contacts, on race, or on the ability to do the job (see *Table 8*). Again, support for this last option was overwhelming, with 91% of all respondents endorsing it. However, some 5% of blacks (up from 3% in 2015) thought race should be used for senior business jobs. Again, the government's increased emphasis on the need for racial quotas may have contributed to the relatively small changes evident here.

Table 8: 2016 IRR field survey

Appointments to senior jobs in business should be based on	*Total*	*Black*	*Coloured*	*Indian*	*White*
Political contacts	0.9%	0.7%	1.4%	0.0%	2.2%
Personal contacts	4.2%	4.7%	0.9%	4.9%	2.4%
Race	4.4%	4.9%	2.6%	1.6%	2.5%
Ability to do the job	90.5%	89.5%	95.1%	93.5%	92.6%

Black economic empowerment (BEE)

Our 2016 field survey also probed public attitudes to BEE policies, as reflected in the best known aspects (BEE ownership deals and BEE tenders) of the generic codes of good practice. Again, it began by asking respondents whether BEE helped poor people, before going on to ask whether it helped their own communities or them personally. Again, when people were asked to think beyond the abstract to the concrete, few respondents thought that BEE policies had much practical impact.

Hence, whereas in 2016 some 51% of all respondents said BEE policies 'helped poor people', only 34% thought these policies helped their communities. A mere 13% said BEE deals had helped them personally, while 8% said they had personally been awarded a BEE tender. Constant messaging about the benefits of BEE has thus again helped create perceptions that these policies help the poor, but in practice few people have experienced these gains for themselves (see *Table 9*).

Belief in BEE's capacity to help the poor has also dropped since 2015, when 58% of all respondents (down to 51% now) thought such policies helped black people in general. The proportion of blacks saying their communities have benefited from BEE has also decreased sharply, dropping from 44% in 2015 to 38% in 2016. The percentage of black respondents reporting a personal benefit from BEE ownership deals has stayed much the same at roughly 14%, while the proportion of blacks benefiting from BEE tenders has gone down somewhat from 12% in 2015 to 9% in 2016.

Ironically, some whites have also benefited from BEE policies: perhaps by advising on BEE deals or by helping to deliver on a tender awarded to a BEE contractor. In 2016 some 9% of whites (as opposed to 14% of blacks) said they had benefited from BEE deals. However, only 5% of whites (down from 10% in 2015) claimed to have been awarded BEE tenders, as opposed to 9% of blacks.

Table 9: 2016 IRR field survey

Have BEE policies helped poor blacks?	*Total*	*Black*	*Coloured*	*Indian*	*White*
Yes	51.4%	50.6%	54.1%	53.5%	54.9%
No	48.4%	49.3%	45.9%	46.5%	43.9%
Have BEE policies helped your community?	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	34.4%	37.6%	18.5%	25.8%	26.4%
No	65.1%	62.1%	81.5%	73.6%	70.8%
Have BEE deals helped you personally?	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	13.1%	13.9%	10.2%	14.9%	9.3%
No	86.8%	86.0%	89.8%	84.4%	90.5%
Have you yourself been awarded a BEE tender?	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	8.0%	9.0%	3.0%	6.0%	5.3%
No	91.9%	90.9%	97.0%	93.3%	94.6%

Further questions were then asked to probe public views on preferential BEE procurement policies, which have often contributed to inflated prices and a poor quality of delivery. Roughly three quarters (72%) of all respondents were opposed to BEE procurement that resulted in higher prices in the building of a local school (see *Table 10*), although 27% were prepared to endorse this. Among blacks, some 70% were opposed to higher prices for BEE purposes, but 30% were willing to accept this.

Responses here were generally little different from those obtained in 2015. However, if people had more knowledge of how often BEE procurement results in prices some 200% higher than market ones (as finance minister Pravin Gordhan has warned), their willingness to sanction such wastefulness might well drop sharply.

Table 10: 2016 IRR field survey

Should a more costly BEE firm build a local school?	*Total*	*Black*	*Coloured*	*Indian*	*White*
Yes	27.4%	29.8%	21.8%	32.6%	13.1%
No	72.1%	70.0%	75.8%	67.4%	86.6%

Respondents were also asked whether people should get government tenders based on political and personal contacts, on race, or on ability to do the job. Faced with this choice, roughly 4% of all respondents – and also 4% of black ones – agreed that government tenders should be awarded on the basis of race. However, an overwhelming majority of 92% said that 'ability to do the job' should be the basis for the award (see T*able 11*). Responses here were much the same as those evident in 2015.

Table 11: 2016 IRR field survey

People should get government tenders based on	*Total*	*Black*	*Coloured*	*Indian*	*White*
Political contacts	1.6%	1.9%	0.5%	1.5%	1.1%
Personal contacts	2.3%	2.6%	0.5%	1.0%	2.7%
Race	3.9%	4.4%	0.6%	2.6%	3.7%
Ability to do the job	92.0%	91.1%	98.4%	95.0%	92.4%

Land reform

In the open-ended questions put to respondents at the start of their interviews, few people flagged access to land as a major concern. Asked to list 'the two most serious problems unresolved since 1994', only 0.6% of all respondents identified the distribution of land as a problem of this kind. In addition, when people were asked to list 'the two main causes of inequality', only 0.3% of all respondents mentioned land ownership. Moreover, when people were thereafter expressly asked whether 'more land reform' was 'the most important thing the government could do to improve the lives of people in their communities', a mere 1% of respondents endorsed this option.

However, when specific questions about the benefits of land reform were later posed, the impact of government messaging was again evident – for 55% of all respondents now agreed that land reform 'helps poor blacks'. By contrast, only 34% saw any benefit in it for their own communities, while a mere 13% said land reform had 'helped them personally'. Again, this suggests that the government's constant emphasis on the need for more land reform has influenced how people think in the abstract. But when they are asked to consider what the concrete benefits of land reform have been for their communities or for themselves, their answers are very different, as shown in *Table 12*. In addition, many of those who said that they or their communities had benefited from land reform may have been thinking of the substantial sums the government has paid out in recent years to the 90% or so of successful claimants who opted to receive cash payments rather than have their land restored to them.[1]

The answers given in 2016 were sometimes markedly different from those obtained in 2015. This suggests that belief in the effectiveness of land reform may be diminishing, especially among black people. In 2015 some 62% of black respondents said that land reform did help poor blacks, whereas this proportion was down to 53% in 2016.

Table 12: 2016 IRR field survey

Land reform helps poor blacks	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	53.0%	52.6%	56.4%	55.8%	52.6%
No	46.7%	47.1%	43.6%	44.2%	46.5%
Land reform helps your community	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	34.3%	37.5%	19.2%	27.2%	25.8%
No	64.9%	61.9%	80.5%	72.8%	72.1%
Land reform has helped you personally	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	12.7%	14.9%	5.3%	5.0%	5.0%
No	86.5%	84.4%	94.3%	89.7%	94.7%

A vital reality check

Given the ANC's new emphasis on 'radical economic transformation' as the key to broad-based prosperity (see *PART 5*), the IRR's 2016 field survey, like its 2015 predecessor, provides an important reality check. When people are asked what the government can do that will most help to improve their lives, 75% think 'more jobs and better education' will achieve this, whereas only 3% of South Africans (down from 5% in 2015) think that more BEE or employment equity will help to bring this about. A mere 1% (down from 2% in 2015) think that more land reform will help improve their lives.

Yet when South Africans are expressly asked whether these transformation policies help to advance poor black people, government messaging in support of these interventions continues to have major impact. Hence, when respondents are asked if employment equity, BEE, and land reform 'help to advance poor black people' the proportions who agree that this is so stand at:

- 42%, as regards employment equity;
- 51%, as regards BEE; and
- 53%, as regards land reform.

Among black respondents the level of agreement is generally a little lower, coming in at 40% as regards employment equity, at 51% as regards BEE, and at 53% in the context of land reform. It is nevertheless striking that four out of ten black people think that employment equity does indeed help the disadvantaged, while roughly half of blacks think that BEE and land reform policies also have this outcome.

At the same time, most black South Africans are well aware that they themselves have derived little personal benefit from these interventions. A mere 13% of blacks have benefited personally from employment equity, while 87% have not. A slightly higher proportion (14%) of blacks have benefited from a BEE ownership deal, whereas 86% have not. When it comes to preferential procurement, only 9% of blacks have obtained a BEE tender, while 91% have not. In the land reform context, the proportion reporting a personal benefit is higher (at 15%), but many of these respondents may have been thinking of the substantial cash payments the government has made to successful claimants who chose to receive money rather than land.

These results are thus similar to those obtained by the IRR in its 2015 field survey. Again, this may be one of the most important outcomes of this 2016 opinion poll. It suggests that ordinary people have been so conditioned by the rhetoric that transformation helps provide redress for past injustice that they find it difficult to question this claim – even though their own experience is so greatly to the contrary.

> *The rhetoric around transformation may also help explain why so many politicians, journalists, business leaders, civil society organisations, and other commentators seem simply to accept the supposed benefits of these policies at face value, instead of drilling down to the contrary reality.*

The rhetoric around transformation may also help explain why so many politicians, journalists, business leaders, civil society organisations, and other commentators seem simply to accept the supposed benefits of these policies at face value, instead of drilling down to the contrary reality. Important too, however, is the fact that the ANC has long derided critics of BEE as defenders of white privilege, whose sole aim is to protect the advantaged white minority at the expense of the impoverished black majority. This is so damaging and hurtful an accusation that most people would go far to avoid it.

In addition, when confronted by mounting evidence that BEE in all its aspects helps only some 15% of blacks, the ANC's response is generally to tighten up existing policies still further – on the basis that BEE will then start to deliver on what the rhetoric promises. Thus far, however, the poor have not been helped by the ratcheting up of these policies. Instead, they have been further harmed, as the main effect of these policy shifts has been to hobble the economy and make it harder still for poor people to gain jobs or otherwise get ahead. Why this is so – and what should then be done instead – is further canvassed in *PART 2*.

References

1 2017 *South Africa Survey*, (*Survey*) IRR, p413

PART TWO: WHAT THEN IS TO BE DONE?

BEE in its various aspects benefits only a relatively small elite, while bypassing the great majority of poor black people. Worse still, it makes it harder for the poor to get ahead by reducing investment, growth, and employment. Redistribution via the budget has been far more effective in alleviating poverty, but the sustainability of the social wage is coming into question as revenue diminishes and public debt soars. A new focus on growth, rather than redistribution, is thus urgently needed to expand opportunity.

This is also what most South Africans want, as the IRR's 2016 field survey shows. However, even if the growth rate rises, many disadvantaged South Africans would still find it difficult to get ahead without much better education, health care and housing. Enormous sums are allocated to these core needs each year, but the quality of the state's delivery remains very poor. More than 83% of black South Africans – as the IRR's field survey also shows – would therefore like to have tax-funded vouchers for education, health care, and housing. They could then stop waiting on the state to improve its performance and start taking charge of their own lives. This, according to 74% of blacks, would help them far more than BEE.

Why current 'transformation' policies are not working for the poor

Shortly before it came to power in 1994, the ANC put forward a compelling case for affirmative action in employment, business, and land ownership to help overcome apartheid's manifold injustices. The vision it held out was a beguiling one, which helped win broad support for these policies across the country and among all racial groups. In practice, however, the ANC's description of the benefits these policies would bring has proved false and flawed.

Shortly before it came to power in 1994, the ANC put forward a compelling case for affirmative action in employment, business, and land ownership to help overcome apartheid's manifold injustices. The vision it held out was a beguiling one, which helped win broad support for these policies.

Contrary to what the ANC then promised, ***employment equity*** rules have not in fact ensured that the workforce becomes 'representative of the talents and skills of the whole population'. Instead, the ANC's insistence on rigid racial 'targets' – quotas in all but name – has often barred the public service from employing people with scarce skills. Experienced staff have been encouraged to leave to make way for new incumbents, often appointed on the basis of their 'potential' rather than their ability to do the job. The public service has thus suffered a crippling loss of experience and institutional memory. Capacity has declined to the point where 'an inefficient government bureaucracy' has once again been identified by the World Economic Forum, in its Global Competitiveness Report for 2016/17, as 'the most problematic factor for doing business' in South Africa.[1] This decline has also had major impact on millions of poor South Africans heavily dependent on the state for the delivery of education, health care, housing, clean water, and other essentials.

Under recent amendments to the Employment Equity Act, the private sector now faces massive fines (up to 10% of annual turnover) for failing to meet racial targets at senior levels. Yet these targets overlook the age profile of the black population (more than half are under the age of 25) as well as the skills profile of black South Africans, only 6% of whom have post school training.[2]

At the same time, South Africa's employment equity rules (like their equivalents in India, Malaysia, the US and elsewhere) benefit only a relatively small 'elite': the most advantaged people within the disadvantaged group. The rules do little to help the great majority of poor South Africans, millions of whom are unemployed and poorly skilled and have little prospect of ever finding work, let alone being appointed at senior levels. Worse still, these rules greatly harm the poor majority by eroding public service efficiency and reducing the private sector investment, growth, and employment vital to upward mobility.

As for ***BEE***, the ANC promised in 1994 that this would help remove 'all the obstacles to the development of black entrepreneurial capacity', and unleash 'the full potential of all South Africans to contribute to wealth creation'. Instead, as political analyst Moeletsi Mbeki has repeatedly warned, BEE has generated 'an entitlement culture' in terms of which 'black people...think they should acquire assets free and that somebody else is there to make them rich, rather than they should build enterprises from the ground'. In addition, far from contributing to wealth creation, BEE requirements are so costly and impractical as to constitute a further major barrier to investment and employment.[3]

No one knows how much BEE deals – which are generally aimed at transferring 25% of the assets of a business at discounted prices to BEE investors lacking capital and experience – have cost the economy. Back in 2013, Mr Zuma put the value of known deals at around R600bn. However, this was clearly an under-estimate as BEE transactions by private firms are generally not disclosed. Some years ago, the National Empowerment Fund, a state entity intended to help promote empowerment, said that the value of BEE deals might well rise to R2 trillion, once all the transactions initially required under the generic and sector codes of good practice had been concluded.[4]

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But even this enormous sum will by no means be the end. Once initial transactions have come to an end (after ten years, in the main) and BEE investors have exited, firms are expected to conclude new deals to maintain BEE ownership at 25%. These new deals could easily cost as much as the initial ones. They could also cost substantially more – especially now that all organs of state have been empowered to lay down additional 'pre-qualification criteria' for firms wanting to do business with the government. Under these criteria, firms may be seen as lacking sufficient BEE status unless they increase their BEE ownership levels from 25% to 51% (as Eskom already requires of its coal suppliers).[5]

Yet, despite the enormous amounts of scarce capital being channelled into ownership deals, most ordinary black South Africans have little prospect of ever participating in these transactions. Instead, these deals generally pass them by. Ironically, even the supposed beneficiaries of these transactions have often seen little gain from them. This situation was perhaps different between 2004 and 2008, when the growth rate averaged 5% of GDP and the value of listed shares climbed steadily up. However, after the global financial crisis, share prices dropped, interest rates rose, and many BEE deals ended up under water.[6]

Preferential procurement, another key element in BEE, has also been extremely costly – and especially so for the state. Strict limits are supposed to govern on how much BEE firms can add to market prices and still obtain state tenders: 20% for contracts under a specified threshold and 10% for contracts above it. That threshold was initially set at R500 000 but, under pressure from the black business lobby, it was first doubled to R1m and has now risen to R50m, an increase of close on 5 000%.[7]

Despite the clear limits thus laid down, BEE price inflation has often been very much greater than 10% or 20%. Often, it has amounted to 200% or more. Finance minister Pravin Gordhan lamented this back in 2009, when he said that the state paid more for everything than a private business would: 'R40m for a school that should have cost R15m, R26 for a loaf of bread that should have cost R7'. ANC secretary general Gwede Mantashe warned against this too in 2012, when he said: 'It is unacceptable for contractors to charge taxpayers R20m for a public school when the private sector spends between R5m and R10m on a similar project.' He also criticised officials for 'prioritising the enrichment of BEE companies through public contracts at the expense of...quality services at affordable prices'.[8]

In 2016 BEE mark-ups on a similar scale came to light in Tshwane (Pretoria), after the Democratic Alliance took control of the metropolitan authority. Here, small black businesses had been able, for example, to purchase light bulbs at R80 per bulb and sell them on to the metro at R300 per bulb. The BEE middlemen who managed to obtain procurement contracts of this kind added no value to the products they supplied, as Jean Wallace points out in *Noseweek*. They nevertheless reportedly secured such contracts through the favours they were willing to extend. Writes Ms Wallace: 'Insiders say that many vendors are connected to powerful senior officials in the metro who dish out orders [for goods] in return for cash, overseas holidays, and payment of their children's school fees.'[9]

BEE procurement is thus a major factor in price inflation and corruption, the overall costs of which are massive. In the words of Kenneth Brown, chief procurement officer at the Treasury until December 2016, roughly 40% of the state's R600bn procurement budget is currently tainted by 'inflated prices and fraud'.[10] That proportion amounts to a staggering R240bn a year. Such wastefulness greatly limits the revenue available for infrastructure as well as for education, housing, health care, and a host of other needs.

The costs of preferential BEE procurement to the private sector, already significant, are now set to rise steeply too. The revised generic codes which took effect in 2015 led the way, by demanding that some 40% of goods and services should in future be bought from 51% black-owned firms. However, such firms do not yet exist in anything like the quantity required, so they will have to be created and then helped to succeed.[11]

> *ANC secretary general Gwede Mantashe has criticised officials for 'prioritising the enrichment of BEE companies through public contracts at the expense of quality services at affordable prices.*

In addition, new Treasury preferential procurement regulations (which took effect on 1st April 2017) require any firm winning a state tender worth R30m or more to sub-contract at least 30% of the contract's value to small 51% black-owned enterprises. Yet many of these enterprises (like the ones supplying light bulbs to the Tshwane metro) will simply be middle-men whose cut will push up contract prices without adding any value. Moreover, since these regulations also require the main tenderer to provide a 'market-related' price, many established companies may have little choice but to absorb the additional costs these compulsory sub-contracts will generate.[12]

Even more damaging to business confidence is the government's constant shifting of the BEE goalposts. The BEE generic codes that took effect in 2007 were expected to remain in place for ten years and then fall away. Instead, after a scant five years, these codes were extensively revised to make them even more costly and onerous to fulfil. This has added greatly to the BEE burden. It has also made for great policy uncertainty, as business has no way of telling what further changes might yet lie in store.

Not surprisingly, the local subsidiaries of American companies doing business in South Africa now identify the shifting BEE ownership requirement as the most difficult challenge they confront. In second place are various 'sector specific regulations', while 'policy uncertainty' ranks third. Verbatim comments by these firms highlight the negative ramifications of BEE rules:[13]

- 'the cost of doing BEE is increasing every year';

- ‘the new BEE codes are impossible to attain as a small company’;
- ‘we are spending a huge amount of man hours trying to...understand the BEE regulations, never mind the amount of time we spend actually complying’; and
- ‘no one plays a game where the goal posts keep moving’.

As these companies suggest – and as Nigerian billionaire entrepreneur Aliko Dangote warned some years ago – BEE is increasingly a deterrent to foreign direct investment (FDI) into South Africa. Figures from the UN Conference on Trade and Investment (Unctad) also show that FDI inflows have dropped sharply in recent years. In 2015, in particular, these inflows plummeted to $1.77bn, which was 69% less than in 2014 and 79% less than in 2013. In 2016 inflows were higher, at $2.4bn, but this figure is still low compared to the inflows South Africa used to attract.[14] Though BEE is not the only reason for declining FDI, its requirements clearly give potential investors persuasive reasons to take their capital elsewhere.

BEE is also a factor in the outflow of direct and indirect investment from South Africa into other countries, which has also grown significantly in recent years. As *Africa Confidential* reports, in the past five years, South African companies have invested $250 billion (R3 250bn) abroad. In addition, in 2016 roughly $180 million (R2 340bn) of portfolio investment by South Africans also went abroad.[15]

With capital inflows diminishing and outflows growing, the negative effects of BEE are clearly harming all South Africans – and especially the jobless and destitute. At the same time, the benefits of BEE have gone solely to a small elite with strong political connections. According to Ben Turok, ANC MP and party stalwart, BEE ‘partners’ are typically ‘those with inside knowledge of the government and easy access to ministers and top officials”, who can “schmooze” with top people in the state’.[16] This group is necessarily small.

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Some BEE beneficiaries have also acknowledged that empowerment rules help the few rather than the many. In November 2016 Mathews Phosa, a former ANC treasurer general, tacitly admitted this, saying: ‘A few of us were empowered at the expense of the majority’. A similar acknowledgment has recently come from Mncane Mthuzi, president of the Black Management Forum, who says that only ‘a handful of us have benefited’. Mr Mthuzi also recognises that ‘the dividends of transformation have not trickled down to black people [more] broadly’.[17]

The South African Communist Party (SACP) has recently warned that the ‘intra-African inequality’ which BEE has fostered is ‘the main contributor to South Africa’s extraordinarily high Gini coefficient’ of inequality. Adds the party: ‘Enriching a select BEE few via share deals...or (worse still) looting public property...in the name of broad-based black empowerment is resulting in....increasing poverty for the majority, increasing racial inequality, and persistent mass unemployment.’[18]

What the ANC promised in the context of ***land reform*** has also proved flawed and false. Back in 1994, the organisation pledged that land reform would not only help to ‘rectify’ land ownership but would also strengthen property rights. Given the extent to which black people had been barred from owning farms, homes, and business premises in the apartheid era, this last was a particularly important promise. In practice, however, the ANC has simply ignored what it then said. Instead, it has actively barred land reform beneficiaries from obtaining individual title to transferred land.

Land bought by the government for redistribution (which now amounts to some 4.8 million hectares) has thus generally been retained by the state, rather than transferred to emergent black farmers. Though these farmers have repeatedly demanded individual ownership, backed by title deeds, the ANC continues to confine them to leasehold tenure instead. This makes it harder for them to raise working capital and deepens their dependence on the state. It also strengthens the ruling party’s hold on power, even as it continues to deny black South Africans the opportunity to own their own farms. Emergent farmers lacking the capital to buy land on the open market are thus just as effectively barred from farm ownership as they were in the apartheid era.[19]

Where land has been restored under the restitution programme to communities earlier dispossessed of it, the ANC has also declined to allow individual ownership of it. Instead, such land is transferred either to 'communal property associations' or to traditional leaders. In either case, community members cannot obtain individual title. Often, they also cannot agree among themselves or with their leaders on how the land should be used, making it harder still to maintain productivity.[20]

These factors help explain why almost all land reform projects have failed. Many farms that used to be highly productive have collapsed altogether, while others no longer generate any marketable surplus. Writes Professor Ben Cousins, chair of the Institute for Poverty, Land and Agrarian Studies (Plaas) at the University of the Western Cape: 'More than R80bn has been spent on land reform since 1994, [but] with nothing to show for it.'[21]

That production has so often collapsed is not surprising, for access to land is only one out of a host of ingredients needed for success in farming. No less essential are entrepreneurship, experience, know-how, working capital, labour, electricity, infrastructure, and access to markets. Farming is also a particularly difficult and daunting enterprise, for farmers often confront the risks of drought, flood, fire, and disease in addition to all the normal hazards of running a business.[22]

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From time to time, land reform officials have warned against pushing ahead with the land reform programme and thereby ending up with still more farms 'dying in the hands of the poor'. Inefficiency among land reform officials is widespread, while restitution claims are becoming more complex and difficult to resolve. In addition, budgetary allocations for land acquisition have generally been very small. (In the 2017/18 financial year, for example, R4.4bn has been set aside for the acquisition of land, whether by redistribution (R1.2bn) or restitution (R3.2bn), but this is a mere 0.3% of overall budgeted expenditure amounting to close on R1.6 trillion.) This tiny proportion shows that land reform has not in fact been the government's priority. It has also not been a priority for most successful land claimants, 90% of whom have chosen to receive cash rather than the land that would otherwise have been restored to them.[23]

Given these constraints, the ANC's goal of transferring 30% of commercial farmland (or some 26 million hectares) to black South Africans is still far from being met. The land transferred to date amounts to some 8.2 million hectares, which is roughly 30% of the 26 million-hectare goal. If successful land claimants had chosen to take land instead of cash, another 2.8 million hectares would also have been transferred, bringing the total up to 10 million hectares.[24]

In recent years, the ANC has repeatedly distorted these figures and exaggerated the extent of remaining white ownership. It has also often claimed that skewed land ownership is the predominant cause of poverty and inequality. This diagnosis makes little sense. The agricultural sector contributes a mere 2.4% to GDP and provides only 4.3% of all employment. Hence, it cannot possibly provide all the jobs and incomes required to lift some 22 million people out of poverty. In addition, South Africa is a rapidly urbanising society in which the great majority do not want land to farm, but rather seek jobs and houses in the towns and cities.[25]

Land ownership is also not needed for individual prosperity, as experience in Singapore confirms. People have little scope to own land in this tiny city state, which measures a mere 620 sq kilometres in total.

Yet in the 50 years since it came to independence in 1965, Singapore's economy has grown so rapidly – largely as a hub for international financial and trading services – that GDP per capita stood at some $52 900 in 2015. This is roughly equivalent to R700 000 – about 13 times greater than per capita income in South Africa, which languished at some R53 300 in the same year. That Singapore has achieved this level of individual prosperity shows that land ownership is not a necessary foundation for wealth.[26]

The ANC is nevertheless now using the land issue to whip up popular support for its plans to embark on widespread expropriation without adequate compensation. In January 2017, for instance, Mr Zuma claimed that the government had little choice but to use expropriation to speed up the slow process of land redistribution. Ironically, however, the ANC still has no intention of giving black farmers individual title to the land the state acquires in this way. Instead, in the words of Sihle Zikalala, ANC chairman in KwaZulu-Natal, 'at least 70% of the land [is to] be expropriated into the ownership of the state and then leased to the people who are going to use it'.[27]

This is a recipe for land nationalisation, not effective land reform. There is also a real risk that the state's new tenant farmers will be unable to maintain commercial operations on their leased plots. Vast tracts of farming land could then revert to subsistence agriculture. This would be disastrous. Business confidence would evaporate further in the face of this erosion of property rights, while food prices would rise alarmingly. Food might become as scarce as it has in Zimbabwe and Venezuela[28] – and poor South Africans, in particular, would increasingly go hungry.

> *In the words of Sihle Zikalala, ANC chairman in KwaZulu-Natal, 'at least 70% of the land [is to] be expropriated into the ownership of the state and then leased to the people who are going to use it'. This is a recipe for land nationalisation, not effective land reform.*

The ANC's key transformation policies – employment equity, BEE, and land reform – are clearly not helping to overcome disadvantage. Proponents of these policies – including the Black Business Council to which the government has paid some R10m over six years to help promote BEE[29] – claim that the solution lies in the stricter enforcement of ever stricter rules. But this approach assumes that white racism and resulting white privilege are the key barriers to upward mobility, when other factors count far more. Such obstacles include:

- a meagre economic growth rate (at 0.3% of GDP in 2016, rather than the 6% or more required);
- one of the worst public schooling systems in the world, despite the massive tax revenues allocated to it;
- stubbornly high unemployment rates (36% on a broad definition),[30] made worse by labour laws that encourage strikes, deter job creation, and price the unskilled out of work;
- pervasive family breakdown, as a result of which some 70% of black children (as opposed to 30% of whites) grow up without the support and guidance of both parents;[31]
- electricity shortages and costs, compounded by general government inefficiency in the management and maintenance of vital infrastructure;
- a limited and struggling small business sector, unable to thrive in an environment of low growth, poor skills, and suffocating red tape; and
- a mistaken reliance on affirmative action measures, which (like similar policies all around the world) generally benefit a relative elite while bypassing the poor.

'Intensifying' BEE and other transformation policies, as the ANC is busy doing, will not help to overcome these problems. On the contrary, any further erosion of business autonomy and property rights under the rubric of BEE and land reform will simply raise these barriers still higher. So too will any further exclusion of white skills, experience, and entrepreneurship from the floundering economy.

In addition, no matter how high targets are raised or how much enforcement is stepped up, millions of poorly skilled South Africans will never be able to participate in BEE ownership deals, management jobs, or preferential tenders from either the state or the private sector. Nor will they derive any benefit from employment equity, let alone from incremental land nationalisation. On the contrary, the more BEE in all its aspects is ratcheted up, the more this will erode efficiency, reduce investment, limit growth, and bar the poor from the jobs and income that would be most effective in helping them to get ahead.

What has helped the poor, by contrast, is a race-neutral system of redistribution via the budget. Such redistribution did not begin in 1994, but was a key element in government policy for decades before then. However, since the political transition, the scale of such redistribution has greatly accelerated. This has brought enormous benefits in alleviating, rather than overcoming, poverty. But redistribution via the budget has reached its limits and cannot easily be taken further. Instead, existing transfers are becoming difficult to sustain as the economy falters. This makes it all the more important that the focus of government policy should shift from redistribution to stimulating rapid rates of economic growth.

Redistribution via the budget

Monthly cash grants now go to some 17 million people, a massive increase on the 2.8 million individuals who received them in 1994. The government also provides free houses, free schooling in 80% of schools, free health care to many, and free basic water and electricity to the indigent. All these benefits are provided under a socio-economic means test and without reference to race.[32]

> *According to a World Bank study in 2014, this extensive redistribution via the budget puts South Africa first among many other middle-income nations (including Argentina, Brazil, Ethiopia, Indonesia, and Mexico) for the magnitude of the resources being transferred.*

Social grants, together with public spending on education, health, housing, and the like, make for a comprehensive 'social wage', which cumulatively absorbs some 60% of annual government current expenditure. According to a World Bank study in 2014, this extensive redistribution via the budget puts South Africa first among many other middle-income nations (including Argentina, Brazil, Ethiopia, Indonesia, and Mexico) for the magnitude of the resources being transferred. Moreover, when the impact of the social wage is factored in, South Africa's Gini co-efficient of inequality, the World Bank says, decreases from 0.77 to 0.59. Though this figure is still high, it is much more in line with the world average.[33]

This major redistribution of tax revenues has been achieved without reference to the race of either taxpayers or recipients. It is also the key reason why the living standards of millions of South Africans have so markedly improved over the past 15 years.

These shifts can be quantified in terms of ten 'living standards measures' ('LSMs') devised by the South African Advertising Research Foundation. People on the foundation's lowest living standards measure (LSM1) have only a radio and minimal access to services, but those in LSM6 also have water, electricity, stoves, TVs, DVDs, flush toilets, fridges, and cell phones. People in LSMs 7 to 10, the four highest measures, enjoy a still larger range of modern conveniences, while many also have computers, cars, and home security systems.[34]

Comparison of LSM figures from 2001 and 2015 shows a dramatic shift out of the lower LSMs and into the higher ones. In 2001, for instance, some 10.5% of South Africans fell within LSM1, the lowest of all, but by 2015 that proportion was down to 1.0%. The proportion of people in LSMs 1 to 4 has also substantially decreased, declining from 53% in 2001 to 23% in 2015. At the same time, the proportion of people in LSM6 has virtually doubled from 12.6% in 2001 to 23% in 2015. The proportion of people qualifying for the top four LSMs has also gone up sharply, rising from 22% in 2001 to 39% in 2015.[35]

South Africa's colour-blind social wage has thus done far more for the poor than all the racial interventions mandated by BEE and other transformation laws. However, the sustainability of the social wage is now coming into question as growth rates falter and unemployment rises.

In 2001 there were 310 unemployed people for every 100 social grant beneficiaries. Now that ratio has come down to 91 people with jobs for every 100 on social grants. Moreover, economic growth has been negative in per capita terms for the past three years, while business confidence is low and tax receipts subdued. Public debt already stands at R2.2 trillion (50.7% of GDP) and is expected to rise further before starting to decline. The interest payable on public debt (some R169bn this year) is the fastest growing line item in the budget and is increasingly crowding out spending on education, housing, health care, and other core needs.[36]

To help raise R28bn in additional revenue, various tax increases were introduced in the 2017/18 budget. These include a new top personal income tax rate of 45% (up from 41%) for the 100 000 or so individuals with taxable incomes above R1.5m. However, increasing taxes in this way holds risks when the tax base is so small and the tax burden already so high.[37]

Of the 18.1 million individuals who were registered for personal income tax in 2015, some 13.4 million earned too little to contribute at all, while most paid only a little. The tax burden thus fell primarily on some 560 000 skilled individuals who earned more than R500 000 a year and paid 62% of all personal income tax assessed. Taking other taxes into account, the top 10% of income earners contribute 72% of all taxes (value-added tax and others included), but receive little back from the government in return.[38]

> *Some 560 000 skilled individuals who earn more than R500 000 a year pay 62% of all personal income tax. Roughly 95% of all corporate income tax paid comes from a tiny pool of around 30 100 companies. Overall, there is simply no fiscal space for additional redistribution.*

Among corporate tax payers, the tax base is also very small. Of the 2.7 million companies registered for corporate income tax in 2014 (the latest year for which this data is available), only 702 000 were assessed for tax. Of these, roughly 75% earned too little to pay any tax. Of the remainder, the great majority (more than 140 000) had taxable income of less than R1m. Only 29 500 firms had taxable income of between R1m and R100m, while a mere 616 companies had taxable income exceeding R100m. These 616 companies paid almost two thirds (64%) of the corporate income tax assessed that year. In all, roughly 95% of all corporate income tax paid came from a tiny pool of around 30 100 companies.[39]

In addition, tax revenue as a proportion of GDP has already increased from 21.9% in 1994 to a projected 29.8% of GDP in this financial year and cannot easily be taken higher. Finance minister Pravin Gordhan has thus repeatedly stressed the need to reduce consumption expenditure by trimming the size and costs of the public service, which now accounts for 35% of the budget. Spending on aspects of the social wage, which absorbs around 60% of government spending, may be the next in line for cuts. Already, the minister of water and sanitation, Nomvula Mokonyane, has spoken of the need to reduce the state's provision of free basic water to the indigent, saying this is becoming unaffordable. This underscores how difficult it may be for the government to retain the social wage at its current level, let alone increase such spending.[40]

In addition, as the World Bank also noted in its 2014 report, poverty in South Africa cannot be further reduced by stepping up the social wage. There is simply no fiscal space for such additional redistribution. Hence, the only effective way to overcome disadvantage lies in boosting the growth rate and generating jobs for the close on 9 million South Africans who are currently unemployed.[41]

How is this to be achieved? The answer lies in shifting away from both redistribution and race-based transformation policies and finding more effective ways to empower the poor. Here, the IRR's 2016 field survey provides some key pointers as to what ordinary people think and want.

What ordinary people want

In one of the first questions posed in the field survey, respondents were asked to identify what, in their view, are the 'two main causes of inequality'. The question was open-ended in that respondents were able to volunteer whatever reasons they saw as relevant, rather than having to choose from a list provided to them. Their answers are reflected in *Table 13*. (Proportions exceed 100% because more than one problem could be mentioned.)

As this table shows, 32% of respondents saw unemployment as the most important cause of inequality. This was followed by poor education (listed also by 32%) and then by 'differences between rich and poor' (mentioned by 24%), which respondents linked mainly to variations in education, jobs, and income. Next came government corruption, bribery, and mismanagement, which was listed by 22% of all respondents. Racism was identified as a key cause of inequality by 6.1% of all respondents and by 5.5% of blacks.

Table 13: 2016 IRR field survey

Two main causes of inequality identified	*Total*	*Black*	*Coloured*	*Indian*	*White*
Unemployment	32.3%	33.2%	25.1%	33.2%	30.6%
Problems in education	31.9%	35.6%	10.0%	26.4%	26.1%
Differences between rich and poor	23.6%	24.2%	0.5%	1.6%	4.8%
Government corruption/bribery/nepotism	22.0%	20.5%	34.7%	29.6%	20.1%
Racism/colour	6.1%	5.5%	7.3%	5.9%	10.3%
Land ownership	0.3%	0.1%	0.6%	0.0%	1.4%

The results obtained in 2016 are much the same as in 2015, when the same open-ended question was also put to respondents. In 2015 the main causes of inequality were identified as poor education (listed by 43% of all respondents), corruption, fraud, nepotism and mismanagement in government (identified by 37%) and unemployment (highlighted by 35%). In both years, respondents were thus broadly agreed that the key reasons for inequality lie in unemployment, poor education, and government corruption and fraud.

The 2016 survey also sought to probe why unemployment is so intractable by focusing on one facet of the problem: the reasons so many jobless people are not looking for jobs. The results obtained (as set out in *Table 14*) again underscore the problem of poor education and limited skills. Some 23% of all respondents said their schooling had not equipped them for the jobs they saw on offer. A further 21% said they had no competitive edge over the many other people likely to be trying for the same job. Roughly 13% said they lacked the 'right' personal or political connections, while 5% said their racial identity was a bar to success. Some 4% said they lacked transport money and 2% said they were being supported by relatives or friends.

Table 14: 2016 IRR field survey

Reasons for not looking for a job	*Total*	*Black*	*Coloured*	*Indian*	*White*
Schooling/training has not equipped me	22.8%	25.6%	8.7%	3.9%	19.1%
No edge over other applicants	20.7%	23.4%	8.9%	16.0%	11.9%
Lack 'right' personal/political connections	13.3%	14.3%	6.2%	19.7%	9.7%
Lack 'right' racial/ethnic identity	5.4%	4.5%	5.1%	5.7%	12.3%
Lack transport money to interviews	3.9%	4.6%	2.0%	2.5%	0.8%
Have support from relatives/friends	1.8%	1.6%	4.1%	2.3%	1.2%
Don't know/not sure	20.2%	17.1%	38.3%	25.3%	26.8%

What these results confirm is that some 43% of all respondents – and almost half (49%) of blacks – are not looking for jobs because they lack the skills to obtain them, or even to distinguish themselves from other applicants.

Respondents were not asked for their views on why the official unemployment rate in South Africa, currently standing at 26.5%, is so inordinately high. However, relevant reasons clearly include anaemic growth rates, coercive labour laws, high numbers of often violent strikes, and what the World Economic Forum has repeatedly identified as the least co-operative labour-employer relationships in the world. These problems must be addressed if the poor are to have any realistic prospect of climbing up the economic ladder.[42]

Ordinary people would also far prefer to have rapid growth and many more jobs than the massive land distribution that the EFF and ANC increasingly portray as the primary solution to poverty, inequality, and unemployment. This is evident from *Table 15* below. Here, respondents were asked, in essence, to choose between growth and redistribution. Given this choice, 84% of all respondents and the same proportion of blacks opted for growth and jobs, whereas only 7% wanted major land redistribution as redress for apartheid injustices.

Table 15: 2016 IRR field survey

Do you prefer a political party which focuses on faster growth and more jobs or one which focuses on land expropriation to redress past wrongs	*Total*	*Black*	*Coloured*	*Indian*	*White*
Faster growth/more jobs	83.9%	83.8%	81.1%	72.1%	91.0%
Land expropriation for redress	6.7%	6.6%	6.0%	22.5%	3.5%
Don't know/not sure	9.4%	9.6%	12.9%	5.4%	5.5%

However, even if growth can be accelerated and more jobs can be generated, many disadvantaged South Africans will still find it difficult to get ahead without much better education, housing, and health care. On the surface, the government is already committed to meeting these core needs and puts large amounts of tax revenues into doing so every year (see *PART 3*). But outcomes have long been dismal, while repeated promises to improve the state's performance have borne little fruit.

In the housing sphere, in particular, ordinary people have thus long been urging the state to transfer its housing subsidies directly to households, saying they could build better homes for themselves if they had access to this money. However, for the state to transfer cash in this way would be risky, as monies intended for housing could then easily be diverted to other purposes. By contrast, dedicated housing vouchers – funded out of tax revenues and redeemable solely for housing-related expenditure – would avoid the diversion problem. But why stop at housing vouchers when the state's provision of education and health care is also so flawed and inefficient? And when education vouchers, in particular, are already being used in many other countries to give parents a real choice, promote competition, and drive up the quality of schooling?

Against this background, the IRR's 2016 field survey also asked respondents if they would like to have tax-funded education, health care and housing vouchers so that they could start meeting their own needs in these key spheres. Respondents were also asked if they thought tax-funded vouchers for education, health care and housing would 'help them get ahead more effectively than current employment equity and BEE policies'. The answers provided are set out in *Table 16*, below.

Table 16: 2016 IRR field survey

Would you like tax-funded education vouchers to send your children to schools of your choice?	*Total*	*Black*	*Coloured*	*Indian*	*White*
Yes	82.3%	84.6%	77.9%	72.5%	71.2%
No	11.2%	9.7%	11.9%	23.4%	18.9%
Don't know/not sure	6.5%	5.7%	10.1%	4.1%	9.9%
Would you like tax-funded healthcare vouchers to buy medical aid and/or health insurance?	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	81.9%	82.9%	78.8%	83.9%	76.0%
No	11.8%	11.0%	12.0%	13.9%	16.7%
Don't know/not sure	6.4%	6.1%	9.2%	2.2%	7.3%
Would you like tax-funded housing vouchers to build/buy/rent your own home?	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	81.8%	83.3%	76.6%	79.1%	75.8%
No	11.4%	10.5%	13.3%	16.8%	15.4%
Don't know/not sure	6.7%	6.2%	10.1%	4.1%	8.8%
Would tax-funded vouchers for education, health care and housing help you to get ahead more effectively than current AA/BEE policies	***Total***	***Black***	***Coloured***	***Indian***	***White***
Yes	72.1%	73.8%	63.6%	64.0%	69.0%
No	13.9%	13.2%	13.4%	25.5%	16.5%
Don't know/not sure	14.0%	13.0%	23.0%	10.4%	14.5%

The idea of tax-funded vouchers for education, health care and housing is a new one in South Africa. This makes the widespread support for vouchers reflected in these answers all the more striking. Some 82% of all respondents, and 85% of blacks, supported the idea of education vouchers. Support for health care vouchers was similar, at 82% among all respondents and 83% among blacks. Similar proportions (82% of all respondents and 83% of blacks) likewise endorsed the idea of housing vouchers.

In addition, almost three-quarters of blacks (74%) and 72% of all respondents said these vouchers would be more effective in helping them to get ahead than current transformation policies. This belief is well-founded, for BEE in its various aspects helps only a relative elite, while harming the disadvantaged. Vouchers for education, health care and housing, by contrast, would go directly to the poor and marginalised. These vouchers would have an immediate and enormously beneficial impact on their lives, helping them to meet their most important needs and equipping them to climb the economic ladder. How tax-funded vouchers could work in these three spheres is thus further explained in *PART 3*.

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PART THREE: HOW VOUCHERS WOULD WORK

South Africa currently spends some R680bn on education and public health care, plus housing and community development. However, it gets little bang for the taxpayers' buck. Some 80% of public schools are dysfunctional, while 84% of public hospitals and clinics do not comply with basic norms and standards on hygiene and the availability of medicines, among other things. Despite massive spending, the housing backlog is now bigger than it was in 1994.

The government should thus divert much of its current spending in these spheres into tax-funded vouchers. These should be made available directly to individuals, and could be used solely on schooling, health care, and housing. Once empowered in this way, South Africans could start meeting their own needs in these key spheres, instead of waiting endlessly on the state to improve its performance. At the same time, competition for the custom of voucher-bearing individuals would foster efficiency and innovation and drive up standards. This would help to liberate the poor, while bringing a new dynamism into the economy. To accelerate this process even more, South Africa needs to shift away from BEE to a new system of 'economic empowerment for the disadvantaged' ('EED'), in which the voucher system would play a vital part.

Introduction

South Africa spends large amounts of tax revenue each year on education, housing, and health care. However, the country gets little bang for the taxpayers' buck in any of these key spheres.

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In nominal terms, public spending on education has gone up by 907% since 1994, and is budgeted at R316bn in the 2017/18 financial year, of which R243bn will go to schooling. The figure of R316bn makes up 20% of the entire budget for the current year. It also amounts to 6.7% of GDP, which is more than many Organisation for Economic Co-operation and Development (OECD) countries spend. State spending on housing and community development has shot up by a staggering 3 482% since 1994. It is budgeted at R179bn in this financial year, which amounts to 11.5% of the total budget and 3.8% of GDP. In similar vein, spending on public health care has gone by 1 096% since 1994 and now stands at R187bn, which is 12% of the budget and 3.9% of GDP.[1]

Yet outcomes are extraordinarily poor compared to the revenues provided. As regards education, some 60% of the pupils enrolled in Grade 10 drop out or fail their final examinations. In addition, many of those who obtain their National Senior Certificates (on the 35% pass rate allowed) leave school functionally illiterate and innumerate. In the housing sphere – and despite a massive roll-out of some 3 million 'free' homes to the poor – the housing backlog, at 2.3 million units, is now bigger than it was in 1994 when it stood at 1.5 million. In public health care, most hospitals and clinics are so poorly managed and equipped that only 16% of them meet minimum norms and standards on such essentials as infection control and access to medicines.[2]

If ordinary people were empowered with tax-funded education, health care and housing vouchers, many positive benefits would follow. People could start sending their children to the schools of their choice, while schools would have to compete for the custom of parents and would have to up their game. In the health sphere, ordinary South Africans would be able to buy low-cost medical scheme membership and health insurance cover, thereby freeing themselves from dependence on the often inefficient public health system and giving them access to high quality health care from the private sector. In the housing arena, instead of having to wait endlessly on the state to provide them with a tiny house on the urban periphery, vouchers would empower people to start building or upgrading their own homes. Many could also gain easier access to rental stock or to mortgage finance, if they preferred.

Why vouchers are needed and how they would work in practice is thus briefly outlined below in each of these three key spheres.

Education vouchers for quality and choice

In 2016 the overall matric pass rate in state schools was 72.5%, up from 70.7% in 2015. These figures might suggest that the schooling system is working well, but this pass rate is a misleading indicator. It overlooks the high drop-out and failure rates in and after Grade 10. In 2014, for instance, there were some 1 100 900 pupils enrolled in Grade 10, but only about 442 670 of them passed their National Senior Certificate (NSC) examinations in 2016. The pass rate also fudges the low average mark (35%) required to succeed in the NSC exam. In addition, it obscures the fact that average marks in 2016 in the key subjects of mathematics, physical science, and mathematical literacy were a mere 31%, 35%, and 37% respectively.[3]

Other assessments reveal still more dismal outcomes. In 2014, the last year in which the Department of Basic Education (DBE) conducted its Annual National Assessments – a uniform set of tests intended to assess pupil performance across the country – the average percentage mark for mathematics in Grade 9 was 11%. This was two percentage points down on the 13% recorded in 2012. Since 2014 the South African Democratic Teachers' Union (Sadtu), the largest teachers' union and a key ANC ally, has refused to allow further ANA tests to be carried out. It claims they take too much time and are misleading. The government has capitulated to Sadtu on this issue, just as it has previously acquiesced in the union's refusal to allow a teacher inspection system, performance contracts for principals, or the professional licensing of teachers.[4]

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The quality of schooling thus remains very poor, as a recent report in *The Economist* has noted: 'In a league table of education systems drawn up in 2015 by the OECD club of mainly rich countries, South Africa ranks 75th out of 76. In November 2016 the latest Trends in Mathematics and Science Study (TIMMS), a quadrennial test sat by 580 000 pupils in 57 countries, put South Africa at or near the bottom of its various rankings,...though its scores have improved since 2011. Its children are behind those in poorer parts of the continent. A shocking 27% of pupils who have attended school for six years cannot read, compared with 4% in Tanzania and 19% in Zimbabwe. After five years of school, about half cannot work out that 24 divided by three is eight. Only 37% of children starting school go on to pass the matriculation exam; just 4% earn a degree.'[5]

The government has long promised to fix education (the minister of basic education promised 'aggressive' interventions to achieve this back in 2014), but has signally failed to do so.[6] If the current malaise is to be overcome, the schooling system needs to be liberated from the centralised and top-down model that presently prevails.

In implementing this important change, South Africa has much to learn from other countries. Here, poor parents are so fed up with bad state schools that they are increasingly voting with their children's feet by sending them to independent or private schools instead. The great attraction of these schools is not so much that their fees are lower than the state's (though this is often true) but rather that their results are so much better.

Some of these schools are still owned by the state, but they are run by independent boards which are accountable to parents rather than to bureaucrats. Such schools are commonly known as 'charter' schools in the United States (US), as 'academies' in the United Kingdom (UK), and as 'contract' schools in Argentina, Australia, Canada, France, Singapore and other countries. Other schools are privately owned and are run either for profit or as non-profit entities.[7]

The common denominator among these schools (as IRR policy fellow John Kane-Berman writes) lies in the fact that 'the principal or proprietor has real authority, including the crucial power to hire and fire teachers'. This helps break the power of teacher unions and ensures that schools are accountable to parents and run for the benefit of pupils.[8] It is also the key reason for the success of these schools.

Low-fee private schools are popular in many developing countries, including Nigeria, Ghana, Kenya, and India. Professor James Tooley of the University of Newcastle upon Tyne is a particular expert on these schools and has studied them extensively. Often these schools (in Mr Kane-Berman's words) are 'as rudimentary as the shacks in which their students, parents, and teachers live'. Their great strength, however, is that 'they are cheaper than government schools, have lower pupil-teacher ratios, are staffed by keener teachers, and produce better results'.[9]

When Professor Tooley visited Makoka, one of the largest slums in Lagos (Nigeria), he found 32 private schools catering for 70% of the children living there. In Lagos state, 75% of all children were in 355 private schools. A similar picture was evident in Ghana, where 65% of pupils in Ga (a largely rural district surrounding Accra) were attending some 580 private schools. Writes Mr Kane-Berman: 'In Kibera outside Nairobi, said to be the largest slum in Africa, Tooley found 76 private primary and secondary schools, many run by women... The pupil-teacher ratio in government schools was 61 to 1, as opposed to 21 to 1 in these private schools.' Fees were generally affordable at 5% to 8% of the local minimum wage, or some $40 a year.[10]

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Similar strengths are evident in the private schools found in other developing nations, including Indonesia, the Philippines, Thailand, Vietnam, the Dominican Republic, and Chile. In all these countries, pupils in private schools generally show greater scholastic achievement. They also demonstrate more order and discipline.[11]

Most private schools around the world are funded primarily by parents, through the fees which they pay from their own pockets. In some countries, however, the government helps by providing parents with tax-funded vouchers that enable them to buy schooling for their children.[12]

Vouchers are used in many countries, including the Netherlands (which introduced them as far back as 1917), Sweden, Denmark, and the Czech Republic. Vouchers also operate in a number of developing countries, including Chile, Colombia, Bangladesh, and Guatemala. In addition, vouchers have been introduced in various cities in the United States (US) and are particularly popular with black parents. Writes Mr Kane-Berman: '[These parents] see [vouchers] as a means of buying their way out of bad government schools in the inner cities and putting their children into better schools in the suburbs. Studies in New York, Washington DC and various other American cities found that black schoolchildren with vouchers do better than those without.'[13]

In South Africa a shift away from poorly performing state schools is also already evident. Some parents try to avoid often bad township schools by sending their children to former whites-only ('Model C') schools in the suburbs. Such schools belong to the state, but they are run by governing bodies (similar to boards) with extensive parental involvement and commitment. They offer excellent education to many poor pupils, who cannot afford the normal school fees but are exempted from paying them and effectively subsidised by better-off parents. There are about 3 000 of these schools in the country and the pupils attending them are roughly 40% black.[14]

For many years, parents have also been turning to low-fee private schools. These are, of course, more costly than state ones, as 80% of public schools in South Africa are 'no-fee' ones that may not charge fees at all. Parents nevertheless often prefer fee-charging private schools because the education they offer is so much better. There are now some 3 500 private schools in the country, which cater for roughly 566 200 pupils. This is more than double the number of ten years ago.[15]

Some 710 of these private schools are affiliated to the Independent Schools Association of South Africa (Isasa), while more than 40% of the pupils attending Isasa schools are black. Some Isasa schools are expensive to attend, but about a quarter of them charge fees of less than R20 000 a year. Other low-fee private schools, which charge much the same amount, are also springing up. Some are run by listed companies, such as Curro and Advtech, which are expanding rapidly to meet the growing demand for private schools. Some are provided by the Basa Educational Investment Trust (Basa), a black-owned school chain that began operations in 1992. Basa now caters for some 7 000 pupils in private schools located in the Johannesburg inner city, the upmarket Protea Glen area of Soweto, and the massive Diepsloot shack settlement near Midrand.[16]

> *Low-fee private schools in South Africa are growing fast, but most poor South Africans cannot afford them. Tax-funded education vouchers would change that, giving all parents a choice as to the schools they would like their children to attend.*

Spark Schools are also growing fast. The organisation already has eight campuses in various parts of Johannesburg, and plans to have 20 by 2019. Reports *The Economist*: 'Spark School Bramley...is everything state schools are not. Its 360 pupils begin learning at 7.30am and end around 3pm-4pm; most state schools close at 1.30pm. At the start of the day pupils gather for mindfulness exercises, maths questions, and pledges to work hard... Pupils attend maths lessons based on Singapore's curriculum; literacy classes draw on how England teaches phonics. Crucially, teachers are not members of Sadtu. But they receive 250 hours of professional development per year, about as much as the average state-school teacher gets in a decade. Early results show that its pupils are on average a year ahead of their peers.'[17]

Low-fee private schools in South Africa are thus growing fast in response to popular demand. However, though their fees are relatively low, most poor South Africans cannot afford them. Tax-funded education vouchers would change that, giving all parents a choice as to the schools they would like their children to attend.

Parents armed with vouchers would not necessarily choose private schools, as they would have other options available. Some might choose the fee-paying state schools that presently perform well. Others would opt for the charter schools that would be likely to develop. Some would decide to send their children to private schools run for profit. Others might prefer private schools run by religious institutions. Some persistently bad state schools would effectively be abandoned and thus forced to shut down. Their buildings could then be auctioned to Spark, Curro, or other organisations, which would refurbish them before re-opening them again. Many of the state schools that now perform badly would doubtless improve substantially under the pressure to up their game.[18]

Writes Mr Kane-Berman: 'South Africa would have a stronger but still diverse and variegated schooling system, from traditional expensive private schools right down to much cheaper ones. We would have profits and nonprofits, religious and secular, charters and state. The essence of this system would be choice for all parents, and a great many more schools run in the interests of schoolchildren. Competition for voucher-bearing customers would force up standards.'[19]

Parents could be provided with tax-funded vouchers without increasing South Africa's already very large education budget. Rather, much of the money the government now spends on paying teachers and running schools – about R243bn in the 2017/18 financial year – would be redirected to parents in the form of vouchers worth about R20 000 per pupil.[20]

These vouchers would be redeemable solely for schooling. They could be made available to parents in the form of smart cards, and distributed via national retail chains, filling stations, or cell phone outlets.[21] Parents would carefully husband the funds thus made available to them and would want to extract the maximum value from them for the benefit of their children.

At present, only middle class parents can choose what schools their children will attend. Most have no option but to send their children to dysfunctional state schools incapable of instilling even basic literacy and numeracy, let alone giving pupils a sound grounding in mathematics, science, and other essential subjects. The government has repeatedly promised to implement major reforms, but little has been achieved. Instead, persistent failures have been masked by high drop-out rates and the declining standards of the school-leaving examination. At the same time, Sadtu persists in barring effective teacher training or performance assessment and even, more recently, the writing of standardised tests that ought to help improve pupil performance by showing where weaknesses lie. Under the voucher system, by contrast, all schools would have to compete for the custom of parents – and all schools would have real incentives to improve their performance and ensure that teachers do so too. Few other interventions could have so immediate or so comprehensive an impact on the quality of schooling in South Africa.

> *Much of the money the government now spends on paying teachers and running schools – about R243bn in the 2017/18 financial year – would be redirected to parents in the form of vouchers worth about R21 000 per pupil. Parents would carefully husband the funds thus made available to them and would want to extract the maximum value from them.*

Housing vouchers for value and efficiency

In 1994, with the housing backlog standing at 1.5 million units, the ANC pledged to build a million houses within five years as part of its Reconstruction and Development Programme (RDP). Later that year, a white paper on housing stressed that the focus would be on providing land, services, and 'starter' homes, which people could extend or improve over time. The white paper noted that poor households had the ability to 'look after their own housing needs'. However, the state would help them do so by providing people with housing subsidies, along with technical and other support.[22]

Following a slow start, delivery of these 'RDP' homes accelerated to the point where some 235 500 houses were built in 1998/99, a peak year. But most of these houses were constructed on the urban periphery, far from jobs, schools, or other amenities. Very often they were also shoddily built. In addition, the initial RDP subsidy was limited to R12 500, which was expected to cover not only the house itself but also the costs of land and services. Most RDP houses were thus tiny structures, less than 30sq m in size. They were far smaller than the four-room houses the National Party government had built in many townships – and their beneficiaries tended to describe them as 'dog kennels'.[23] People often said that they could build bigger and better houses for themselves if the housing subsidy was given directly to them, instead of going to the state's chosen building contractors.

Dissatisfaction with housing delivery prompted the adoption in 2004 of a new strategy. This *Breaking New Ground* (*BNG*) housing plan introduced larger 'BNG' homes, to be funded by larger, inflation-linked subsidies. (The 'BNG' term has never caught on, however, so these larger houses are still commonly called

‘RDP’ homes.) A new FLISP mortgage subsidy system (as further outlined below) was introduced for those who earned more than R3 500 a month, and so did not qualify for a free house. The new plan also emphasised the need for more user-friendly housing developments, located closer to urban centres and better equipped with schools, clinics, and the like. It also sought to eradicate all informal settlements, not by breaking them down but rather by upgrading them where they stood (*in situ*, to use the technical term).[24]

By 2016 the government had provided some 3 million houses and some 1m serviced sites (though delivery figures are often contradictory). The housing backlog has nevertheless grown rather than diminished, rising from 1.5 million in 1994 to 2.3 million units today. The number of informal settlements has also gone up from 300 in 1994 to 2 225, an increase of 650%.[25]

At the same time, the housing subsidy has shot up from R12 500 per household to a staggering R160 500 per household, at which amount it was pegged in 2014. Today, this much larger subsidy is intended to cover only the construction of a house, with land and service costs coming out of provincial and local government budgets. However, many of the houses built via this subsidy are still so small, badly built, and poorly located that the ANC itself describes them as ‘incubators of poverty’ that do more to entrench disadvantage than to overcome it.[26]

At the same time, state spending on housing and ‘community amenities’ (defined as including water supply and the administration of housing developments) has grown faster than any other budget item since 1994, including social grants. As earlier noted, spending in the housing sphere has risen from R5bn in 1994 to the R179 billion budgeted in 2017, an increase of some 3 482%.[27]

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Asks housing expert Mary Tomlinson: ‘How can this be? More precisely, how can South Africa have spent R125 billion, in 2010 prices, over 20 years, delivered more than 3 million units, and yet have a larger housing backlog than when it began?’ Part of the reason lies in the Constitution, which states that ‘every one has the right to have access to adequate housing’. Housing officials say this has helped to foster a belief among all South Africans that they ‘have a right to a free house’ if their household income is below R3 500 a month. Households thus continually break themselves up into smaller units, in the expectation that each new unit will become entitled to a housing subsidy. This ‘entitlement syndrome’, as housing officials call it, has made it impossible for the state to overcome the housing backlog.[28]

Other perverse incentives have been created, adds Helen Zille, premier of the Western Cape. Writes Ms Zille: ‘To qualify for a free house, you have to be indigent, have dependants, and own no other property... The negative incentives are obvious, [for] you can only get a free house for being unemployed with a child.’ At the same time, with economic growth so low and the unemployment rate so high, ‘indigent beneficiaries often want a monthly income more than a house; so shortly after taking possession of their homes, many soon move out again, back into shacks, and either sell or rent their houses to people (often foreign nationals) who do not qualify for government housing subsidies at all’.[29]

The monthly earnings maximum (above which people no longer qualify for a free house) has long been set at R3 500 and is essentially arbitrary. Those who earn R3 500 a month or less are entitled to a free house from the state, which is funded by a subsidy now worth R160 500 for the top structure alone (apart from the land and services). By contrast, those who earn R3 501 a month qualify solely for a FLISP housing subsidy worth R87 000 at most. Often people who have been on the housing waiting list for 20 years find, when to get to the top of the list, that their income has increased beyond R3 500 a month and they no longer qualify. As one woman in this situation poignantly asked: 'If we want to qualify for a house, must we stop trying to improve our circumstances?... Must we give up our jobs to qualify for a house?'[30]

People who earn R3 501 a month or more must instead turn to FLISP (the acronym for the Finance-Linked Individual Subsidy Programme). This helps prospective buyers with a monthly income of between R3 501 and R15 000 to buy houses at prices of R300 000 or less. The FLISP subsidy operates on a sliding scale. Its maximum amount, for people at the bottom end of the scale, with monthly earnings between R3 501 and R3 700 a month, is R87 000. At the top end of the scale, for people with salaries of between R14 901 and R15 000 a month, the subsidy is limited to R20 000.[31]

In practice, the FLISP subsidy is available only to those with steady incomes, who qualify for mortgage finance from a bank. Say, for example, a first-time home buyer wants to buy a house for R300 000, but can obtain a mortgage bond of only R250 000 on his monthly salary of some R9 400 a month. The buyer would qualify for a FLISP subsidy of roughly R50 000. This would make good the shortfall and allow the purchase to proceed. The subsidy would be paid not to the buyer, but rather to the bank providing the mortgage loan.[32]

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Few FLISP subsidies have been awarded since the scheme began in April 2012, the most recent data from the national department indicating that some 6 300 FLISP subsidies have thus far been granted. This is a very small number, especially when compared to the overall scale of need.[33]

Given FLISP's limitations, most poor households still hope to receive a free house from the state. But delivery has slowed from the levels achieved in the late 1990s to roughly 107 000 RDP houses a year over the past five years.[34] At this rate, it will take 20 years or more for the state to provide homes for the 2.3 million households already on the national waiting list, let alone meet future needs.

Under the *BNG* plan, some progress has been made in upgrading informal settlements. According to the national Department of Human Settlements, the number of informal settlements has decreased, while roughly 1 million serviced sites have been delivered since 1998. However, *in situ* upgrading is still the 'Cinderella' element in the overall housing programme. Most provincial housing administrations prefer to concentrate on providing RDP homes as this gives them greater political reward. They also know that the upgrading of informal settlements is slow, technically complex, and generally fraught with intra-community conflicts.[35]

Much of the difficulty stems from a lack of clear leadership structures within informal settlements. In most of these areas, shacks are also built cheek-by-jowl, with little space between them for access roads or community facilities. Bitter conflicts can easily arise over the location of roads, schools, clinics, and the like. Often, moreover, nothing can be achieved without taking down some of the shacks and temporarily relocating the people living there. But the residents affected often resent being called on to move in this way and resist attempts to achieve this.[36]

The affordability of the state's housing programme is also a key concern. In 2015 the Financial and Fiscal Commission (a body established under the Constitution to advise on the allocation of revenue between different functions and tiers of government) estimated that it would cost some R800bn to eradicate the current housing backlog by 2020. Money of this magnitude is simply not available. Moreover, it is often difficult to link budgeted amounts to actual spending on the ground, reinforcing concerns that scarce revenue is not being well used.[37]

The government has long hoped that the private sector would build more homes, especially for the 'gap' market of people earning between R3 500 a month and R15 000 a month. However, the private sector's delivery of housing stock for the lower-income market has fallen sharply, from a high of some 76 500 houses a decade ago to a scant 9 300 in the 2015/16 financial year.[38]

Explained the chairman of the South African Affordable Residential Developers Association, Harry Gey van Pittius, in 2014: 'Before 2008, the industry built 60 000 houses a year in Gauteng [alone]. Now we cannot even manage 4 000... Municipalities don't have the necessary skills, especially engineers and building inspectors, and decision-making has been centralised at political level. There is no money for bulk services, so developers have to contribute huge amounts to make projects happen. That expenditure only adds to overheads, as it cannot be recovered in the prices of the houses sold. Approvals that used to be given in a year or 18 months now take up to three years.' Another major problem is that many low-income households do not want to pay R200 000 for a house built by a private developer when they hope to get a 'free' one of much the same value from the state.[39]

Current housing policy is thus both costly and ineffective, and a major paradigm shift is needed if the housing conundrum is to be resolved. The solution lies largely in what people have been saying for years: that the state should transfer its housing subsidy directly to them, as they could use the money more efficiently and make every rand stretch very much further.

In addition, if urban sprawl is to be contained, the country needs a new focus on three- or four-storey terrace or row houses, where each house directly adjoins the next. It also needs many more medium-rise apartment blocks with five to six storeys in general. The government's main emphasis should shift to housing of this kind, which the private sector should be responsible for building. Private firms would also have a clear interest in building such housing if millions of South Africans were to be given housing vouchers to spend exclusively on meeting their housing needs.

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Under this new approach, the government's role in delivery would largely revolve around the speedy identification and release of state and municipal land suitable for these new housing developments.

Second, the government should stream-line and fast-track land re-zoning and town-planning processes. To increase efficiency, it should outsource these tasks to the private sector through a transparent, non-racial and cost-effective tendering system. Housing development must no longer be held up for three years or more, as is commonly the case, by continued incapacity within the public service.

Third, the government should shift from its current housing subsidies to a new system of housing vouchers provided directly to beneficiaries. These vouchers would be redeemable solely for housing-related purchases. The vouchers would go directly to all South Africans between the ages of 25 and 35 who fall below a specified earnings ceiling of, say, R15 000 a month. There are currently some 10m South Africans within this age cohort, many of whom would fall below this earnings cut-off. (The total number of recipients would remain much the same each year, as the number of people turning 25 and entering the programme would be roughly counter-balanced by the number turning 36 and thus exiting it.)

The voucher would be worth R800 a month, or R9 600 a year, and each recipient would continue to receive this voucher for ten years. Each beneficiary would thus receive close on R100 000 over this period. A couple would be able to pool their money and would thus receive nearly R200 000 over a decade. This amount could be topped up by their own earnings, which means a couple earning R5 000 a month could devote R1 000 of that to housing. Over ten years, this additional amount would boost their housing budget to close on R320 000. Such sums would help substantially in empowering people to build or improve their own homes, or obtain and pay down mortgage bonds.

The cost to the fiscus for 10m beneficiaries would be R96bn a year. The R41bn that is currently included in the housing and communities amenities budget for water provision would remain the same – but would be much better used via a transparent, non-racial and cost-effective system of outsourcing to the private sector. Current employee and administrative costs should be reduced to some R5bn a year, as the new system would be simple and easy to administer. Some R25bn would go to community development, and would also be outsourced for improved efficiency. This would put the total housing and community amenities budget (including water supply) at some R167bn a year, which is less than the current budget of R179bn.

The proposed voucher option is thus less costly than the present system. It is also likely to be much more effective in stimulating housing supply as each individual who receives a voucher will have a personal interest in ensuring its optimal use. Moreover, whereas current policy adds to housing demand by encouraging existing households to split up – so that each new household can qualify for a 'free' house – the new vouchers will remove this perverse incentive.

The voucher system and the market it would create would encourage the private sector to build many more terrace houses and/or apartment blocks, or to revamp many more existing structures for housing purposes. Beneficiaries would also find it easier to gain mortgage finance, which would further stimulate new housing developments. Beneficiaries who already own their homes would be able to use their housing vouchers to extend or otherwise improve them. Some might choose to use their vouchers to build backyard flats, which they could then rent out to tenants also armed with housing vouchers and so able to afford a reasonable rental. This too would help increase the rental stock available.

The proposed voucher option is thus less costly than the present system. It is also likely to be much more effective in stimulating housing supply as each individual who receives a voucher will have a personal interest in ensuring its optimal use.

People currently living in informal settlements would increasingly have other housing options available to them. Some would move into the new housing complexes and others into new backyard or other flats. Informal settlements would become less crowded, making upgrading easier. Those who choose to remain in them would be able to use their housing vouchers to buy building supplies, hire electricians, plumbers, and other artisans, contribute their own labour or "sweat equity" to reduce costs, and gradually upgrade their homes.

The housing voucher system would do away with the present artificial division between the 'free' houses provided by the state to those who earn R3 500 a month or less, and the much smaller 'gap' subsidies provided, via the FLISP system, to people earning R3 501 a month or more (up to a ceiling of R15 000). It would also remove the incentive for people to keep their earnings below R3 500 a month, as well as the resentment that many people feel at having to pay for their own houses if they earn marginally more than R3 500 a month.

With this voucher system in place, households would be empowered to start meeting their own housing needs, instead of having to wait endlessly on the state to supply them with a small, and probably defective, RDP home. Individual initiative and self-reliance would expand. The enormous pent-up demand for housing would diminish. With title deeds to homes also made available, a more normal housing market would develop. Business contributions to housing development would also have far more practical impact in the dynamic new policy environment that would be ushered in.

Health vouchers rather than the NHI

South Africa confronts an exceptionally high burden of disease. It has some 7 million people living with HIV/AIDS (12.5% of the population), roughly half of whom are on anti-retroviral treatment (ARVs) while the remainder still require medication of this kind. Tuberculosis (TB) has surged under the impact of HIV/AIDS, while the prevalence of diabetes and other non-communicable diseases has gone up sharply too. In addition, hundreds of thousands of people are injured every year in attempted murders, rapes, assaults, and motor vehicle accidents.[40]

Spending on public health care has gone up from R15.6bn in 1994/95 to R186.6bn in 2017/18, an increase of some 1 096%.[41] Again, however, the country gets little bang for the taxpayers' buck. Though South Africa has many dedicated health professionals in the public sector, standards of care are often poor. Reasons range from a shortage of doctors and nurses to bad management, persistent shortages of medicines and other consumables, and a widespread failure to comply with basic norms and standards in public hospitals and clinics.

In 2011 a competency report conducted by the Development Bank of Southern Africa found that 'teachers, nurses, and even clerks whose highest qualification was a matric certificate were running hospitals'. The study was commissioned by health minister Dr Aaron Motsoaledi, who 'promised to fix the management crisis in hospitals, including removing under-qualified and poorly performing CEOs and delegating more powers to management to perform elementary but essential functions'.[42] However, little has yet been done to implement his pledge.

Though South Africa has many dedicated health professionals in the public sector, standards of care are often poor. Reasons range from a shortage of doctors and nurses to bad management, persistent shortages of medicines and other consumables, and a widespread failure to comply with basic norms and standards in public hospitals and clinics.

The upshot is a growing crisis in public health care. This manifests in continual shortages of essential medicines, generally linked to the non-payment of suppliers and poor supply chain management. This problem has been compounded by constant shortages of doctors and nurses. In addition, critical equipment is frequently unavailable or out of order – often, again, because suppliers have not been paid.[43]

As standards of public health care have declined, so avoidable deaths have risen. In May 2015 a report compiled by the South African Medical Research Council found that more than 80 000 babies had died at some 590 public facilities over a two-year period. Though the great majority of the deaths were stillbirths, more than 24 500 early neonatal deaths had also been recorded. Many of these deaths, said the report, could have been avoided if health care workers had followed simple guidelines, such as monitoring the heart rate of the foetus and looking after the overall health of the mother.[44]

In many instances, babies who have survived poor care at birth have been left badly brain damaged. Medical negligence claims against the state are thus increasing. In one case, the Pretoria High Court awarded R23m in compensation to four-year-old Ntsako Mathebula, who was left with cerebral palsy, mental retardation, epilepsy, and other severe medical and developmental problems when medical staff at Tembisa Hospital on the east Rand failed to perform an emergency caesarean on his mother in November 2010. In another case, the North West MEC of health was ordered to pay more than R5.6m in damages to compensate a 12-year-old boy for negligence during his birth. In yet another instance, the Gauteng health MEC was ordered to pay more than R8.3m as compensation for Carlisle Buys, who was left a cerebral quadriplegic through the negligence of staff at a district hospital in Pretoria.[45]

Many of the problems stem from the failure of most public hospitals and clinics to comply with basic health care standards. This became evident in 2012, when the Department of Health released the results of a 'baseline' audit of some 3 900 such health facilities. The report found that average compliance scores in 11 key spheres were: [46]

- 30% on 'positive and caring attitudes';
- 34% on 'improving patient safety and security';
- 38% on 'clinical services';
- 40% on 'infrastructure';
- 43% on 'management';
- 45% on 'support services'
- 50% on 'infection prevention and control';
- 50% on 'cleanliness';
- 53% on 'patient care'
- 54% on the 'availability of medicines and supplies'; and
- 68% on waiting times.

Some compliance scores were even worse. The availability of essential drugs in public clinics was a 77% 'failure'. Scores for vital health technology in maternity wards and operating theatres was a 93% 'failure' in both instances. Only two facilities could guarantee patient safety. All this, the audit added, was despite the fact that public sector health funding had increased by an average of 8.5% a year in real terms over the past five years.[47]

> *In 2014/15 the OHSC managed to re-inspect 417 state facilities for compliance with basic health norms and standards. Only 3% of these facilities were found to be 'compliant', while 13% were 'conditionally compliant'. The remaining 84% were non-compliant, of which some 40% were 'critically non-compliant'.*

Dr Motsoaledi himself described the audit outcomes as 'appalling'. In response, he pledged to establish a new 'office of health standards compliance', which would in future 'visit hospitals unannounced' to assess issues such as cleanliness, staff attitudes, infection controls, and the availability of medicines. But journalist Moshoeshoe Monare commented in *The Sunday Independent* that the OHSC would 'essentially be doing what the provincial departments of health, hospital CEOs, and nursing matrons were already supposed to be attending to'. If staff were failing to fulfil their functions, then 'immediate disciplinary action was required, not a lengthy investigative process by yet another bureaucracy'.[48]

The OHSC was nevertheless established. In 2014/15 it managed to re-inspect 417 state facilities for compliance with basic health standards, but these results were still more dismal. Only 3% of these facilities were found to be 'compliant', while a further 13% were compliant 'with requirements' or were 'conditionally compliant'. The remaining 84% were non-compliant, of which 16% were 'conditionally compliant with serious concerns', 28% were 'non-compliant' and 40% were 'critically non-compliant'.[49]

More recent data (prised out of the OHSC by journalist Tamar Kahn under the Promotion of Access to Information Act of 2000 and published in *Business Day* in November 2016) indicates that compliance scores have since deteriorated rather than improved. This information shows that the OHSC has inspected a total of 1 427 public facilities over the past four years. Of these, only 89 (6%) scored 70% or more on basic norms and standards: the level identified by the OHSC as a 'pass'. Most facilities continued to fall short on such essentials as infection control and the availability of medicines.[50]

By contrast, South Africa's private health care system has long been rated one of the best in the world. Some 56% of doctors and specialists work in the private sector, as do some 50% of professional nurses. In the 2016/17 financial year, spending on private health care was expected to amount to R189bn, of which close on 85% (R158bn) was to go to medical schemes, R24bn would be spent on out-of-pocket expenses, and R4.6bn would go to medical insurance.[51]

However, relatively few South Africans are able to afford the costs of private health care. This has much to do with high unemployment and low skills, but Dr Motsoaledi instead blames the private sector for charging extortionate prices in its determination to put 'profits before people'. This accusation has little factual foundation. Often, moreover, it is the government's own regulations which have pushed up the costs of medical scheme membership and made private health care increasingly unaffordable.[52]

Particularly important are rules requiring 'open' enrolment and 'community' (or non risk-rated) premiums. Under these provisions, no prospective member may be turned away, irrespective of age or illness, or made to pay a higher premium (though limited 'late-joiner' penalties and waiting periods for existing conditions are allowed). This means that medical schemes must not only accept high-risk individuals, but must also charge them the same premiums as they charge low-risk people. The upshot is that the young and healthy have little reason to join medical schemes, while the risk pool of insured people becomes progressively smaller and less healthy. This in turn drives up contribution levels and makes membership of medical schemes increasingly unaffordable.[53]

> *Often, it is the government's own regulations which have pushed up the costs of medical scheme membership and made private health care increasingly unaffordable. Particularly important are rules requiring 'open' enrolment and 'community' (or non risk-rated) premiums.*

Even more important are rules (in section 29 of the Medical Schemes Act and its accompanying regulation 8) requiring all medical schemes to provide all their members with 'prescribed minimum benefits' (PMBs) for a host of specified conditions. Included on the PMB list are 270 medical conditions, such as cancer and pneumonia, along with 25 chronic conditions plus access to emergency care. Under Regulation 8, moreover, medical schemes must 'pay in full' for the treatment of PMB conditions. Every medical scheme member, irrespective of how much cover they have signed on to receive, is entitled to these PMBs. Again, this pushes up medical scheme premiums for everyone.[54]

In September 2015 the Council for Medical Schemes responded to the affordability problem by approving low-cost options that seemed set to make medical scheme membership affordable to some 15 million more people. These low-cost options, which were scheduled for introduction from January 2016, were expected to have premiums ranging from R180 to R240 per adult member per month. Costs would be kept down by exempting these schemes from having to cover all PMBs, while members would be required to use state hospitals rather than private ones. At the same time, the schemes would provide a minimum package of private health services at the primary level. These would include five consultations a year with a private general practitioner (GP), chronic and acute medicines, and access to pre- and post-natal programmes. Private provision in these spheres would greatly reduce the burden on the state and shorten current waiting times for millions of people.[55]

Soon, however, the council announced that it was suspending the introduction of these low-cost options. It reportedly did so under pressure from the Department of Health, which identified these low-cost options as 'a stumbling block' to its proposed National Health Insurance (NHI) system. Dr Motsoaledi denied this, saying that the low-cost options were 'an insult to low-income earners' and would not provide 'an acceptable level of care to members'.[56] But the NHI scheme, with its enormous costs and limited capacity to deliver (as further outlined below) would be much more difficult to justify if low-cost medical schemes were available.

The government is now busy putting an end to another low-cost option. Many people have responded to the rising costs of medical scheme membership by taking out health insurance covering both the costs of hospitalisation and various primary health care services. These 'combination' insurance products are not subject to medical scheme rules. This means they can charge risk-related premiums, which are particularly attractive to younger and healthier people. However, this is the very market that medical schemes need to cross-subsidise their older and sicker members.[57]

From April 2019, two years from now, 'combination' policies including primary health care coverage will be prohibited under new 'demarcation' regulations.[58] From April 2018, benefits under existing hospital cash plans will be capped at R3 000 a day or R20 000 a year. Existing 'gap-cover' insurance policies – which fund shortfalls between what doctors charge for hospital procedures and what medical schemes are willing to pay – will be limited to paying out R150 000 a year, also from April 2018. However, new policies of these kinds will be subject to these limits from this month. 'Top-up' insurance cover, which pays out when people have exhausted their annual medical scheme benefits, will be prohibited altogether. All health insurers will also be barred from applying risk rating and charging individuals premiums based on their individual health status. These restrictions will significantly harm the roughly 2 million South Africans who currently rely on health insurance cover because they cannot afford costly medical scheme membership.[59]

The government claims that low-cost medical schemes will be introduced before the ban on combination health insurance policies takes effect.[60] However, this promise is unlikely to be met, as similar promises have remained unmet for roughly 20 years. In addition, the ANC's primary goal is not to facilitate low-cost private options but rather to push all South Africans into participating in the state-controlled NHI scheme.

> *The NHI will do little to address poor management in public health care facilities, 84% of which do not comply with basic health care standards and so would not qualify to take part in the NHI. At the same time, the NHI will put an end to most medical schemes and the private health care system that these schemes make possible.*

The government claims that the NHI will resolve the country's health care challenges and provide all South Africans with comprehensive and 'quality' health services, which will be free to all patients at the point of delivery. However, the NHI proposal is deeply flawed and unlikely to succeed in this objective.

The NHI will do little to address poor management in public health care facilities, 84% of which (or 94%, on the most recent data obtained by *Business Day*) do not comply with basic health care standards and so would not qualify to take part in the NHI. At the same time, the NHI will put an end to most medical schemes and the private health care system that these schemes make possible. The NHI will also give the state control over every aspect of medical care: from the treatment protocols to be applied to the medicines to be prescribed. It will also empower the state to decide on the fees to be paid to all health professionals, as well as the prices of all medicines, devices, consumables, and the like.

The NHI will require enormous tax revenues (an estimated additional R210bn at the start) to implement and sustain. It will also vest all health care monies in a new NHI Fund, from which all payments will be made. Doctors and specialists are likely to wait months (if not years) to be reimbursed for the treatment they have already provided free of charge to patients. This could cripple them financially. Stock-outs of medicines and other essentials are also likely to worsen under the impact of long payment delays. Hence, though the demand for 'free' health services will rapidly expand under the NHI, the supply of such services is likely to diminish. Waiting times for all patients (other than a narrow political elite) will increase sharply. So too will popular anger and frustration at yet another unmet promise from the state.

The NHI proposal should thus be abandoned. Instead, access to high quality health care should be secured through the introduction of health care vouchers. A number of other reforms should also be implemented to reduce medical scheme costs, promote access to health insurance, cure the inefficiencies in the state system, expand the health services available, and encourage an upsurge in innovation.

The costs of medical scheme membership should be reduced by repealing the regulations which push them up. Cover for 'prescribed minimum benefits' (PMBs) should no longer be compulsory, while risk rating should again be permitted. A range of low-cost medical schemes could then be introduced. The cheapest of these (like those earlier proposed by the Council for Medical Schemes) might give members access to private care at the primary level, but require them to use state hospitals. Others would give members access to private care, not only at the primary level, but also in private hospitals and clinics.

With these reforms in place, medical scheme membership would become affordable for most of the 15.5 million South Africans who are currently employed. The number of South Africans with medical scheme membership could then rise from its current level of 8.8 million to 22 million (including the children or other dependants of primary members). The size of this broad pool, with its many young and healthy members, would help to hold down membership costs. Some members of the lowest-cost schemes would still have to rely on public hospitals, but most would gain access to private care from the primary to the tertiary level. This in itself would greatly alleviate the current pressure on state facilities.[61]

The new demarcation regulations should be repealed, which would allow people to meet their health needs via 'combination' health insurance policies if they prefer. Such policies would give them access to both private hospital cover and a range of private health care services at the primary level. The costs of this cover would be based on people's actuarial risk and would generally be low, given the size of the insured pool. Employers could also be asked to contribute to premiums, especially for low-income households, which would also help to reduce costs and promote affordability.[62]

> *Cover for 'prescribed minimum benefits' should no longer be compulsory, while risk rating should be permitted. A range of low-cost medical schemes could then be introduced. The cheapest of these might give members access to private care at the primary level, but require them to use state hospitals. Others would give members access to private care at every level.*

People with limited benefits under their medical schemes would also have the option of taking out insurance policies providing 'gap' cover for costly hospital treatment and 'top-up' cover for primary treatment extending beyond what their medical schemes provide. This would help insured people to pay large private hospital bills and cope with expensive outpatient treatment.

All medical schemes should include 'health savings accounts' (HSAs), as these would allow members to put some of their monthly medical scheme contributions into a personal 'account' which they own and control. This would give them a choice as how the monies in their HSAs should be spent. Ideally, individuals should be able to carry forward any unspent monies from one year to the next. When they retire or otherwise stop working, they should be able to access their accumulated HSA monies on a tax-free basis and use these for any purpose they think fit. This would encourage people to be more prudent about their health care purchases.[63]

The use of HSAs would also encourage doctors and other health care providers to start competing more effectively for the custom of people spending what they now regard as their 'own' money. This would help to stimulate a range of creative and cost-effective innovations, as it has in the US. There, HSAs have encouraged providers to find cheaper and more efficient ways of meeting health care needs. As a result, people now have a greater range of low-cost options available to them, including 'walk-in' clinics in shopping malls, telephone and e-mail medical consultations, and on-line pharmaceutical purchases supplemented by home deliveries.[64]

The mismanagement that currently bedevils public health care in South Africa must also be addressed.

Efficiency and accountability must be restored by appointing people with the necessary experience to run public hospitals and health departments. These individuals – not an outside agency such as the OHSC – must be given the vital daily task of enforcing standards and maintaining discipline.[65]

With these reforms in place, rapid progress could be made in enhancing performance and ensuring that all public health facilities comply with essential norms and standards. Pending the introduction of such reforms, the administration of public hospitals and clinics, along with the support functions of provincial health departments, should be outsourced to private firms through an open and competitive tendering process.[66]

This combination of reforms would meet the health care needs of most of those in formal employment, along with their dependants. But what of the millions who are jobless or disabled, or who earn too little to afford even low-cost medical scheme membership or health insurance cover? State-funded health vouchers would give them the chance to take part in the same system too.

These vouchers would be redeemable solely for health care purchases. With their help, recipients would be able to join low-cost medical schemes, again at monthly contributions ranging (based on what the Council for Medical Schemes has proposed) from R180 to R240 per adult member per month. These members might again have to use state hospitals, but would gain access to a minimum package of primary services in the private sector. These would include, for example, five consultations a year with a private GP. Health vouchers would also allow recipients to buy combination health insurance policies which (given the size of the risk pool) would again have relatively low premiums. Those with limited medical scheme cover would be able to supplement this with 'gap' insurance and top-up cover, which would help to pay for private hospital treatment or costly outpatient care.

> *This combination of reforms would meet the health care needs of most of those in formal employment, along with their dependants. But what of the millions who are jobless or earn too little to afford low-cost medical scheme membership or health insurance cover? State-funded health vouchers would give them the chance to take part in the same system too.*

With risk rating restored, most people would pay lower premiums for medical scheme membership, plus hospital plans or top-up insurance cover. However, those who are already aged, disabled, or chronically ill when the new system takes effect would have to pay more. These higher premiums could be funded in various ways. In the final resort, the state would have to bear these costs. However, this liability would be a diminishing one, as more and more people would have had the chance to join medical schemes when they were young and healthy. They would also have been able to take out hospital plans and buy top-up insurance cover to help them cope with major health care needs.[67]

How much would health vouchers cost? There are currently some 17 million households in South Africa, each with some three members on average.[68] Assuming that 10 million of these households need health vouchers to meet annual costs of R10 000 per household, the overall sum required would be R100bn. This could be funded in various ways.

First, current tax credits for medical scheme contributions should be scrapped, making some R20bn available for health vouchers instead. Second, a shift to an open and competitive state tendering system would greatly reduce the amounts (roughly R240bn a year) currently compromised by fraud and inflated prices. This would generate major revenue savings which could be used to fund vouchers as well.[69] Third, once most South Africans have access to medical schemes and health insurance, most will be able to meet the bulk of their health care needs from the private sector, rather than the public health care system. This would greatly reduce the health funding need at national and the provincial levels, allowing the Treasury to redirect the necessary revenue to the voucher programme.

South Africa should also follow Sweden's example in privatising some or all of its key urban public hospitals and using the proceeds to fund health vouchers. (In 1999, for instance, Stockholm's Health Services Council sold St Göran's, one of Sweden's largest hospitals, to a private company. A study of the privatisation programme found, among other things, that the hospital's costs for laboratory and X-ray services fell by 50% and overall costs by 30%. It also found that the hospital was able to treat 100 000 more patients a year, even as it used fewer resources.)[70] In South Africa, the proceeds of these sales could be paid into an endowment fund, which should be administered by the private sector. Interest earned (and, if unavoidable, some of the capital as well) could be used to fund health vouchers and other pressing health needs, such as the provision of ARVs.

The supply of health professionals and health facilities must also be significantly increased if long waiting times for treatment are to be avoided. Regulations barring the private training of doctors and specialists should be repealed. Privately-run medical training centres for doctors and specialists, working in conjunction with the country's best private hospitals, could attract internationally recognised teaching staff and provide a quality of training high enough to attract significant numbers of both local and international students.[71]

In addition, the government should act on its long-standing pledge to re-open the nursing colleges it closed in the late 1990s. It should also encourage private firms to establish many more training facilities for nurses. These should provide training at varying levels and also in vital specialist areas, including intensive care.[72]

> *State-funded vouchers in these three spheres would increase choice, promote competition, and drive up quality. They would greatly help to liberate the poor, while bringing a new dynamism into the economy.*

New approaches should also be used to expand the reach of doctors, nurses, and other health professionals. Consultations via telephone, e-mail, and Skype, facilitated by faster broadband and electronic patient records, should be encouraged. Trained nursing staff, with back-up support from doctors, should be allowed to consult and provide basic treatment, as many in the US now do via 'walk-in' clinics. Experienced midwives should be used to handle the bulk of straightforward births, with the support of doctors and gynaecologists wherever necessary.[73]

Nursing staff could also be used, as in the US, to help train patients and their relatives on the danger signals to look out for after major surgery, so that patients can be sent home more quickly and beds freed up. Nurses or paramedics can also be used to visit patients at home after their discharge and check on the progress they are making.[74]

The government should also encourage the establishment of more private hospitals and clinics. It should particularly promote the establishment of many more day hospitals, where numerous procedures can be carried out at lower cost. In the US, some 64% of all surgical procedures are now carried out at such hospitals, but South Africa as yet has only around 50 of these institutions, while each new one requires express government approval.[75]

Overall, once current regulatory constraints were removed, entrepreneurs and other people would surely find a host of other innovative ways in which South Africa's health care resources could be expanded and put to even better use.

A shift from BEE to EED

State-funded vouchers in these three spheres would increase choice, promote competition, and drive up quality. They would greatly help to liberate the poor, while bringing a new dynamism into the economy. To help the economy grow still faster, South Africa also needs to shift away from present damaging transformation policies to a new system of 'economic empowerment for the disadvantaged' or 'EED', in which the voucher system would play an important part.

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PART FOUR: EED PROVIDES THE ANSWER

EED differs from BEE in that it no longer uses race as a proxy for disadvantage, but cuts to the heart of the matter by focusing directly on socio-economic status. Instead of demanding compliance with unrealistic racial targets that help only the few, EED finds meaningful ways to help the truly disadvantaged get ahead. Since its emphasis is on growth and jobs, rather than redistribution, it gives companies EED points for investment, employment, innovation, tax payments, and the like. These are by far the most important contributions to upward mobility that business can make. At the same time, with tax-funded vouchers in place, business can make meaningful contributions to sound education, housing, and health care. It can do so by topping up the vouchers available to the poor, and by helping in other ways to promote innovation and improve quality.

How an alternative EED scorecard would work may be illustrated by reference to the mining industry. Here, a particularly damaging third iteration of the mining charter is soon to be unveiled and needs to be replaced by a constructive alternative. The EED scorecard provided here is thus geared to the mining industry, but can readily be adapted for other sectors too. It also shows how effective the EED approach would be in overcoming the key barriers to upward mobility and making a real difference to the lives of the disadvantaged.

The EED idea in outline

EED differs from BEE in two key ways. First, it no longer uses race as a proxy for disadvantage. Instead, it cuts to the heart of the matter by focusing directly on disadvantage and using income and other indicators of socio-economic status to identify those most in need of help. This allows racial classification and racial preferences to fall away, instead of becoming permanent features of policy. This in turn will reduce racial awareness and potential racial polarisation, helping South Africa to attain and uphold the principle of 'non-racialism' embedded in the Constitution.

> *EED focuses not on outputs in the form of numerical targets, but rather on providing the inputs necessary to empower poor people. Far from overlooking the key barriers to upward mobility, it takes steps to overcome these.*

Second, EED focuses not on outputs in the form of numerical targets, but rather on providing the inputs necessary to empower poor people. Far from overlooking the key barriers to upward mobility, it takes steps to overcome these by focusing on all the right '**E**s'. In essence, it aims at rapid **e**conomic growth, excellent **e**ducation, very much more **e**mployment, and the promotion of vibrant and successful **e**ntrepreneurship.

EED policies aimed at achieving these crucial objectives should be accompanied by a new EED scorecard, to replace the current BEE one. Under this revised scorecard, firms would earn (voluntary) EED points for their various economic contributions, including:

- maintaining and, in particular, expanding production and/or sales of goods or services;
- sustaining and, in particular, increasing operating profits;
- sustaining and expanding jobs;

- sustaining and increasing capital expenditure;
- helping to attract inflows of foreign investment, both direct and indirect;
- contributing to tax revenues through their own tax contributions and also via the income and other taxes paid by their employees;
- procuring goods and services from other businesses and state-owned enterprises;
- helping to generate export earnings or to attract foreign currency inflows (for example, from foreign tourists);
- spending on research and development (R&D) or adopting new technologies and other innovations;
- providing training and skills development for all staff;
- maintaining appropriate health and safety standards;
- entering into employee share equity programmes (ESOPS) with all staff, with further points available for schemes that give additional benefits to lower-paid employees;
- paying dividends to all shareholders, including employees participating in ESOPS;
- helping to develop or sustain advice centres for micro and small enterprises;
- entering into public-private partnerships with municipalities, state departments and state-owned enterprises to improve the delivery of essential services, from electricity to clean water and efficient transport logistics; and
- topping up tax-funded education, housing, and health vouchers for the benefit of lower-paid staff and disadvantaged South Africans, while helping in other ways to improve the quality of provision in these key spheres.

Under EED, business would contribute to empowerment primarily through the investments it makes, the profits it generates, the jobs it sustains or creates, the goods and services it buys from other suppliers, the innovation it helps to foster, and the contributions it makes to tax revenues, export earnings, and foreign currency inflows. These are by far the most important contributions to upward mobility that business can make. Jobs and earnings are vital to the dignity and self-reliance of individuals. They also offer people the surest and most sustainable path out of poverty. The tax revenues that business contributes are also vital in meeting infrastructure, education, and other needs. Hence, it is only when businesses of every kind and every size – from the street vendor to the major corporation – are able to thrive and expand that real opportunity can be generated and full employment achieved.

> *These are by far the most important contributions to upward mobility that business can make. Jobs and earnings are vital to the dignity and self-reliance of individuals. They also offer people the surest and most sustainable path out of poverty.*

At the same time, the poor and disadvantaged cannot get ahead without sound schooling, much better living conditions, and (given South Africa's high burden of disease) effective health care. Enormous amounts of tax revenues (more than R680bn in the 2017/18 financial year) are spent each year in these three spheres, but quality and efficiency are generally poor.

As outlined in *PART 3*, some 80% of public schools are dysfunctional; most of the 2.3 million households on the national housing waiting list will wait up to 20 years for the state to provide them with a tiny and badly-located house; and only 16% of public hospitals and clinics comply with basic norms and standards on infection control and other essentials. These disturbing outcomes have arisen primarily because the major tax revenues already allocated to meeting these key needs – cumulatively amounting to some 14.2% of GDP in the current financial year – are so often badly managed and used.

Tax-funded vouchers for education, housing, and health care would help to give the poor far more bang for the taxpayers' buck. They are thus a crucial element in the EED proposal. Under an EED system, individuals armed with tax-funded vouchers would be able to pay for the education, housing, and health care of their choice, as described in *PART 3*. Business would also earn voluntary EED points for:

- topping up those vouchers, particularly for the poor and marginalised;
- participating in public-private partnerships aimed at expanding essential infrastructure and improving operational efficiency in these three key spheres; and
- developing innovative ways of reducing the costs and improving the quality of provision.

Unlike BEE in its various aspects, the EED approach would be effective in meeting the needs of the many, rather than in enriching the politically connected few. Instead of frightening investors away and allowing precious tax revenues to be frittered away through fraud and inflated prices, EED would also stimulate investment, growth, and jobs.

Increased growth and the generation of millions of jobs are, of course, vital to prosperity. But the barriers to upward mobility must also be overcome by equipping the poor to participate more fully in an expanding economy. This is why the proposed tax-funded vouchers are so essential. By putting a portion of tax revenues directly into the hands of the poor, they will also stimulate demand for high quality education, housing, and health care. This will further accelerate the growth rate, while ensuring that tax revenues in these key spheres are far better used than is currently the case.

A shift from BEE to EED would bring real opportunities to the poor. It would also help firms in all sectors to prosper and grow. These benefits would stretch right across the economy, but can be further illustrated by reference to the mining industry.

> *Increased growth and the generation of millions of jobs are, of course, vital to prosperity. But the barriers to upward mobility must also be overcome by equipping the poor to participate more fully in an expanding economy. This is why the proposed tax-funded vouchers are so essential.*

Mining has long been vital to South Africa's economy and remains so still. However, it experienced a net loss of R50 billion from 2014 to 2016, as commodity prices dropped, electricity costs rose, and wages virtually tripled from their 2006 levels (rising from R39bn to R117bn), even as production stagnated or declined.[1] The sector now also faces a major threat from the third iteration of the mining charter, which mining minister Mosebenzi Zwane is shortly to gazette. With these damaging BEE rules soon to take effect in an already struggling sector, how an alternative EED scorecard would work in the mining industry merits urgent consideration.

Mining poses particular challenges, generally not found in other sectors, as tunnelling (often deeply) below the ground is inevitably dangerous. It also has major environmental ramifications. An EED scorecard for the mining sector must take these factors into account, whereas EED scorecards in other sectors could generally be shorter and simpler.

How EED would work in mining

Differences between the proposed mining charter and a revised EED scorecard are stark. Though it remains uncertain just what the new charter will provide, it seems likely that many of the most damaging requirements set out in the April 2016 version of the document will be retained.

Particularly worrying is the new charter's demand that black ownership be maintained at 26% throughout the life of a mining right, which could be 30 years or more. Having to do ever more BEE ownership deals whenever black investors sell out will place a crippling burden on many mining companies. It will also dilute the value of all other shares, most of which are owned by local and international pension funds and other institutional investors.[2] Much of the cost of additional BEE deals – which again will benefit only a relatively small elite – will thus be borne by ordinary pensioners and other savers, both black and white.

The new charter is also likely to raise employment equity and preferential procurement targets to levels that are entirely unrealistic, given the age and skills profile of black South Africans. The charter will no doubt also require high levels of expenditure on skills development, housing programmes, and community development. Though most mining companies would want to maintain their contributions here, they also need the flexibility to downscale their spending at times when low commodity prices or other external factors have sharply reduced or even wiped out their operating profits. Instead, the new charter may well oblige mining companies to attain 100% scores on ownership, housing, and skills development at all times over three decades, failing which their mining rights will be cancelled. These draconian penalties go well beyond what the revised BEE generic codes require and could help sound the death knell for a vital industry.[3]

By contrast, shifting from BEE to EED would lift the regulatory burden on the industry and help it to recover from the malaise of the last five years. It would also position mining companies to take advantage of rising commodities prices and what might be the start of a major global uptick in the sector.[4] A shift to EED would require not only a new scorecard (as further outlined below), but also various other policy reforms. These reforms must bring certainty to the granting and termination of mining rights, allow markets to decide when beneficiation makes economic sense, avoid unduly onerous environmental obligations, limit unwarranted safety stoppages, improve labour relations, avoid damaging shifts to the fiscal regime, and bring an end to threats of mine nationalisation.

> *Shifting from BEE to EED would lift the regulatory burden on the industry and help it to recover from the malaise of the last five years. A shift to EED would require not only a new scorecard but also various other policy reforms.*

Some of the necessary policy reforms have been outlined in an earlier issue of *@Liberty*.[5] Other essential reforms will soon be described in a forthcoming issue of this IRR policy bulletin. But the transformation challenge is also a major one. Hence, the focus here is on showing how EED in the mining sector could help to bring tangible and sustainable benefits to all South Africans – and especially to the poor and disadvantaged.

Key elements in a mining EED scorecard

Under this proposed EED scorecard, mining companies would earn voluntary EED points for their contributions in four categories: economic, labour, environmental, and community or societal. The economic contributions of mining companies are particularly vital in attracting investment, increasing the growth rate, generating jobs, and providing procurement opportunities for a host of businesses supplying goods and services to the mines. The EED scorecard weighs these economic contributions the most highly, though mining's contributions in the other three spheres are also important.

Economic contribution

1 Production maintained in year under review: Yes = 20 points, increase evident over previous year = bonus 20 points
2 Value added to minerals extracted through milling, refining, smelting or otherwise processing: Yes = 20 points, increase over previous year = bonus 20 points
3 Net operating profit (measured either in USD or ZAR): Yes = 20 points, increase over previous year = bonus 20 points
4 Capital expenditure: Yes = 20 points, increase over previous year = bonus 20 points
5 Spending on procurement: Yes = 10 points, increase over previous year = bonus 10 points

6 R&D spending and/or innovations developed or introduced: Yes = 20 points, increase and/or improvement over previous year = bonus 20 points
7 Dividends paid to shareholders: Yes = 20 points, increase over previous year = bonus 20 points
8 Contribution made to South Africa's mineral exports: Yes = 20 points, increase over previous year = bonus 20 points
9 Contribution made to tax revenues (corporate income tax, royalties, VAT, customs duties): Yes = 20 points, increase over previous year = bonus 20 points
10 Other contributions made to the wider economy (for example, supplying coal to Eskom for power generation, or managing to sustain operations in adverse circumstances, such as low commodity prices, load-shedding, or labour disputes): 20 points in total
11 Bonus points for any other important contributions made (for example, increasing ore yields through new processing techniques, extending the life of mines through new drilling techniques): 20 points in total

400 points in total available for a mining company's economic contribution.

Labour contribution

1 Continued to employ in year under review: Yes = 10 points; created additional jobs = bonus 10 points
2 Paid salaries above national minimum wage: Yes = 10 points; increase over previous year = bonus 10 points
3 Contributed to PAYE revenues through salaries paid to employees: Yes = 10 points; increase over previous year = bonus 10 points
4 Maintained employee safety (as measured by fatality rates and other assessments, and implemented measures to guard against underground fires, rock falls, and so on): Yes = 10 points; improvement over previous year = bonus 10 points

> *EED points would be earned by employing people, contributing to PAYE, promoting employee safety, helping to meet health, training, and housing needs, and paying dividends to staff through ESOPs.*

5 Met the health needs of employees (for example, through speedy post-incident treatment, regular health evaluations, helping to provide ARVs and other medicines, maintaining mine clinics): Yes = 10 points, improvement over previous year = 10 bonus points
6 Maintained good underground working conditions as far as practicable (for example, through dust monitoring and reduction, adequate cooling and ventilation): Yes = 10 points, improvement over previous year = 10 bonus points
7 Provided training and skills development for lower paid employees: Yes = 10 points; increase over previous year = 10 bonus points
8 Paid dividends to employees via ESOPs: Yes = 10 points, increase over previous year = 10 bonus points
9 Helped provide housing for all employees, including migrant workers on cost-effective, innovative basis: Yes = 10 points, improvement over previous year = 10 bonus points
10 Provided other support for employees, such as financial counselling, debt management, ABET training, or by managing to limit retrenchments and sustain employment and measures for staff welfare

despite adverse economic and other circumstances: 10 points

11 Bonus points for any other key contributions to employee welfare, for example, helping migrant workers spend more time at home by changing shift cycles and providing travel allowances, or helping employees gain title deeds to their homes or customary plots of land: 10 points

200 points available in total for a mining company's labour contribution.

Environmental contribution

1 Contribution to environmental rehabilitation fund: Yes = 10 points, increase over previous year = bonus 10 points

2 Reduced electricity consumed via efficiency gains or own generation: Yes = 10 points; improvement over previous year = bonus 10 points

3 Reduced water consumed via efficiency gains or recycling: Yes = 10 points; improvement over previous year = bonus 10 points

4 Guarded against water pollution and/or acid mine drainage (AMD): Yes = 10 points, improvement over previous year = bonus 10 points

5 Maintained dust mitigation initiatives: Yes = 10 points, improvement over previous year = 10 bonus points

6 Maintained ambient air quality as best practicable: Yes = 10 points, improvement over previous year = bonus 10 points

> *EED points would be earned by contributing to environmental rehabilitation funds, reducing water consumption, guarding against water and other pollution, minimising and reprocessing waste, and helping to find innovative ways to improve environmental management.*

7 Rehabilitated land disturbed by mining as far as practicable: Yes = 10 points, improvement over previous year = bonus 10 points

8 Minimised waste, including waste rock, and helped to reprocess residue dumps and other waste material: Yes = 10 points, improvement over previous year = bonus 10 points

9 Implemented programmes to reduce environmental incidents and investigated/reported on any that occurred: Yes = 10 points, improvement over previous year = bonus 10 points

10 Made other contributions to sound environmental management: for example, by helping to promote innovation in environmental management, or by sustaining financial contributions to future environmental obligations despite adverse economic conditions: 10 points

11 Bonus points for helping to implement new ways of reducing or mitigating environmental damage, or making other relevant contributions: 10 points

200 points available in total for a mining company's environmental contribution.

Community or societal contribution

1 Topped up education vouchers for lower-paid staff and indigent people in mining and labour-sending communities: Yes = 10 points, increase over previous year = bonus 10 points

2 Helped find ways to improve schooling in local or sending communities: Yes = 10 points, improvement over previous year = bonus 10 points

3 Helped find innovative ways to improve quality of schooling more widely: Yes = 10 points, improvement over previous year = bonus 10 points

4 Helped provide engineering and mining learnerships as well as bursaries for tertiary education and artisan training, or helped provide ABET and other types of training for which there is demand in mining and labour-sending communities: Yes = 10 points, increase over previous year = bonus 10 points

5 Topped up housing vouchers for lower-paid staff and indigent people in mining or labour-sending communities: Yes = 10 points, increase over previous year = bonus 10 points

6 Helped develop, finance, or administer housing advice centres in mining or labour sending communities: Yes = 10 points, improvement over previous year = bonus 10 points

7 Helped develop and/or implement innovative housing, sanitation, water, or electricity solutions in mining or labour-sending communities: Yes = 10 points, improvement over previous year = bonus 10 points

8 Topped up health vouchers for lower-paid staff and indigent people in mining or labour-sending communities: Yes = 10 points, increase over previous year = bonus 10 points

9 Helped develop and/or implement innovative health care solutions in mining or labour-sending communities: Yes = 10 points, improvement over previous year = bonus 10 points

10 Made other contributions, such as providing incubation centres for SMEs, helping to provide procurement opportunities for local vendors, encouraging contractors to enter into joint ventures with local SMEs, or managing to maintain community contributions despite adverse economic or other conditions: 10 points

11 Bonus points for such initiatives as seconding staff (or retired staff) to municipalities in mining areas to help solve operational problems in managing waste water plants and the like: 10 points

200 points available in total for a company's contribution to communities and society

> *Education projects currently have little overall impact in a policy environment where teachers and principals feel little pressure to improve the quality of their performance. The situation would be different once all schools must compete for the custom of voucher-bearing parents.*

A mining company would be able to earn 1 000 points in total on this EED scorecard. Total points would thus divided by 10 to yield a score out of 100 (a percentage score).

Many of the economic and other contributions that would be measured under this new scorecard are straightforward and easy to comprehend. How mining companies could further contribute to individual empowerment under the EED voucher system needs a little more explanation.

How mining companies could further empower people under the EED voucher system

With ***education vouchers*** in place as part of EED, mining companies could earn additional EED points for topping up the vouchers of the poorest and most marginalised. These would include, for example, pupils living in remote rural sending areas, who need extra money to cover transport costs or boarding fees. Business could also earn EED points by topping up the education vouchers of lower-paid staff or the residents of mining communities.

EED points should also be available to firms that help to improve schooling in various ways. Mining firms might, for example, help fund effective teacher training courses aimed at upgrading both the subject knowledge and the pedagogical skills of poorly performing teachers. Mining (and other companies) may already be participating in such projects as part of their contributions to community or socio-economic development (SED) under the mining charter or the BEE generic codes. However, projects of this kind currently have little overall impact in a policy environment where teachers and principals feel little pressure to improve the quality of their performance. The situation would be different once a voucher system was in place and all schools must compete for the custom of voucher-bearing parents.

Mining companies could also earn EED points for helping to improve pupil performance in various other ways. Firms might, for instance, fund supervised homework sessions for disadvantaged pupils, especially those whose parents are functionally illiterate and innumerate and cannot easily help their children in this way. Retired teachers or others with appropriate skills could be made available to assist with homework on most afternoons, while EED points could be earned for providing this assistance. EED points would also be available to mining companies that help run Saturday morning schools or holiday catch-up sessions for pupils in need of these additional interventions.

Mining companies could also earn EED points for funding the provision of cricket, rugby, soccer, and netball fields at schools in mining communities, along with the coaches needed to teach these sports. They could also earn EED points for helping to arrange inter-school competitions that help pupils hone their skills and allow the most talented to qualify in time to represent their towns, their provinces, or their country.

Mining companies could also gain EED points for entering into public/private partnerships to refurbish state schools in mining communities, or help supply them with functioning libraries and/or computer laboratories. All contracts awarded for these purposes must, however, be awarded via open and competitive tender processes, so as to put an end to corruption and artificially inflated prices.

Mining companies could also earn EED points for finding innovative ways to overcome at least some of the challenges now confronting the schooling system. EED points could thus be earned for developing innovative and more cost-effective ways to build schools in mining communities and supply them with water, sanitation, and electricity. EED points could also be made available to firms that help supply various electronic aids to teaching. DVDs featuring the best teachers presenting model lessons could be developed in all key subjects, from the foundation phase to Grade 12. These DVDs could be made available both in English and in other home languages, so as to help improve pupil understanding. DVDs showing pupils how to solve maths problems or carry out scientific experiments could also be made available. Smart phone applications which score pupils on their capacity to solve maths problems and gives them pointers as to where they have gone wrong could be particularly useful.

> *EED points could also be made available to firms that help supply various electronic aids to teaching. DVDs featuring the best teachers presenting model lessons could be developed in all key subjects. These DVDs could be made available both in English and in other home languages.*

Mining companies should earn EED points either for helping to develop innovations themselves, or for funding organisations that are already engaged in endeavours of this kind. In a policy environment that fosters and rewards innovation in this way, a host of further creative ideas would doubtless soon emerge.

With a ***housing voucher*** system in place, mining companies could again earn additional EED points for helping the disadvantaged in many different ways. EED points would, of course, be available for topping up the housing vouchers of lower-paid staff or people living in mining communities or labour-sending areas. Firms could also earn EED points for setting up housing advice centres that would provide individuals with a variety of low-cost housing plans, along with advice on building materials and housing choices.

Mining companies could also obtain EED points for developing innovative new approaches aimed at reducing building costs and make larger homes more affordable. Already, for example, pre-fabricated options have been developed and approved by both the National Home Builders' Registration Council (NHBRC) and the South African Bureau of Standards (SABS). One such option is a house that is delivered in 'kit' form. According to the supplier, once the necessary foundations have been dug, this house can be erected in two days, 'complete with roof, doors, windows, full electrical reticulation and plumbing'. All that then remains is the plastering of the exterior wall panels and the laying of the concrete floor, along with glazing and painting. The costs of labour and materials are thus much reduced, but the house nevertheless complies with SABC tests for strength, water proofing, and fire resistance.[6]

Other pre-fabricated options are also available. In addition, an enterprise known as Moladi has developed a 'cast house' building system which it says is even more cost-effective. On this approach, re-usable plastic formwork is used to create a mould of the completed house. This mould is filled with an aerated form of mortar and thereafter removed. Using this approach, a house can be completed in five days. The methodology has been approved by the NHBRC, while financing for Moladi homes is available from major South African banks.[7]

EED points should also be available for helping to supply sound temporary structures to help those living in shack settlements. One such option lies in properly insulated shipping containers, which can be bolted together to make a house which (at 48sq m in size) is bigger than many RDP homes. Another such option lies in the 'sand-bag' houses which are becoming more common. These are cheap and quick to build, provide excellent insulation against both heat and cold, and are water-proof, sound-proof, and fire-resistant. (One such possibility is the 'ecobeam sandbag building system', developed by a company called Ecosteps, which is already in use in housing projects in South Africa, Botswana, and Mozambique.)[8]

Mining companies could earn EED points for helping to supply these low-cost structures to community residents. They could also gain EED points by using them to provide suitable shelter for migrant mineworkers with little interest in obtaining permanent homes in the mining towns where they work. Mining companies in the platinum belt near Rustenburg, for example, have tended in recent years to provide living-out allowances to migrant workers in this situation. Many of these migrants have then opted to rent the most rudimentary shacks, so that they can live as cheaply as possible and send the bulk of their living out-allowances to their families back home. The upshot, however, is that many migrant mineworkers live in appalling conditions in the shack settlements that have sprung up near mines. Under an EED system, however, mining companies could earn EED points for providing migrant workers with sound but cost-effective sand-bag or other temporary structures. Their housing needs would then be met, but on a low-cost basis that would leave them still with money from their living-out allowances to send to their families back home.

EED points should also be available for helping to supply sound temporary structures to help those living in shack settlements. One such option lies in properly insulated shipping containers, which can be bolted together to make a house which (at 48sq m in size) is bigger than many RDP homes.

EED points should be made available to all mining companies which either help develop innovative housing solutions or play a part in rolling them out. The same should apply to firms which find effective new ways to meet water, sanitation, and energy requirements in the housing sphere. Rainwater tanks, waterless toilets, and solar geysers are already being developed and supplied, so the challenge is to improve efficiencies, reduce costs, and achieve economies of scale for these (and other) innovations. Again, EED points should be available to all mining companies which help to meet these crucial needs in innovative and environmentally sound ways.

With ***health vouchers*** available, mining companies could also earn EED points for various contributions in this sphere. One important option would be for companies to second current or retired staff to municipalities and provincial departments to help improve the management of nearby public hospitals and clinics, and earn EED points for doing so. Such assistance from experienced managers could be enormously effective in helping these institutions comply with basic norms and standards and improve the quality of the health care they provide.

Mining companies could also earn EED points in other ways. They could help lower-paid staff by contributing 60% or more of the cost of their medical scheme contributions and health insurance premiums. They could top up health vouchers for those living in mining communities or labour-sending areas. They could also earn EED points for contributing to the training of doctors, nurses, and other health professionals, for helping to build and staff clinics in mining communities, and for contributing to the roll-out of ARVs to employees and the residents of mining communities.

Some BEE proponents might argue that there is little difference between the contributions that business could make under an EED voucher system and the community or SED elements in the current mining charter or BEE generic codes. Under these codes, many firms earn BEE points for contributing 1% of net profit after tax to SED initiatives in education, housing, health care, and other spheres. There is, however, a world of difference between what current SED contributions can achieve and what EED vouchers would help to bring about. At present, SED contributions can do little to address the massive inefficiencies in the state's schooling system, its housing policy, or the public health care it provides. The voucher system, by contrast, would cut to the root of present ills in all three spheres. With this new approach in place, EED contributions would quickly have substantial impact in helping the disadvantaged to get ahead.

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PART FIVE: EED IS FOR REAL EMPOWERMENT

South Africa has been chasing down the wrong policy path on 'transformation' for the past 23 years. As finance minister Pravin Gordhan said as far back as 2010: 'South Africa's BEE policies...have not worked... BEE policies have not made South Africa a fairer and more prosperous country. They have led to a small elite group benefiting and that is not good enough in terms of benefiting [the remainder].'[1]

This assessment remains correct, as the IRR's 2016 field survey once again confirms. BEE has brought prosperity (and sometimes enormous wealth) to a relatively small elite: the most advantaged within the disadvantaged group. However, it has not helped the great majority of South Africans, roughly 86% of whom have experienced no benefit from BEE in any of its aspects. Worse still, BEE has harmed the truly disadvantaged by eroding public service efficiency, adding to fraud and inflated prices in public procurement, and helping to reduce investment, growth, and jobs.

As regards the public service, a mistaken emphasis on unrealistic racial targets has so eroded experience and restricted capacity that an 'inefficient government bureaucracy' has consistently ranked, for close on a decade, as one of the three 'most problematic factors' for doing business in the country. In 2016/17, such inefficiency has once again been identified by the World Economic Forum as the most important barrier of all, trumping even such problems as 'restrictive labour regulations' and an 'inadequately educated workforce'.[2] This dismal performance has major implications not only for investment and the generation of new jobs, but also for the state's ability to deliver the services on which all South Africans (and especially the poor) rely.

> *South Africa is now one of the slowest-growing economies on the African continent, with a projected growth rate in 2017 of 1.1% of GDP. This is far below the growth rates projected for Ethiopia (8.9%), Cote d'Ivoire (8.0%), Ghana (7.5%), Tanzania (7.1%), Senegal (6.8%), and Rwanda (6.0%).*

At the same time, roughly R240bn in annual government procurement is currently being compromised by fraud and inflated pricing. In addition, more capital is flowing out of the country than is coming in, while the rate of economic growth dropped sharply to a mere 0.3% of GDP in 2016. South Africa is now one of the slowest-growing economies on the African continent, with a projected growth rate in 2017 of 1.1% of GDP. This is far below the growth rates projected for Ethiopia (8.9%), Cote d'Ivoire (8.0%), Ghana (7.5%), Tanzania (7.1%), Senegal (6.8%), and Rwanda (6.0%).[3]

In per capita terms, South Africa's economic growth rate has been negative for the past three years, which means that all its citizens are becoming poorer on average.[4] The unemployment rate (on the official definition which excludes discouraged workers) has risen by more than 200% since 1994. At present, some 9m South Africans – roughly 8m of whom are black – are unemployed on the expanded and more accurate definition, which takes account of those too discouraged to keep actively looking for work.[5]

The government is also running out of fiscal space. With economic growth so meagre, public debt so high, significant tax increases already in place, and ever more demands on the public purse (for free university education, among other things), the fiscus cannot squeeze much more revenue out of the small and over-burdened middle class. If the current trajectory remains in places, the government will soon battle to sustain public spending at its current levels – even on such essentials as social grants and the wider social wage.

With economic hardship worsening, other signs of instability are growing. Incidents of public violence have more than tripled over the past five years. Corruption is becoming more rapacious and more visible, yet little has been done to stop it since the ANC disbanded the effective 'Scorpions' unit to protect Mr Zuma and others within its ranks. Factionalism within the ANC has also soared, as ideological division and competition for the spoils of office have accelerated. Combined with growing failures in governance, such factors add to the sense of a nation sliding into instability and a possible economic abyss, with little to arrest its fall or help it recover the ground that has been lost.[6]

Instead of embarking on much-needed structural reforms, the ANC is predictably now using the evident failures of BEE in all its aspects to demand a new emphasis on 'radical economic transformation'. As Mr Zuma told Parliament in his State of the Nation Address (SONA) in February 2017, such transformation requires 'fundamental change' in 'the structure...of the economy', as well as in its 'ownership, management and control'.[7]

Given the president's repeated emphasis on inter-racial inequality, most commentators assume that what the ANC wants is a shift from supposedly 'white' ownership – though most listed companies are mainly owned by pension funds and other institutions – to 'black' ownership. However, the ANC's real objective, in line with its long-standing commitment to the national democratic revolution (NDR) it first endorsed in 1969, is to take South Africa from its predominantly free market economy to a socialist and then communist future. This requires a shift in ownership and control, not so much from whites to blacks, as from the private sector to the state.

> *The ANC's real objective, in line with its long-standing commitment to the national democratic revolution (NDR) it first endorsed in 1969, is to take South Africa from its predominantly free market economy to a socialist and then communist future. This requires a shift in ownership and control, not so much from whites to blacks, as from the private sector to the state.*

To achieve its objective of public ownership and control, the government (says Mr Zuma) now plans to 'utilise to the maximum the strategic levers that are available to the state'. These include 'legislation, licensing, and...procurement [rules], as well as BEE charters' and 'more direct state involvement in mining' via a state mining company.[8]

More recently, both the president and the minister of rural development and land reform, Gugile Nkwinti, have also stressed the need to amend the Constitution to allow expropriation without compensation. This is being touted as a vital mechanism to speed up land reform and return the land to 'the people'. Instead, however, it will witness the widespread nationalisation of farming land and many other assets. Any such rape of property rights will in time trigger further disinvestment, mounting job losses, runaway inflation, and ratings downgrades to sub-investment or junk status. It will also tip millions more South Africans into destitution and hunger.

The policy choices are becoming stark. The country can keep on with current transformation policies on employment equity, BEE, and land reform – and reap the bitter harvest that will surely follow as the economy falters even further. Or South Africans can grasp the policy nettle by recognising the failures of BEE and shifting to EED instead.

How EED would work in practice has already been outlined in *PARTS 3* and *4*. The EED scorecard for the mining sector, as described in *PART 4*, can readily be adapted and simplified for other sectors of the economy. The EED focus on promoting economic growth would, however, require other policy reforms as well, which cannot fully be dealt with here.

To name but some examples, labour laws would need to be reformed to encourage job creation, price the poorly skilled back into the jobs market, and hold unions accountable for intimidation, violence, and damage to property during strikes. Many state-owned enterprises (SOEs) should be sold off to the private sector through an open and competitive process that helps prevent the emergence of new monopolies. At the same time, public-private partnerships should be used to expand and maintain essential infrastructure, increase the efficiency of the public service, and help build up essential skills among officials.

With a shift from BEE to EED in place and these reforms also under way, the benefits would be enormous. The private sector could once again concentrate primarily on its core business, helping business confidence to rebound. With the BEE burden lifted, property rights restored, labour regulations substantially reformed, and the infrastructure backlog diminishing, direct investment would begin to soar. Business and entrepreneurship would thrive, and jobs would rapidly expand. The skills of all South Africans would be used to the full, while new skills would soon be generated to help meet growing demand. With the need for labour increasing, wages would go up as well – not because of government fiat or violent strikes, but in response to market forces.

In this vibrant new environment, there would be very many more opportunities for people to earn their own income and take care of their own needs. They would also have real chances to climb the economic ladder in an economy growing so fast (at 7% of GDP a year) that it would double in size every ten years.

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Tax revenues would increase as well, while the EED system would ensure much more bang for every buck – and especially so in education, housing, and health care. Many more good quality schools would spring up to meet the needs of voucher-bearing parents. Many more failing public schools would take the 'charter' school route, so helping them to improve on management and overall performance. The drop-out rate would fall, while millions more young people would emerge from schools, technical colleges, and universities with solid and marketable skills. There would be much less wastefulness, inefficiency and corruption to drag down results – and many more constructive innovations to help pupils shine.

A new dynamism would enter the housing market as people with tax-funded vouchers start taking charge of their housing needs. Many more houses, apartments, and backyard flats would be built, expanded, or improved. People living in squalid conditions in informal settlements would no longer have to wait for many years for the state to build them homes, but could immediately take action to improve their rudimentary structures. The innovations already available (sandbag houses, for example) would help achieve good quality at low cost, while many more innovations would be sure to follow in response to this demand. There would be far less scope for corruption, fraud, and wastefulness in the housing development process, while a new sense of individual self-reliance would arise.

In the health care sphere, millions of people would be able to buy low-cost medical scheme membership, coupled with low-cost medical insurance to supplement their cover. This would quickly give the poor the benefits of sound private treatment, sometimes only at the primary level, but mostly also in private hospitals and clinics. This in itself would greatly lighten the current burden on the public system. At the same time, public/private partnerships would help improve efficiency and bring all public health facilities into compliance with basic norms and standards. Scarce resources would be far better used, while every effort would be made to expand the supply of health services. The system would encourage innovation and creative thinking on how health needs can best be met.

More than anything else, the voucher system and the wider EED approach would help put an end to what Democratic Alliance leader Mmusi Maimane has described as the present 'insider/outsider' dichotomy. Wrote Mr Maimane in January 2017:[9]

> At present, 16 million people in our country are dependent on the welfare of the state, and a further 9 million are without a job. That's 25 million South Africans who are left out. Empowering those individuals economically is true radical transformation. Until we create an economic environment whereby those 25 million South Africans have access to the economy, transformation remains cosmetic and ineffectual.
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> It is the poor who need help. It is the unemployed, the shack dwellers, the subsistence farmers, the social grant recipients, the single mothers, the child-headed households and the homeless who rely on government for their survival. And they have been let down... Economic transformation which is truly radical would see the economy being opened up to those who have been left out.

EED would achieve this, whereas BEE will not. Yet, despite the evident advantages of shifting from BEE to EED, much opposition can be expected from the black business lobby, in particular, which has an obvious interest in retaining and expanding the existing system. Even stronger resistance is likely to come from all NDR ideologues in the ANC and the South African Communist Party (SACP), who know very well that that the real purpose of BEE is not to provide redress or help the poor but rather to help cripple the market economy en route to a socialist and communist future.

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However, vested interests and damaging, outdated ideology can be overcome. South Africa remains an open and multi-party democracy, in which the power to choose lies ultimately with its people. Already, ordinary people know from their own experience that BEE helps only around 14% of black South Africans. Only 3% see 'more BEE and affirmative action in employment' as 'the best way to improve lives'. A mere 1% think that 'more land reform' can help them in this way. At the same time, 75% identify 'more jobs and better education' as the most effective means of getting ahead. In addition, some 84% would 'prefer a political party which focuses on faster growth and more jobs' to one which 'focuses on land expropriation to redress past wrongs'. More than 80% would also like tax-funded vouchers to give them access to sound education, health care, and housing – and the upward mobility these benefits would help provide.

Individuals at the grass roots of society already have a good understanding of what would most help them to get ahead. But real choice also depends on access to adequate information, informed analysis, and alternative policy ideas. This makes the role of political parties, business, civil society, and the media particularly important.

As yet, however, most commentators have failed to bring their considerable critical faculties to bear on BEE. Instead, many seem simply to have assumed that transformation policies bring real benefits to black South Africans and need to be maintained and tightened up. That approach should no longer apply.

With the economy in the doldrums, property rights under major threat, and mounting evidence (including the IRR's field surveys) that BEE helps the few and harms the many, a fundamental reassessment is urgently required. Most South Africans want to end the current insider/outsider dichotomy and give the disadvantaged a real chance to get ahead. Since BEE offers no tangible prospect of achieving this, it is time to shift to EED instead.

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