



The IRR's Blueprint for Growth 3: Breaking the BEE barrier to growth

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Why growth matters

Sustained economic growth is vital to prosperity in every country – and is especially important to the poor. As the IRR’s 2024 Growth Strategy points out, an economy that grows by 7% a year will double in size every ten years. The compounding effects of growth – where this year’s growth builds on last year’s growth, like a rolling snowball gathering snow – are difficult to overstate.

The higher the growth rate, the shorter the time to inclusive prosperity. This has been confirmed, moreover, by the empirical data gathered over some 40 years in more than a hundred countries by a Canadian think tank, the Fraser Institute, in compiling its annual *Economic Freedom of the World* reports.

The Fraser Institute’s 2023 *Annual Report* shows once again that governments which allow free markets to function and intervene little in their economies achieve much higher rates of economic growth than governments which do the opposite – many of which are socialist states. The difference in annual growth rates between the nations that are economically the ‘most free’ and those that are the ‘least free’ has major real-world consequences for the prosperity and well-being of all their citizens.

According to this 2023 report, the most free countries had average gross domestic product (GDP) per capita of some \$48 600 in 2021. This was more than seven times higher than the \$6 300 evident in the least free nations. In addition, the average annual income of the poorest 10% in the most free countries was \$14 100, whereas the equivalent figure in the least free countries was a meagre \$1 700.¹

Striking too was the difference in poverty rates. In the most free countries, a mere 2% of the population lived in extreme poverty on US\$1.90 a day. By contrast, almost a third of people (31%) in the least free nations were extremely poor. Life expectancy – a good pointer to prosperity and adequate living conditions – was noticeably different too, standing at 81 years in the most free countries and at 65 years in the least free ones.²

South Africa does not yet rank among the least free countries, which include Iran, Sudan, Yemen, Zimbabwe, and Venezuela. However, its ranking is diminishing, having declined from 69th place in 2013 to 94th place in 2023. Its average GDP per capita is also going in the wrong direction, for it stood at \$13 596 in 2008 but dropped to \$13 479 in 2023³.

Many poor policies and bad laws have contributed to these dismal outcomes, including cadre deployment, coercive labour laws, and a steady whittling away of property rights. But South Africa’s Employment Equity (EE) and wider Black Economic Empowerment (BEE) policies have been particularly damaging in eroding state efficiency, promoting corruption, deterring direct investment, increasing unemployment, restricting growth, and worsening poverty.

These outcomes contradict the government’s stated goal of using BEE to help provide redress for apartheid wrongs. Since BEE is clearly not succeeding in meeting this objective, alternative policies are needed to stimulate growth and help empower the poor in meaningful ways.



Damaging and ever-shifting ‘transformation’ requirements

The myth of ‘demographic representivity’

In devising its EE and BEE rules, the government has relied heavily on a supposed ‘norm’ of demographic representivity (which has also been used to legitimise racial targets in the United States and other Western countries). Firoz Cachalia, an ANC office-bearer in Gauteng, summed up this supposed ‘norm’ in 1998 when he said: ‘Since ability is randomly distributed among the entire population, black and white South Africans should be represented in the workforce according to their share of the overall population. If whites instead consistently outnumber blacks in management, skilled jobs, and the professions, then for those who reject the idea of superior and inferior races, the only explanation is that white dominance is the result of racial discrimination.’⁴

Cachalia’s argument may seem superficially convincing, but it overlooks many important variables affecting eligibility for senior and professional positions. These variables are particularly important in South Africa, where roughly half of black people are too young (under the age of 35) for senior appointments,⁵ 45% are unemployed (on an expanded definition that includes those not actively looking for jobs),⁶ and fewer than 6% have the university degrees often necessary or advisable for management posts.⁷

These and other relevant variables make EE targets based on the black share (80%) of the economically active population extremely difficult to fulfil. The EE Act of 1998 nevertheless requires all employers of 50 people or more to attain demographic representivity at all levels of the workforce or face maximum fines ranging from 2% to 10% of annual turnover (not profit).⁸

EE and BEE implementation

Progress towards the EE Act’s goal has been extraordinarily rapid in the public sector, where in 2022 black people held 73% of top management jobs and 75% of senior management posts.⁹ Often, however, those appointed to demanding posts are deployed cadres lacking skills and experience. This has triggered a crippling loss in capacity, which has greatly harmed millions of poor black South Africans heavily dependent on the state for water, sanitation, education, healthcare, electricity, security, and the like.¹⁰

Despite these adverse impacts, the private sector – which has no tax revenues and depends on its efficiency to survive – is also required by the EE Act to make ‘reasonable progress’ towards the same unrealistic racial targets. Since business has supposedly failed to do so (in 2023 black representation in the private sector stood at 14% at the top management level and 20% among senior managers),¹¹ the government has recently amended the EE Act to give Thulas Nxesi, minister of employment and labour and a senior figure in the SACP, the power to impose binding EE targets on employers in all sectors of the economy.¹²

This power, says Nxesi, will enable the state to ‘get hard on non-compliance’.¹³ In many instances, it may also make it virtually impossible for white, Indian, and so-called ‘coloured’ South Africans to gain appointments or promotions, regardless of their experience and skills.



Businesses needing state permits or wanting to win tenders from the government must also comply with BEE ‘codes of good practice’¹⁴ Under these codes, companies must transfer 25% of their equity or assets to BEE ‘investors’ with little money and limited business experience. These BEE deals are costly, with R1 trillion allocated to them by 2020 and another R1 trillion likely to be required.¹⁵

Companies subject to BEE codes must also meet EE targets ranging from 88% for skilled professionals to 60% for senior management posts. In addition, they must procure 80% of the goods and services they need each year from BEE firms with at least 25% (and often 51%) black ownership. Such firms do not exist in the numbers required by the rules.¹⁶

Having to comply with these costly, complex, and frequently changing BEE requirements constitutes a major implicit tax on business. This harms the great majority of South Africans by deterring investment, reducing growth, and adding to the unemployment crisis.

A BEE ‘premium’ in public procurement

In the public sector, BEE preferential procurement requirements have long encouraged corrupt tendering by a host of government departments, municipalities, and state-owned enterprises (SOEs). All these entities are replete with deployed cadres, who commonly use their insider knowledge and political influence to secure tenders at inflated prices for BEE companies linked to themselves, their families, and/or their friends.¹⁷

Two senior officials in the National Treasury have publicly warned against the additional costs being incurred. In October 2016 chief procurement officer Kenneth Brown said that between 30% and 40% of the state’s annual procurement budget (then worth R600bn) was being lost to ‘fraud and inflated prices’¹⁸ In August 2018 his acting successor, Willie Mathebula, told the Zondo commission of inquiry into state capture that ‘the government’s procurement system was deliberately not followed in at least 50% of all tenders’. Moreover, once the normal rules had been bypassed, ‘a contract which started at R4m was soon sitting at R200m’. This had enormous ramifications, for the government was ‘the biggest procurer of goods and services, spending [at that time] an estimated R800bn a year’¹⁹

The Treasury does not report on the extent of the BEE premiums pushing up the costs of state procurement, as the IRR has noted in its recent study on taxation and state spending.²⁰ However, at a recent Finance Committee briefing in the National Council of Provinces, Mathebula (now an executive director in the Treasury) pointed out that premiums are theoretically capped – under the Preferential Procurement Policy Framework Act (PPPFA) of 2000 – at 25% for contracts below R50m and at 11.1% for contracts above that. At the 11.1% level, the overall BEE premium, on state procurement contracts currently worth R1.2 trillion a year, would be R130bn.²¹

However, many smaller contracts are subject to the larger 25% premium. In addition, price inflation in practice is often much greater, with state entities paying:

- R40m for a school that should have cost R15m, as finance minister Pravin Gordhan lamented in 2009;²²
- R27 for a bottle of water available for R7, as ANC secretary general Gwede Mantashe noted in 2012;²³ and

- close on R935 000 for kneepads costing some R4 000, as former Eskom CEO André de Ruyter has pointed out.²⁴

In 2023 a report by the International Monetary Fund (IMF) indicated that more efficient state procurement could save South Africa ‘up to 20 percent of the cost of goods and services procured’, which it equated to ‘3 percent of GDP or 2.7 billion US dollars’.²⁵ But 20% of R1.2 trillion is R240bn, which is considerably more than \$2.7bn and adds to the confusion about the extent of the BEE premiums the government is paying.

Instead of seeking to make procurement more efficient, as both the IMF and Chief Justice Raymond Zondo have urged,²⁶ the government is greatly expanding BEE preferences. This is being done under the Public Procurement (PP) Bill of 2023, which will replace the PPPFA with its formal 25% and 11.1% limits on BEE premiums. The PP Bill has already been endorsed by the National Assembly and is likely soon to be approved by the National Council of Provinces.²⁷ Under the PP Bill, state procurement contracts are effectively to be reserved for a wide array of BEE beneficiaries, ranging from black South Africans in general to black women, black youth, black military veterans, and black people living in ‘particular geographical areas’.²⁸ Under these rules, corruption is sure to increase, along with costly BEE premiums.

No effective redress from BEE

Over the past 25 years, damaging and frequently shifting BEE rules have become major obstacles to investment, growth, and jobs. This has greatly harmed the great majority of poor black South Africans. By contrast, the benefits of BEE have gone solely to a small and often politically connected black elite. BEE has thus worsened inequality, which is now often greater within the black population than it is between whites and blacks. This largely explains why the country’s Gini co-efficient has risen from 59 in 1994 to 63 in 2022.²⁹

Some of the ANC’s most senior leaders have acknowledged that BEE helps the few and harms the many. In the run-up to the last general election in May 2019, public enterprises minister Pravin Gordhan said that both he and President Cyril Ramaphosa were agreed on the ‘urgent’ need for ‘a new model for BEE’: one that generates ‘more inclusive growth’ and benefits a broader group of black South Africans.³⁰

Gordhan has long recognised that BEE does not help the poor. Back in 2010, when he was finance minister in President Jacob Zuma’s first administration, he said: ‘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.’³¹

In 2012 the National Planning Commission echoed this concern, saying ‘empowerment [had] to be about more than changing the colour of a narrow elite’. In 2016 Mathews Phosa, a former ANC treasurer general, added that BEE had empowered ‘a handful of people’ at the expense of most South Africans.³²

In 2017 the South African Communist Party (SACP) warned that the ‘intra-African inequality’ which BEE had fostered was ‘the main contributor to South Africa’s extraordinarily high Gini coefficient’ of income inequality. Added 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 persisting mass unemployment.’³³

BEE and the Constitution

EE and BEE conflict with many clauses in the Constitution. The racial targets they impose cannot be met without the continued use of apartheid-era race classifications and the overt preferencing of black South Africans over their white, coloured, and Indian counterparts. Yet this is prima facie inconsistent with the Constitution’s founding value of ‘non-racialism’, as well as its express prohibition of unfair racial discrimination by both the state and private persons.³⁴

Also relevant is Section 195 of the Constitution, which recognises a need for ‘broad representivity’ in ‘public administration’. However, ‘broad’ representivity is different from the strict arithmetical quotas commonly imposed under EE and BEE rules. In addition, by confining the need for such representivity to ‘public administration’, the Constitution implicitly indicates that a similar level of representivity is not expected in the private sector.³⁵

The Constitution’s provisions on BEE preferential procurement are likewise confined to state entities and so do not apply to business. In addition, state entities have a choice as to whether to apply BEE preferences or not. Sub-section 217(1) states that all public procurement must be ‘fair, equitable, transparent, competitive, and cost effective’, while sub-section 217(2) adds that this requirement ‘does not prevent’ state entities from applying the limited preferences currently set out in the PPPFA. Since the latter clause is permissive, rather than mandatory, state entities are not obliged to pay BEE premiums on their procurement contracts. Where they choose to do so, they must nevertheless ensure that their procurement is still ‘fair’, ‘competitive’, and ‘cost-effective’.³⁶

Many commentators have long assumed that BEE is implicitly authorised by Section 9(2) of the Constitution, which allows the taking of ‘legislative...measures designed to...advance [those] disadvantaged by unfair discrimination’ and ‘promote the achievement of equality’. However, as the Constitutional Court ruled in the *Van Heerden* case in 2004, race-based remedial measures are valid only if they satisfy three tests: they must (1) target the disadvantaged, (2) help advance them, and (3) promote equality.³⁷

The Constitutional Court has never properly applied these tests in adjudicating on BEE. Were it to do so, however, BEE rules would fail on all three grounds. First, BEE does not target the disadvantaged, for it helps only a relative elite (the most advantaged 15% within the black population) and not the great majority of poor black people. Second, BEE has failed to ‘advance’ the black majority, which has instead been greatly harmed by it in all the ways earlier outlined.

Third, BEE has failed to ‘achieve equality’, for it enriches the few even as it keeps the great majority of black South Africans unskilled, unemployed, and mired in destitution.³⁸ As earlier noted, this also explains why the Gini coefficient of income inequality is higher now (at 63 in 2022) than it was at the end of the apartheid era, when it stood at 57.³⁹

From BEE to EED

Given the many failures and evident unconstitutionality of BEE, South Africa urgently needs an alternative empowerment policy. What is required is a race-neutral approach that reaches right down to the grassroots and is effective in helping millions of poor South Africans to get ahead.

In 2019 Professor William Gumede of Wits University affirmed the need for a different approach to empowerment, saying ‘the current BEE model, which enriches a few politically connected political capitalists, should immediately be abolished’. He recommended that ‘rich blacks should be treated the same way as rich whites: as advantaged’. BEE interventions should thus be based on socio-economic disadvantage, ‘rather than colour’, as ‘blacks would automatically be the largest beneficiaries’ in any event.⁴⁰

The IRR has for many years been developing an alternative to BEE, which it calls Economic Empowerment for the Disadvantaged or EED. An EED strategy would have three core features: a non-racial focus in keeping with the Constitution; a scorecard that recognises and rewards key business contributions to growth, employment, and upward mobility; and a tax-funded voucher element that empowers the poor and helps them meet their core needs for sound education, housing, and healthcare.

A non-racial focus in keeping with the Constitution

EED, like the social grants system it is intended to complement, would rely on a means test to determine disadvantage and stop using race as a proxy for this. EED would thus extend to poor whites, but this group is so small – only 1% of those living in poverty⁴¹ – that the benefits of EED would still go overwhelmingly to black South Africans.

At the same time, EED’s non-racial approach would resonate with the Constitution’s founding values, while bringing an end to odious race classification and unlawful racial preferencing.

A scorecard that rewards vital business contributions

The BEE scorecards developed under the BEE Act and its accompanying codes of good practice overlook all that the private sector contributes to investment, employment, and tax revenues, among other things. Yet these are the most valuable contributions that business can make to growth and upward mobility – making it all the more surprising that the current BEE scorecard ignores them all.

A few statistics provide some insight into the extent of business contributions. Fixed capital investment averaged some R490.5bn a year (in constant 2015 prices) from 2017 to 2021, of which business contributed some 70% or by far the lion’s share. Moreover, whereas fixed capital investment by the government and SOEs decreased sharply over those five years, fixed investment by the private sector declined by much less, despite the Covid-19 lockdown and worsening electricity black-outs.⁴²

In 2023 the private sector provided employment to some 13.5 million people.⁴³ Private sector jobs far outstripped those provided by the government, with Ramaphosa acknowledging that ‘at least 75%’ of the people employed in South Africa work in the private sector.⁴⁴

In 2017, according to Statistics South Africa, the private sector paid out some R1.54 trillion in salaries to employees. This high figure is also an under-estimate, as the statistical analysis cited here leaves out agriculture, financial intermediation, insurance, private educational institutions, and various other businesses.⁴⁵

Business also contributes significantly to tax revenues. In the 2020/21 financial year, for instance, the private sector paid some R204bn in corporate income tax, plus R25bn in dividend withholding tax. It also made major contributions to total VAT receipts of close on R330bn, as well as the amounts collected via the fuel levy (R75bn) and customs and excise duties (R80bn).⁴⁶ Private sector jobs also underpinned roughly 80% of the personal income tax (about R488bn) collected that year.⁴⁷

The private sector's annual contributions to GDP are particularly notable too. In 2023, for instance, GDP amounted to R4 627bn (at constant 2015 prices). Of this, the government and state utilities contributed some 25%, but the great bulk of the remaining gross value added came from the private sector.⁴⁸

These important contributions need to be acknowledged and rewarded, not ignored. Under a revised EED scorecard, businesses would thus earn EED points for:

- maintaining and expanding production and/or sales;
- sustaining and increasing operating profits;
- retaining and expanding jobs;
- sustaining and increasing gross fixed capital formation;
- helping to attract inflows of foreign investment, both direct and indirect;
- contributing to tax revenues via their own tax payments and the taxes paid by their employees;
- helping to generate export earnings and domestic spending by foreign tourists;
- allocating resources to research and development (R&D) or otherwise contributing to innovation;
- providing skills training for all staff; and
- employing and promoting people on an expanded concept of merit, which takes account of how people have countered adversity.

The voucher element in EED

EED would also reach down to the grassroots by equipping the poor with the sound schooling, housing, and healthcare that they need to help them get ahead. Some R640bn has been budgeted for schooling, healthcare, and housing (along with related infrastructural development) in the 2024/25 financial year. This is a considerable amount.⁴⁹ However, the state's centralised and top-down delivery system is so mismanaged and inefficient that outcomes are generally extraordinarily poor.

As regards schooling, roughly 81% of South Africa's Grade 4 pupils cannot read for meaning in any language, while 61% of Grade 5 pupils are unable to add and subtract whole numbers.⁵⁰ Not surprisingly, thus, more than half of all pupils drop out of school or fail their final examinations.⁵¹

In the housing sphere, although millions of small and badly built ‘RDP’ homes have been provided at considerable cost, the housing backlog (at 2.3 million units) is bigger now than it was in 1994 (1.5 million).

In public healthcare, some 80% of state hospitals and clinics are so poorly managed that they cannot comply with minimum healthcare standards, even on such basics as hygiene and the availability of medicines.⁵²

EED recognises that current budgets in these vital areas cannot easily be increased. The key need is rather to get far more bang for every buck. This can be done by redirecting much of the revenue now being badly spent by bureaucrats into tax-funded school, housing, and health vouchers for the poor. Low-income households empowered in this way would have real choices available to them. In addition, schools and other entities would have to compete for their custom, which would help keep prices down and push quality up.

School vouchers for the disadvantaged

Poor outcomes in most public schools

In 2023 the official National Senior Certificate (NSC) pass rate was 82.9%, but this figure conceals a high drop-out rate and many other shortcomings. The ‘real’ pass rate was far lower, as the roughly 573 000 pupils who passed their NSC exams in 2023 made up only 47% of the more than 1.2 million pupils who had enrolled in Grade 1 in 2012. Some 635 000 youngsters, more than half the original Grade 1 class, thus left school in 2023 or earlier without even a matric.⁵³

International assessments of the quality of South Africa’s education system are generally dismal. In 2021 the Progress in International Reading Literacy Study (PIRLS) found that 81% of Grade 4s in South Africa could not read for meaning in any language. It also found that the percentage of Grade 4 pupils who could not read at all had doubled from 13% in 2016 to 27% in 2021.⁵⁴ These outcomes placed the country last among 50 participating nations.⁵⁵

South African pupils also do badly on the Trends in International Mathematics and Science Study (TIMSS), for in 2017 some 60% of Grade 5 pupils were unable to add and subtract whole numbers. These outcomes are far worse than those obtained in much poorer countries.⁵⁶ Overall, says the Centre for Development and Enterprise, a Johannesburg-based civil society organisation, ‘the typical Grade 6 child in Kenya is around two to three years of learning ahead of a Grade 6 learner in the Eastern Cape’.⁵⁷

Many of the problems stem from the poor quality of teaching in public schools, where some 80% of teachers lack essential subject and pedagogical knowledge. In addition, teachers are often absent from schools and use only two thirds of their classroom time for teaching.⁵⁸ Discipline is also lax, while the large education bureaucracy is often incompetent.⁵⁹ Yet teachers and officials are seldom held to account, for the great majority belong to the South African Democratic Teachers’ Union (Sadtu), an important ANC ally. Sadtu has long protected its members by resisting external assessments for teachers and pupils, as well as attempts to link teacher pay to learner performance.⁶⁰

For many years, Sadtu also ran a ‘jobs-for-pals’ scheme under which it routinely sold principal and deputy principal posts in KwaZulu-Natal and other provinces for sums ranging from R30 000 to R45 000. These allegations (first reported in 2014 by Sunday newspaper *City Press*) were later confirmed by an official inquiry, which urged strong action to end these abuses.

But Sadtu has considerable power – it controls at least six of the nine provincial education departments – and little has been done. Instead, public outrage has petered out over time and Sadtu’s ‘capture’ of public schooling has largely been forgotten.⁶¹

Similar flaws in public schools in many other countries

Public schooling in many other countries is similarly flawed. In 2019 a research report by the Institute of Economic Affairs in the United Kingdom found that public schools in developing countries are commonly plagued by ‘teacher absenteeism, bureaucratic corruption, and a lack of accountability to parents’. Developed countries have better education infrastructure and less corruption, but they are also ‘marred by problems of bureaucracy and the influence of special interest groups, such as teachers’ unions’.⁶²

These problems have arisen, writes David Boaz, a former executive vice president of the Cato Institute in Washington DC, because public schooling has largely become a top-down state monopoly, which is ‘centrally directed and bureaucratically managed’ and ‘has little use for competition or market incentives’.⁶³ The contrast between a state monopoly and competitive private provision is stark, as Boaz notes:⁶⁴

In the private sector, firms must attract voluntary customers or they fail; and if they fail, investors lose their money, and managers and employees lose their jobs. The possibility of failure, therefore, is a powerful incentive to find out what customers want and to deliver it efficiently.

But in the government sector, failures are not punished, they are rewarded. If a government agency is set up to deal with a problem and the problem gets worse, the agency is rewarded with more money and more staff – because, after all, its task is now bigger.

In addition, in a state schooling system where officials have great power, the bureaucracy inevitably grows more quickly than the teaching staff and becomes ever more difficult to challenge.⁶⁵ Notes Boaz: ‘[This] massive bureaucracy diverts scarce resources from real educational activities, deprives principals and teachers of any opportunity for authority and independence, and creates an impenetrable bulwark against citizen efforts to change the school system.’⁶⁶

Schools become inflexible and increasingly set in their bureaucratic ways. Adds Boaz: ‘A successful principal doesn’t get a raise; an unsuccessful one doesn’t get fired. The public school system poorly serves almost everyone: students are denied access to a high-quality education; parents are treated as nuisances...; good teachers are loaded down with bureaucratic red tape and paperwork and denied the chance to be creative...; principals are told to carry out the instructions laid down by a centralized bureaucracy; and the whole country suffers because students leave school uneducated.’⁶⁷

The growth of low-cost private schools

Because the quality of public schooling is often inadequate – and especially so in developing countries – millions of poor parents have been voting with their children’s feet by taking their offspring out of free but dysfunctional state schools and sending them to low-cost private schools instead. These schools have become ubiquitous in India, sub-Saharan Africa and elsewhere, and are often located in the shantytowns and slums where the poorest people live.⁶⁸

Most of these schools focus strongly on affordability, taking care to keep their fees at levels which the destitute – even those living in extreme poverty on US\$1.25 a day – can manage to pay.⁶⁹

Despite their limited resources, low-cost private schools generally notch up significantly better academic results than public ones.⁷⁰ This is largely because classes are smaller, teachers work harder, and principals have the power to hire and fire. Private schools offer many other benefits too, including effective discipline and an emphasis on hard work, honesty, and self-reliance.⁷¹

Some of these private schools are ‘non-profit’ ones run by non-governmental organisations or religious institutions. However, the great majority are ‘for-profit’ entities, which are owned and managed by ‘edupreneurs’ seeking to meet a vital need and make a living for themselves.⁷² Most of these schools succeed in generating small profits, which are often ploughed back into improvements. This makes them self-sustaining and frees them from having to obtain external grants or donations to survive.⁷³

James Tooley, vice chancellor of the University of Buckingham in the United Kingdom (UK),⁷⁴ has comprehensively investigated the growth of low-cost private schooling in 22 countries across four continents.⁷⁵ In his most recent book, *Really Good Schools*, published in 2021, Tooley notes that India alone has some 450 000 low-cost private schools teaching about 92 million children, most of whom (some 60 million) are in urban areas.⁷⁶

Low-cost private schools are also found in Pakistan, Indonesia, and the Philippines, as well as in Brazil, Chile, Guatemala, Honduras, and Peru.⁷⁷ In Sub-Saharan Africa, which is less well researched, various studies put the number of children attending low-cost private schools at 74 million.⁷⁸ Low-cost private schools are particularly common in Lagos (Nigeria), Nairobi (Kenya), Accra (Ghana), and Kampala (Uganda), where some 84% of children in poor areas are enrolled at private schools.⁷⁹ Even in conflict-ridden Liberia, Sierra Leone, and South Sudan, Tooley found that, ‘low-cost private schools were serving the majority of poor children, who outperformed those in public schools’.⁸⁰ (In the Liberian capital of Monrovia, for instance, Tooley’s researchers found 430 low-cost private schools located in seven slum areas and accommodating more than 100 000 pupils.)⁸¹

Low-cost private schools have also been expanding in South Africa. In 2022, according to official statistics, the country had some 2 280 private or ‘independent’ schools attended by some 735 000 pupils.⁸² Since 2000, the number of private schools has increased by 135% while the number of pupils attending them has risen by 185%.⁸³

Many of these private schools charge middling or low fees. Some were started more than 20 years ago, as the Centre for Development and Enterprise reports, by ‘innovative black entrepreneurs’ in areas where half the population live in poverty.⁸⁴ Some belong to chains, including the Basa Educational Institute Trust, a black-owned school chain established in 1992.



Basa currently charges around R2 200 a month at its three schools, which are located in the Diepsloot shack settlement north of Johannesburg, the Protea Glen township in Soweto, and the Johannesburg inner city.⁸⁵

Other South African private school chains include Spark – which has monthly fees of R2 830 in 2024⁸⁶ – and Curro, which charges between R4 000 and R6 000 a month.⁸⁷ Also relevant is AdvTech, with its Crawford College campuses and its cheaper Pinnacle College brand, where fees average around R8 400 a month.⁸⁸

Though private schools have grown strongly since 2000, their pupil numbers are only a small fraction (roughly 6%) of the 12.7 million learners attending South Africa's 22 600 public schools.⁸⁹ However, since some 80% of these public schools are dysfunctional, many parents would prefer to send their children to private schools with better teaching, discipline, safety, and academic results. Yet even low-cost private schools are beyond the means of millions of unemployed and poor parents. By contrast, if tax-funded schooling vouchers were to be provided to low-income families, as part of the shift from BEE to EED, then private schooling would become affordable to them as well.

School vouchers for choice and competition

The voucher idea is a simple one. Instead of funding public schools directly – and maintaining that funding irrespective of how poorly those schools perform – the government works out the per capita amount for all children in low-income families and allocates this amount to each child's parents. As Tooley writes: 'Parents choose a school for their child, and the funding goes with the child to the school of their choice.' Schools use this funding to pay their operating costs, including teacher salaries.

'In the competitive market for schools that results, popular schools attract more children... Importantly, schools become accountable to parents',⁹⁰ who can withdraw their children and their vouchers if they are dissatisfied with the performance of their chosen schools. The introduction of vouchers thus 'spurs competition and innovation in schooling, leading to great improvements'.⁹¹

Parents armed with vouchers would not be confined to private schools and would have many options available to them. Some might choose fee-paying state schools (mainly former Model-C ones) that at present perform well. Some might decide to send their children to private schools run for profit. Others might prefer private schools run by non-profit organisations or religious institutions. Since most would want to avoid persistently bad state schools, these would effectively be abandoned and forced to shut down. Their buildings could then be auctioned to Basa, Curro, Spark, or other organisations, which would refurbish and re-open them. However, currently dysfunctional state schools would want to avoid this outcome, so teachers and principals would put great effort into improving their performance.⁹²

In the words of the late John Kane-Berman, a former IRR CEO and policy fellow: ‘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, [private] 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.’⁹³

Vouchers have a long history, for one of the first voucher schemes was introduced in the Netherlands in 1917, more than a century ago.⁹⁴ In Denmark vouchers and school choice go back all the way to 1849, when the government made basic education compulsory but also guaranteed parents a choice between public and private schools.⁹⁵ The Czech Republic introduced vouchers for private schools after the disbandment of the Soviet Union in 1991.⁹⁶ Vouchers are also available in Sweden,⁹⁷ Estonia,⁹⁸ Chile,⁹⁹ Colombia,¹⁰⁰ Bangladesh,¹⁰¹ Guatemala¹⁰² and the state of Punjab in Pakistan.¹⁰³

Pakistan is known for the Learning and Educational Achievement in Punjab Schools (LEAP) programme, which tested 12 000 children in public and private primary schools in 112 villages in Punjab. In the six years of the LEAP study, the number of (registered) private schools in the state grew by nearly 50 percent, from 32 000 to 47 000. As Tooley records, ‘the research showed that children in the private schools performed significantly better than those in the public schools, even when they came from the same rural village. Children in the private schools were between 1½ and 2½ years ahead of their public-school counterparts’¹⁰⁴

India has the largest school voucher system in the world. This was introduced under the Right to Free and Compulsory Education Act of 2009, which requires all private primary schools to set aside a quarter of their places for disadvantaged students: identified as those belonging to a lower caste or falling below a specified poverty line. Schools are prohibited from opting out of the programme and from charging any additional fees. For each voucher student, the government pays schools their tuition fees up to a voucher cap equal to the per-child cost in public schools.¹⁰⁵ This programme has helped expand enrolments in private schools, improve grade point averages, shorten distances travelled, and reduce spending on education for poor families.¹⁰⁶

Voucher and other school-choice programmes have also grown in the US, especially since the Covid-19 lockdown began in 2020. By 2022/23, school choice – based either on vouchers or a variety of educational scholarships and tax credits – had been introduced in 32 states, as well as Washington DC and Puerto Rico. According to US non-profit foundation Ed-Choice’s 2023 report on *The ABCs of School Choice in America*, 23 of these 32 states were using school vouchers, sometimes in addition to other payment mechanisms. Voucher-providing states ranged from Arkansas, Florida, and Indiana to Louisiana, North Carolina, Ohio, Oklahoma, Milwaukee, and Wisconsin.¹⁰⁷ In Florida, for example, the state’s Family Empowerment Scholarship Voucher system reached some 83 700 pupils in low-income families, making it possible for them to attend close on 2 000 participating schools. Vouchers had an average value of some \$7 600 a year in 2021/22, which was roughly 74% of the state’s average per capita spend at public schools.¹⁰⁸

Vouchers have proved particularly popular among black American families, who have used them to remove their children from bad inner-city schools and enrol them in better-quality suburban ones. Black pupils with vouchers have benefited significantly, achieving better educational outcomes than pupils without them, as several studies have shown. Vouchers have also helped reduce racial segregation by empowering black pupils from mainly black neighbourhoods to attend the predominantly white suburban schools of their choice.¹⁰⁹

Ideological opposition to vouchers and private schools

Opposition to vouchers and private schooling has nevertheless grown strongly over the past 20 years. This is primarily because many governments, teacher unions, and many other civil society organisations are ideologically hostile to private schooling and want to terminate it rather than extend it.

In India, says Tooley, government opposition to low-cost private schools underpins the coercive elements in the Right to Free and Compulsory Education Act of 2009. As earlier noted, this statute compels all private primary schools to participate in its voucher scheme and imposes compulsory fee caps on them as well.

These restrictions have led to the closure of thousands of private schools in Andhra Pradesh and other parts of India. According to Tooley, this was the cynical intention behind the Act, at least for some of its architects, who told him that the statute was ‘specifically designed in places to get rid of low-cost private schools’.¹¹⁰

A similar hostility to independent education is evident in South Africa, where Sadtu has been pushing for some time for an end to private schools. Said Sadtu general secretary Mugwena Maluleke in 2015: ‘[We need] legislation [which] must be very clear that education cannot be sold. It’s not a commodity’. In allowing private schools, the state was ‘abdicating its responsibility and handing it over to business’, he went on. ‘We’re going to stop that.’¹¹¹

However, given the dysfunctionality of many public schools, there is good reason to retain the private option and extend it to poor parents too. Families averse to profit-seeking schools would in any event be free to send their children to public or non-profit institutions instead.

Several other objections to private schools and the voucher idea have also been raised. Some critics allege that private schools have the same academic results as public ones, but dupe poor parents into believing that they offer better outcomes. In 2009, however, this claim was contradicted by a comprehensive meta study compiled by the Cato Institute.

According to this study, ‘findings of a private-schooling advantage outnumbered findings of public-schooling advantage by a ratio of roughly 8 to 1’. Moreover, when the comparison was narrowed down to private schools with maximum autonomy and the strongest competitive potential – because they were minimally regulated by the state and were at least partially funded by parents directly – the private sector’s outperformance was still more stark. In this situation, ‘there were 59 statistically significant findings of market-like education systems outperforming government monopoly schooling,... for a ratio of nearly 15 to 1 in favor of free education markets’.¹¹²

Ideological hostility to private schools has nevertheless continued, along with further academic studies disputing the quality of their academic performance. In 2015, for instance, the prestigious *Quarterly Journal of Economics* published an article reviewing the impact of a voucher experiment in India: the Andhra Pradesh School Choice Project. This study claimed to have used a randomised controlled trial (RCT), widely regarded as the ‘gold standard’ of comparison. It also found that academic scores were the same in both the public and the private schools assessed, thereby ‘putting the nail in the coffin’ of private schooling (as some commentators stated).¹¹³

However, a couple of years later it emerged that the researchers had in fact treated the ‘control’ and ‘treatment’ groups differently by using two different tests for mathematics, science, and social science: one in English, the other in Telugu. Moreover, when this distorting factor was removed, private school outcomes were undoubtedly better.¹¹⁴ (In 2021 the Andhra Pradesh study was included – without reference to its major flaw – in a meta-analysis of 21 studies covering 11 different voucher programmes. This analysis found ‘moderate evidence of positive achievement impacts’ from these voucher programmes, with considerable variation among those assessed.)¹¹⁵

Another common complaint is that tax-funded vouchers bring about ‘an enormous transfer of value from taxpayers to businesses, at the educational expense of students’. But private schools offer better education than dysfunctional public ones, so pupils are not short-changed.

If the real complaint is that tax monies end up in private hands, then (as Kane-Berman has noted) ‘South Africa should abolish its social grants system [too], because these grants – worth some R266 billion in the 2024/25 financial year¹¹⁶ – all end up in the tills of supermarkets, spaza shops, and other retailers. The businesses profit, but only if they provide goods that the recipients of grants want to buy’.¹¹⁷

Another common objection is that middle class parents are sure to capture most of the benefits of a voucher system, using it to save themselves the costs of private schooling they can in fact afford. However, this risk can be avoided, as the EED proposal does, by confining vouchers to low-income families. A further criticism is that the best-performing students will soon desert public schools, leaving them even worse off than before. But this makes no sense when all low-income parents have the benefit of vouchers – and can use these to rescue their children from failing schools.¹¹⁸

Yet another accusation is that the best-performing schools will soon be over-subscribed, making vouchers valueless for millions of disappointed parents. This, however, overlooks the power of the market mechanism. Edupreneurs will soon identify where demand remains unmet and move to establish more schools in these areas.¹¹⁹

Other commentators object that vouchers will increase the schooling budget and are unaffordable at current levels of public debt. However, this argument is also flawed. On the contrary, much of the revenue currently being wasted on largely dysfunctional public schooling (R300bn in the 2024/25 financial year) can instead be redirected to low-income families by providing them with vouchers worth some R21 000 per pupil.¹²⁰

How school vouchers would work

The vouchers made available to families would be redeemable solely for schooling. They could be distributed to parents in the form of smart cards and by means of national retail chains, filling stations, or cell phone outlets, among other things.¹²¹ Unlike the bureaucrats, teachers, and principals often indifferent to the quality of the public schooling now on offer, parents would value their vouchers and want to use them to the best possible benefit of their children.

At present, only middle-class and more affluent parents can choose what schools their children are to attend. Most low-income families have no option but to send their children to dysfunctional state schools incapable of imparting basic literacy and numeracy, let alone giving pupils valuable vocational skills or a sound grounding in science, technology, economics, and mathematics.

Over close on 30 years, the government has repeatedly promised to implement major educational reforms – but little has been achieved. Instead, persistent failures continue to be masked by high drop-out rates and the declining standards of the National Senior Certificate examination. 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. Few other interventions could have so rapid and positive an impact on the quality of schooling in South Africa – or be so effective in empowering the poor.

Housing vouchers

‘Free’ RDP houses for the poor

In 1994 the housing backlog stood at 1.5 million units, prompting the new ANC government to promise the delivery of a million ‘free’ houses within five years.¹²² By 2022, according to official figures, the government had provided very much more: some 3.4 million houses and flats, along with close on 1.3 million serviced sites.¹²³ This should have been more than enough to meet the housing needs of all low-income South Africans – and yet the housing backlog, at 2.3 million units in 2022,¹²⁴ was far larger than it had been in 1994. In addition, the number of informal settlements had increased from 300 in 1994 to more than 3 200 in 2022.¹²⁵

Given the scale of the housing need in 1994, the government’s initial focus was on ‘breadth’ (helping as many people as possible) rather than ‘depth’ (providing better houses to fewer people). Poor families with a monthly income below R3 500 were thus to be provided with secure tenure, a serviced site, and a small ‘starter’ home which they could extend and improve over time.

However, provincial housing departments soon rejected this approach and began pushing for the government to deliver more substantial houses. In addition, most recipients of the ‘RDP’ (Reconstruction and Development Programme) houses the private sector had been mandated to build were deeply dissatisfied with them. This was not surprising, as RDP homes were then financed via a state subsidy of R12 500 per household, which had to cover land and services as well as a top structure. In addition, RDP houses – at some 25sqm on average – were far smaller than the four-room dwellings the National Party government had earlier provided in many townships. RDP homes were thus often derided as ‘dog kennels’.¹²⁶

The national government's solution was to transfer responsibility for managing and implementing housing projects from the private sector to the state. Under the National Housing Act of 1997, provincial administrations took on the task of approving projects, allocating the necessary revenue and other resources, contracting with construction firms, overseeing housing projects, and administering the subsidy system.¹²⁷

In choosing construction firms, the government commonly sought to give preference to BEE contractors – but this soon brought many problems. Wrote journalist Jovial Rantao in 2007: ‘Government...is spending billions of rands on a two-pronged mission: to deliver much needed services and, in the process, empower black business. However, it is clear that government is not getting value for money... Granted, not all black businesses produce shoddy and sub-standard work, but...the fingers of those living in houses on the verge of collapse are pointing at construction companies owned by black people. One would have thought that our black businesspeople, knowing first-hand what the suffering and needs of black people are, should, in the name of correcting the wrongs of apartheid, deliver the best service available. Instead, what these providers of inferior services do once they pocket the millions from the tenders is to buy the biggest and flashiest 4x4 by far, move into a bigger and better house, and then spend what is left on the delivery of the service they are contracted to perform.’¹²⁸

Criticisms of this kind brought little improvement, prompting Frank Chikane, a former director-general in the presidency, to comment in 2010: ‘The government wanted to help the poor to get a roof over their heads because these people did not have money... But [some contractors] just used their blackness and political influence to get contracts which they could not execute. The worst were prepared to bribe their way through. Many houses were built. Some were of good quality, but many were falling apart. Some had cracks. Others were leaking... Some, like in Orange Farm, [an informal settlement] outside Johannesburg, were built on a flood plain... In some houses [there], water dammed up so much that holes had to be opened to let the water flow through... The worst cases were houses reported as built and paid for when they did not exist. The [contractors] had just stolen the money.’¹²⁹

BEE abuses added to other frustrations. People living in informal settlements were generally moved out of their shacks to new ‘greenfield’ sites on the peripheries of cities and towns, where land was cheaper but jobs were few and transport costs were high. In addition, the RDP houses provided were tiny, often shoddily built, and had a uniform design that beneficiaries were powerless to influence. People often said that they could build bigger and better houses for themselves if the housing subsidy was given directly to them, rather than the state's building contractors.¹³⁰

The Breaking New Ground housing policy

In time, persistent dissatisfaction prompted the adoption in 2004 of a revised housing policy called Breaking New Ground (BNG). BNG houses were bigger (at 40sqm), divided into four separate rooms, and funded by bigger, inflation-linked subsidies. They were supposed to be built on well-located land and accompanied by facilities such as schools, clinics, community halls, and informal training facilities. In a significant departure from previous housing policy, the BNG document also promised to upgrade informal settlements through a phased, *in situ* (Latin for on-site), approach.¹³¹

In practice, however, the *in situ* upgrading of shack settlements proved difficult to achieve. Provinces preferred to focus on providing formal BNG houses, as this brought them more political kudos and greater BEE patronage gains. At the same time, municipalities were often reluctant to extend water and sanitation services to informal settlements where costs would inevitably be difficult to recover. In addition, *in situ* upgrading was always technically challenging and was often accompanied by prolonged intra-community conflict over the location of roads, schools, clinics, and other services.¹³²

By 2014 individual subsidies for BNG houses had risen to some R160 500 for the top structure alone, without land or title.¹³³ By then, the government had spent a total of some R125bn (in 2010 prices) on housing delivery over two decades, but dissatisfaction over housing quality remained high. In addition, the housing backlog was already much bigger (at 2.1 million units) than it had been in 1994, while the pace of provision had sharply slowed.

In the 1998/99 financial year housing delivery had reached a peak of 235 000 units, but by 2013/14 it was down to 106 000 units.¹³⁴ An exodus of engineering and other skills under the Employment Equity Act played a major part in this decline, for municipal and other approvals now often took some three years to secure. In addition, the shift from ‘land to stand’ – via rezoning, permitting, and infrastructure provision – could take up to ten years to achieve.¹³⁵

Slower delivery was, of course, a factor in the rising housing backlog. However, the main reason for it lay rather in the content of government policy. This encouraged households to break themselves up into smaller units in the expectation that each new unit would become entitled to a ‘free’ house from the state. This ‘entitlement syndrome’, as housing officials called it, made it impossible for the government to overcome the housing backlog.¹³⁶

In addition, despite the introduction in 2012 of the Finance-Linked Individual Subsidy Programme (FLISP), as further outlined below,¹³⁷ South Africa was still largely ignoring housing lessons from elsewhere. By the end of the 1960s, various developing countries had realised that housing delivery by the state was generally sub-standard and ineffective in meeting people’s needs. It was also often plagued by corruption, both in construction contracts and in the allocation of new houses.¹³⁸

A shift to housing vouchers in many countries

In the 1970s several developing countries began moving away from the state delivery model. Their revised objective was rather to provide tax-funded housing vouchers or subsidies directly to poor families, to enable them to build, buy, improve, or rent the homes of their choice. Chile was the first to adopt this approach – initially with a focus solely on new housing – and soon became its primary exemplar.¹³⁹

Similar policies have since been adopted by Brazil, Colombia, Costa Rica, Ecuador, India, Mexico, and Panama. Sometimes, as in Chile, the state requires poor families to use their own savings to supplement tax-funded subsidies. However, not all countries insist on this. Instead, most countries encourage families to supplement state subsidies via mortgage and other loans, as Chile does too.¹⁴⁰

When Chile introduced its housing subsidy system in 1977, its objective was not only to increase effective demand for housing but also to encourage savings and an element of self-reliance. As housing expert Alan Gilbert of University College London has explained, the aim was to assist families ‘who were both poor and prepared to help themselves. The test of the latter was their willingness to accumulate savings; the longer their savings record and the greater their savings, the more likely they were to get a subsidy’. Another important goal was to ‘mak[e] the rules for allocating subsidies transparent, [so that] opportunities for corruption and political favouritism would be reduced.’¹⁴¹

Chile’s housing voucher programme has notched up significant successes in reducing the proportion of households with no or sub-standard housing. Despite the global financial crisis in 2007 and 2008, the proportion of households lacking adequate housing fell from 23% in 1992 to 10% in 2011¹⁴² and has since continued to decline.¹⁴³

Housing subsidies in Chile have evolved considerably over time. Whereas subsidies were initially confined to the building of new homes – which contributed to urban sprawl as land for new developments was cheapest on the outskirts of towns and cities – they can also now be used to buy existing houses or to improve the homes that families already own. Rent-to-buy subsidies are available too for buyers who put down partial deposits and then pay off outstanding balances (partly in the form of rent) until they can afford to complete their purchases.¹⁴⁴

Recently, Chile has also introduced rental vouchers for young people with growing families, who may not want to buy until their housing needs are more certain.¹⁴⁵ These vouchers are payable for five years only. They provide a fixed monthly amount, which is slightly reduced after three years to encourage recipients to consider shifting to home ownership instead.¹⁴⁶

Rental vouchers are also available in the US, via the tax-funded Housing Choice Voucher scheme introduced in 1974.¹⁴⁷ In 2022 these vouchers went to some 2.3 million low-income families in many different states.¹⁴⁸ Though these vouchers were initially intended to cover home rentals only, they can now also be used to help buy houses.¹⁴⁹

This voucher system has been described as ‘a proven solution’, which has ‘reduced homelessness, housing instability and overcrowding’ in the US. Because the vouchers cover a substantial portion of rental or mortgage spending, they allow families to allocate more of their income to health and other needs. They have also empowered many households to move to higher-income neighbourhoods with better schools and less crime, which in turn has helped improve college attendance and earnings potential.¹⁵⁰

International experience of this kind, coupled with the obvious failures of housing policy, have recently prompted several changes to the South African government’s approach. The emphasis has shifted – though only to a limited extent – from the state’s delivery of new BNG homes to a wide range of housing subsidies.

Revised housing subsidies in South Africa

Individual subsidies – which were long confined to the building of new RDP or BNG houses – may now be used to buy an existing house, finish an incomplete one, or buy a new home on a plot-and-plan basis. The value of these subsidies has risen further to some R200 000,¹⁵¹ but these subsidies remain confined to households with monthly incomes below R3 500. This income ceiling has stayed the same since 1994, despite the impact of inflation over the past 30 years.¹⁵²

New housing delivery by the state nevertheless remains a key focus, with 129 663 subsidised houses currently to be provided by the national department, in collaboration with provinces and municipalities, according to the 2024 *Budget Review*.¹⁵³ Yet actual delivery is at low levels, for only 28 350 BNG houses¹⁵⁴ were completed in 2021/22, while 38 360 were delivered in 2022/23.¹⁵⁵ At this last delivery rate, it will take 60 years for the state to provide new houses for the 2.3 million households already on the national waiting list – let alone start meeting future needs.¹⁵⁶

Households with monthly incomes of between R3 501 and R22 000 cannot obtain individual subsidies, but are eligible for FLISP ones instead. Under FLISP, qualifying families may obtain subsidies ranging (on a sliding scale) from some R169 300 for those with monthly incomes of R3 501 down to some R39 000 for those with R22 000 a month.¹⁵⁷ FLISP subsidies may be used to buy an existing house or flat, build a new house on a serviced site, or buy a serviced site on which a house can in time be built. If the FLISP subsidy is too small to cover the agreed price, families may add top-up funding either from their own savings or by obtaining mortgage or other loans. (Pension-backed loans or loans from stokvels or employers may now also be used.)¹⁵⁸

Since FLISP began in 2012, the number of subsidies granted has remained small. In the first four years, a mere 6 300 FLISP subsidies were approved, at roughly 1 575 a year.¹⁵⁹ Though the pace picked up slightly thereafter, only 3 160 of these subsidies (1 580 a year) were made available in 2020 and 2021. Moreover, most of those granted were in the Western Cape, where the Democratic Alliance (DA) controls the provincial administration.¹⁶⁰

According to the national department of human settlements, the five-year target for FLISP subsidies is now 12 766 (roughly 2 500 a year).¹⁶¹ These are small numbers, especially when compared to the overall scale of need.

The two main subsidies available – the individual subsidy and the FLISP one – continue to create perverse incentives. As Helen Zille (then premier of the Western Cape and now DA federal chairperson) pointed out in 2015: ‘To qualify for a free house, you have to be indigent, have dependants, and own no other property... [T]he 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!’¹⁶²

In addition, people who have been on the housing waiting list for decades frequently find, when they 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?’¹⁶³ People also find it hard to understand why families with monthly incomes of R3 501 are eligible only for FLISP subsidies, which are worth significantly less: a maximum of R169 300, as opposed to R200 000.¹⁶⁴

The upgrading of informal settlements continues, as proposed in the BNG policy in 2004. By 2022, some 1.28 million serviced sites had been provided¹⁶⁵ – but this total is too small to meet the scale of need. In addition, annual progress is often slow, with only 42 000 serviced sites provided in 2021/22, for example.¹⁶⁶ The number of informal settlements has thus increased sharply from the 300 evident in 1994 to the 2 700 reported in 2019¹⁶⁷ and the 3 200 recorded in 2023.¹⁶⁸ (The number of informal settlements might in fact be higher still, at some 4 300, as the *Mail & Guardian* reported in October 2023.)¹⁶⁹ Informal settlements are continuing to ‘mushroom’, notes a December 2023 housing white paper, while almost 5 million people now live in them.¹⁷⁰

Since current housing policy remains ineffective, a further paradigm shift is needed if the housing shortfall is to be reduced and, in time, overcome. The many different subsidies currently available all have to be administered and monitored by officials – which adds to the bureaucratic burden but has little positive impact on delivery. This plethora of programmes needs to be reconsidered.

In addition to the individual and FLISP subsidies earlier described, current subsidies and programmes include:¹⁷¹

- the Rural Subsidy: Communal Land Rights, which can be used to build homes on state-owned land administered by traditional authorities;
- the Consolidation Subsidy, which helps people build or upgrade top structures on serviced sites obtained before 1994;
- the Enhanced People’s Housing Process, which enables people to build or manage the construction of their homes with the help of support organisations;
- the Farm Residents Housing Assistance Programme, which aims to provide adequate houses for farm workers and other farm residents;
- the Integrated Residential Development Programme, which provides for the planning and development of holistic housing projects;
- the Informal Settlement Upgrading Programme, which facilitates the *in situ* upgrading and necessary relocation of informal settlements;
- the Social Housing Programme, which establishes and capacitates social housing institutions responsible for developing and administering affordable rental units;
- the Institutional Housing Subsidy, which supports institutions providing co-operative tenure, instalment sales, and other tenure arrangements alternative to immediate ownership; and
- the Enhanced Extended Discount Benefit Scheme, which ‘facilitates the transfer of public housing stock to qualifying occupants by using subsidisation up to the full prevailing individual housing subsidy amount.’¹⁷²

A single housing voucher instead

The state's inefficient housing delivery programme, along with its diverse array of subsidies, should be replaced by a single housing voucher, to be made available to all low-income individuals within a specified age band. This voucher should cover all key housing needs: from building new houses to purchasing, improving, or renting existing ones, refurbishing inner city apartments, converting single family homes into studio flats, erecting 'backyard' rental units in suburbs and townships, and upgrading shacks in informal settlements.

If urban sprawl is to be contained, the country needs to focus far more 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 thus shift to facilitating the development of housing of this kind, which the private sector should be responsible for building. Private firms will have incentives to construct such housing once millions of low-income families have housing vouchers at their disposal and effective demand is greatly increased.

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. Expropriation of privately-owned land for housing purposes – as urged in the December 2023 white paper¹⁷³ – should be avoided to safeguard property rights, attract investment, and help stimulate economic growth.

The government should streamline 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 and corruption in municipalities and provincial housing departments.

Title deeds must also be provided to all new and existing home-owners, including the roughly 9.5 million black South Africans who already own houses but often lack secure title to them.¹⁷⁴ To streamline and speed up this process, the skills and resources of the private sector and relevant civil society organisations must be brought in – again via an open and transparent tendering system. Increasingly, all South Africans will then enjoy the benefits not only of sound shelter but also of secure housing assets they can use as collateral or bequeath to their heirs.

The new single housing voucher would be redeemable solely for housing-related purchases and would go directly to all South Africans between the ages of 25 and 34 who fall below a specified earnings ceiling. This revolving-door approach is currently needed to contain costs. The proposed age cohort reflects the fact that people under the age of 25 are often unemployed and may be too young to take on housing responsibilities. By contrast, those aged 35 and over are more likely to have jobs and a greater capacity for self-reliance.

There are currently some 10.8 million South Africans within this age band,¹⁷⁵ many of whom would fall below the 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 counterbalanced by the number turning 35 and 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 R6 500 a month could devote some R2 000 of that to housing. Over ten years, this additional amount would boost their housing budget to close on R440 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 an estimated 10m beneficiaries would be R96bn a year. By comparison, the budget for housing and related infrastructure development (via the human settlements and urban settlements development grants) in 2024/25 is R71.5bn.¹⁷⁶ This amount would meet most of the housing voucher cost. The remaining R24.5bn could be found in part by reducing employee and administrative costs, as a single housing voucher would be far easier to implement. The further funds required could be marshalled by insisting on value-for-money in public procurement (as the Zondo commission has urged)¹⁷⁷ and so ending the inflated pricing and fraud that currently taints so many state tenders.

This simplified housing voucher system would greatly stimulate housing supply, as every individual who received a voucher would 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 system would motivate families to pool their vouchers and so 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.¹⁷⁸ Beneficiaries would also find it easier to gain mortgage finance and other loans, which would further encourage new housing developments.

Beneficiaries who already own their own 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 affordable 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 chose 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.

Most South Africans would also benefit from the advice centres that private developers, non-governmental organisations, and social housing institutions would be encouraged to establish. These centres would provide people with a variety of low-cost housing plans, as well as advice on a diverse range of building materials and housing choices. In addition, the centres would provide information on the housing voucher scheme and how best to ensure good building quality and manage mortgage or other debt.

With this simplified voucher system in place, millions more low-income families would be empowered to start meeting their own housing needs, instead of waiting endlessly on the state to administer its current complex range of programmes or supply them with a small and probably defective BNG home. Competition, innovation, individual initiative, and self-reliance would all expand. The enormous pent-up demand for housing would diminish, and a more normal housing market – backed by secure title to all new and existing homes – would in time develop.

Health vouchers

Problems in public healthcare

Since 1994, spending on public healthcare has gone up from R15.6bn to R266.8bn in 2024/25, an increase in nominal terms of some 1 550%.¹⁷⁹ Again, however, the country gets little bang for the taxpayer's extensive buck. Despite the best efforts of many dedicated health professionals working in the public sector, standards of care are often poor.

Misguided ANC policies are the main reason for the malaise. A rigid application of racial targets under the Employment Equity Act has seen many people appointed to senior positions in hospitals, clinics, and health departments without the necessary qualifications and experience. 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 the then health minister, Dr Aaron Motsoaledi, who 'promised to fix the management crisis in hospitals, including removing under-qualified and poorly performing CEOs'.¹⁸⁰ However, little has been done to implement this pledge.

Corruption in public healthcare is known to be widespread and costs the system an estimated R40bn a year. The health supply chain is particularly vulnerable to procurement fraud 'because of the large volume of goods and services transacted', as Ramaphosa has acknowledged.

According to the President, suppliers of health goods are often 'involved in false invoicing, collusion, and price fixing, especially on medicines', while other abuses include 'fraudulent orders,...bribery, and over-pricing'.¹⁸¹ Often, moreover, BEE procurement preferences have played a major part in this corruption.

A Health Sector Anti-Corruption Forum was established by the government in 2019, but proved unable to curb pervasive fraud in the R152bn spent on emergency supplies during the Covid-19 lockdown.¹⁸² In 2021 the Special Investigation Unit (SIU) said it had managed to investigate about 10% of these contracts. Some 60% of the agreements analysed were irregular, while roughly half the money spent had been lost to inflated pricing or a failure to deliver.¹⁸³

Compliance with basic healthcare norms is also poor. According to four successive reports by the Office of Health Standards Compliance (OHSC) – a state entity charged with measuring compliance with healthcare norms – some 80% of public clinics and hospitals do not comply with these important standards. Persistent failures are evident, even on such essentials as hygiene and the availability of medicines.¹⁸⁴ The OHSC attributes these bad outcomes to 'a lack of competence', coupled with poor 'leadership and management'.¹⁸⁵ In its 2018 report it said 'there was no evidence of oversight and/or accountability' at many of the facilities it assessed.¹⁸⁶

Limited access to private healthcare

By contrast, South Africa has a world-class system of private healthcare, to which some 30% of its population (now roughly 19 million people) have access through medical schemes, health insurance policies, and out-of-pocket payments.¹⁸⁷ In the 2022/23 financial year, spending on private healthcare amounted to about R270bn, of which some R233bn went to medical scheme contributions and the rest to out-of-pocket purchases and health insurance cover.¹⁸⁸

The number of people belonging to medical schemes has risen from 6.9 million in 1997 to 9 million in 2022. But the population has increased too, so medical scheme membership as a proportion of the total has fallen from 17% in 1997 to 15% in 2022.¹⁸⁹ Many more South Africans would be able to afford medical aids if economic growth was high, jobs were expanding, and medical schemes were less expensive. However, far from promoting positive changes of this kind, the government has pushed up the costs of medical scheme membership via its own regulations.

Since 1998 the state has insisted on open enrolment and community (rather than individual) risk rating. This makes it harder for medical schemes to attract the young and healthy and leaves them with large numbers of people who are older and more likely to fall ill. This in turn keeps pushing premiums up for everyone.¹⁹⁰

In addition, the government has insisted that all medical schemes must ‘pay in full’ for some 300 ‘prescribed minimum benefits’ (PMBs), irrespective of whether members want this cover or not. This also means that medical schemes cannot offer membership for less than R1 000 per person per month,¹⁹¹ which most people cannot afford.¹⁹²

In 2015 the Council for Medical Schemes responded to the affordability problem by approving low-cost options that would have excluded cover for PMBs and provided access to specified primary health services at a cost of about R180 per adult member per month.

The services covered would have included five consultations a year with a private general practitioner (GP) or other primary health provider, access to pre- and post-natal programmes, and the provision of chronic and acute medicines.¹⁹³

Low-cost options of this kind were supposed to become operative in January 2016.¹⁹⁴ However, the ANC blocked their introduction because it sees low-cost schemes as ‘a stumbling block on the path’ to its preferred National Health Insurance (NHI) proposal, as further outlined below.¹⁹⁵ Yet if low-cost options were allowed, some 15 million more people could join the medical schemes of their choice and the pressure on the public sector would be greatly reduced. (An even cheaper option, costing around R130 a month, was proposed by the Council for Medical Schemes in 2022, but this too has yet to be permitted.)¹⁹⁶

Alternatives to the National Health Insurance (NHI) proposal

The government claims that the only solution to the country’s ‘two-tier’ health system – its failing public system and its excellent but costly private one – lies in the introduction of the NHI. The NHI will put an end to all medical schemes and place all private providers and facilities under comprehensive state control. This will turn healthcare into a government monopoly, shorn of choice, competition, and any impetus to innovation.

The costs of the NHI bureaucracy are sure to be high, while the taxes to be levied to fund the new system are likely to be siphoned off to help pay the public service wage bill and bail out struggling SOEs. In addition, all NHI procurement will be made subject to BEE preferences,¹⁹⁷ which will greatly expand the scope for fraud and inflated pricing.¹⁹⁸

Since the NHI offers no solution to existing healthcare problems, what then is to be done? First, low-cost medical schemes must be permitted, not prohibited. In addition, the regulations pushing up the costs of medical scheme membership should be repealed so as to remove compulsory cover for PMBs and restore individual risk rating. Most people would then pay significantly lower premiums for medical scheme membership. They should also have the option of taking out health 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 pay large hospital bills and cope with costly outpatient treatments.

(Those who are elderly, disabled, or chronically ill when the new system takes effect would have to pay more, but these higher premiums could be funded in a variety of ways. Ultimately, the state might have to bear these costs – but this liability would be a diminishing one, as more and more people would join medical schemes while they were still young and healthy.)¹⁹⁹

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 are spent. Individuals should be able to carry forward any unspent monies from one year to the next, while they should also be able to access their accumulated HSA savings on a tax-free basis when they retire. This would encourage people to be prudent in their healthcare purchases.²⁰⁰

The comprehensive use of HSAs would encourage doctors and other healthcare 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 long encouraged providers to find cheaper and more efficient ways of meeting healthcare needs. As a result, people have a significant range of low-cost options available to them, from ‘walk-in’ clinics in shopping malls to on-line pharmaceutical purchases backed by home deliveries.²⁰¹

The mismanagement that currently bedevils public healthcare in South Africa must also be addressed. Efficiency and accountability must be restored by replacing BEE with EED, insisting on value-for-money procurement in all health contracts, and appointing people with the necessary skills and experience to run public hospitals, clinics, and health departments.²⁰²

This combination of reforms would meet the healthcare needs of most of those in formal employment, along with their dependants. But what of the millions of people who are jobless or disabled, or who earn too little to afford even low-cost medical schemes?

These individuals should be given tax-funded health vouchers – redeemable only for healthcare services – which would give them the same options as the better-off and allow them to use either private or public providers for their primary healthcare needs. Again, the availability of this choice would reduce the burden on the public sector, while giving it incentives to improve its performance.

Health vouchers in various countries

Tax-funded health vouchers have long been used by various developing countries to give the poor access to private healthcare. In 2006 the United States Agency for International Development (USAID) summed up the underlying rationale, saying:²⁰³

Health care policies in developing countries have traditionally focused on public financing and provision. The provision of healthcare in the public sector is largely financed through supply-side subsidies. Low-priced or officially free public healthcare was intended to ensure the entire population's access to care. However, there now is evidence that in many developing countries, people, including many poor, seek better-quality healthcare in the private sector and pay out of pocket. The extra financial burden this imposes on the poor results in unequal access to care and low utilization of needed services and products, such as reproductive health/family planning (RH/FP) services and products.

In response, policymakers are trying various demand-side approaches to financing healthcare, that is, subsidizing the consumer of healthcare directly. One approach is the use of vouchers. Vouchers are targeted at identified under-served groups (such as the poor), for specific services (such as RH/FP), and are usually for use in the private sector, as public care is supposed to be free or low cost.

While some countries have run voucher programs for education or for food supplementation for the poor for many years – the U.S. Food Stamp Program is one example – significant developing country interest in vouchers for health services is more recent, with programs taking place over the past decade or less. Many of these programs have been related to RH/FP services, such as provision of antenatal care, hospital delivery, and family planning counseling and products.

In 2008 another USAID document summed up the lessons from a pilot health voucher scheme implemented in the Agra District in Uttar Pradesh (India). This voucher scheme aimed to empower women below the poverty line to use Family Planning/Reproductive Child Health (FP/RCH) services provided by participating private doctors and other practitioners. The Agra Voucher Scheme was launched in January 2007 with the help of various non-governmental organisations and a new 'voucher management unit'.²⁰⁴

Initial assessment showed that 'many poor women benefited from the voucher scheme and used vouchers for FP/RCH services'. Field visits 'revealed innumerable stories of women who became motivated...to seek antenatal care, institutional deliveries, and post-natal care... These beneficiaries were extremely happy with the services provided by the private providers'. These providers also found it 'advantageous' to participate in the voucher scheme. This was evident from 'increases in the use and estimated revenues of the participating nursing homes, and requests from other nursing homes in Agra to be accredited to participate in the voucher scheme'.²⁰⁵

By 2013, health vouchers of a similar kind had been introduced in 12 countries, ranging from Armenia, Cambodia and Gujarat State in India to Nicaragua, Vietnam, and Yemen. In Africa, vouchers had been made available in Kenya, Uganda, and Tanzania.²⁰⁶ Most voucher programmes provided low-income women with access to ante- and post-natal care, as well as institutional deliveries. Most covered family planning as well, while some offered care to babies and young children too. In Kenya, the voucher programme also provided recovery services for gender-based violence, while in Uganda treatment for sexually-transmitted diseases was a focus from the start.²⁰⁷

In 2013 a London-based consultancy evaluated the voucher programmes in these 12 countries and reported that ‘vouchers had improved demand for services’. Added its report: ‘Voucher clients often reported that the voucher brought them status, and that they were better treated than they otherwise would be.’ Vouchers also incentivised private providers to improve the quality of their care. In Kenya, for example, participating private health facilities ‘chose to reinvest voucher revenue to repair and improve buildings, buy equipment, medicines, and supplies, improve 24/7 attendance, and improve transport options’. In addition, ‘vouchers provided a structure to include private providers in universal health coverage’. Their inclusion ‘increased the quantity or quality of the health services available and improved equity by breaking down a two-tier system of care’.²⁰⁸

The consultancy report acknowledged that vouchers tended to be dismissed as ‘a narrow policy tool’, available only for specified groups or stipulated services and largely irrelevant to the achievement of universal health coverage. However, vouchers could easily be extended to bigger groups and a wider package of health services. In Gujarat, for example, the Chiranjeevi Yohana scheme was targeted at the poor in general, while in the United States vouchers for migrant farm workers covered all types of services, up to a maximum value.²⁰⁹

Concluded the report: ‘Vouchers play a key role in furthering universal health coverage because they can be strategically deployed to address...a wide range of health services and target groups, in combination with any number of incentive payments (on the demand side) and performance-based financing approaches (on the supply side). We all know that achieving universal health coverage requires a combination of innovative solutions. Vouchers may be one of the most exciting and flexible ones of the lot.’²¹⁰

In 2016 a World Bank report on health vouchers in Uganda highlighted another advantage of ‘output-based aid (OBA)’ of this kind, saying: ‘OBA is a form of results-based financing, which links payments to verified delivery of specific health outputs or outcomes.’

Health-sector staff in traditional salaried positions may have little incentive to raise their productivity or be concerned with client perceptions of healthcare quality. OBA subsidies, however, create incentives to improve the efficiency of health services delivery and increase access to important health services for new users. Vouchers stimulate demand for healthcare services and give the poor the purchasing power to seek care from the full range of available service providers (SPs). Accreditation of several SPs should [also] stimulate competition for voucher clients and pressure to improve service delivery... Voucher programs [thus] have the potential to improve healthcare and health outcomes at the facility level and among the general population.²¹¹

In 2021 much the same message came again, this time from an external assessment of a health voucher (and micro health insurance) scheme introduced in Bangladesh. This scheme had been targeted at poor and extremely poor families living in urban slums and pavements, most of whom had been using ‘informal providers resulting in adverse health outcomes and financial hardship’. Detailed evaluation found that the voucher scheme had ‘enabled higher healthcare utilisation [and] lower out-of-pocket (OOP) payments among the enrollees, who were happy with their access to healthcare, particularly for maternal, neonatal, and child health services’. Beneficiaries were keen on gaining access to a wider benefits package in the future. In addition, though the costs of the voucher programme had been reasonable, there was potential for still greater ‘cost containment by purchasing health services...on a competitive basis from the market’. Hence, ‘scaling up similar schemes...would contribute to achieving universal health coverage’.²¹²

Health vouchers for South Africa as well

International experience confirms the benefits of tax-funded health vouchers in giving the poor access to private health services and so promoting competition, increasing efficiency, and stimulating innovation. In the countries studied, special ‘voucher management units’ have generally had to be established to manage the voucher system, which has added to running costs and administrative complexity. South Africa, by contrast, already has 18 ‘open’ medical schemes,²¹³ in which membership is available to the public and does not depend on employment with particular companies. These schemes, supplemented if necessary by new private entrants responding to a bigger market, would be more than capable of extending low-cost medical aid membership to millions of families empowered by tax-funded health vouchers.

How much would these tax-funded health vouchers cost? There are currently some 18 million households in South Africa, each with around three members on average.²¹⁴ Assuming that roughly half these households need health vouchers to meet annual costs of R10 000 per household, the overall sum required would be around R90bn. This could be funded in various ways.

First, current tax credits for medical scheme contributions could be scrapped, making some R36bn²¹⁵ available for health vouchers instead. Second, a shift to an open and competitive state tendering system, in place of BEE preferential procurement, would greatly reduce the revenue currently being lost to fraud and inflated pricing.²¹⁶

Third, once all South Africans had access to medical schemes and health insurance, most would be able to meet the bulk of their healthcare needs from the private sector, rather than the public health system. This would allow the Treasury to direct much of the revenue currently being allocated to public healthcare to health vouchers instead.

In addition, once public clinics and hospitals must compete with private ones for the custom of voucher-bearing patients, efficiency is sure to improve and costs will be better contained. South Africa could also follow Sweden’s example in privatising some or all of its key urban public hospitals. 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 an additional 100 000 patients a year, while using fewer resources.²¹⁷ Under a similar privatisation programme in South Africa, the proceeds of sales could be paid into various endowment funds administered by private firms. Interest earned could then also be used to fund health vouchers.

Other reforms aimed at stimulating competition, expanding the supply of health services, and encouraging individual prudence and self-reliance should also be introduced. Again, moreover, poor families empowered with health vouchers would at last have real choices available to them. This in itself would greatly help to hold prices down, push quality up, and give an impetus to innovation that no state monopoly in healthcare could ever match.

Conclusion: From BEE to EED for growth and prosperity

For the past 30 years, South Africa has been chasing down the wrong policy path on BEE. As Ramaphosa acknowledged back in 2019, there is an urgent need for a new empowerment model that promotes inclusive growth and is effective in helping the poor to get ahead.

EED offers the best way of achieving this new model. By rewarding business for its vital economic contributions, it would free the country from the BEE leg-iron, lift business confidence, encourage investment, promote entrepreneurship, increase the growth rate, and start overcoming the unemployment crisis.

At the same time, EED's focus on disadvantage rather than race would reduce racial polarisation and halt the capture of empowerment benefits by a relatively small black elite. It would also put an end to the toxic mix of BEE inefficiency, waste, and corruption that has greatly harmed millions of poor black South Africans dependent on the state for schools, houses, healthcare, electricity, water, sanitation, and other essential goods and services.

In addition, the voucher element in EED would offer a swift and effective solution to three particularly vital unmet needs. All South Africans – and especially the disadvantaged – require sound schooling to help them get ahead. They also need much better housing and good quality healthcare.

For 30 years, the government has promised these benefits while signally failing to deliver them. More than 6% of GDP is spent on education every year, but the schooling system remains one of the worst in the world. Roughly 1% of GDP regularly goes to housing delivery and related infrastructure provision,²¹⁸ but shack settlements have nevertheless mushroomed, from the 300 evident in 1994 to the 3 200 (or perhaps 4 300) reported in 2022. Annual allocations to public healthcare have long stood at some 4% of GDP, but only 20% of poorly managed public hospitals and clinics are able to comply with basic norms and standards.²¹⁹

EED could swiftly overcome these problems through tax-funded vouchers for schooling, housing, and healthcare. The voucher system would redirect much of the tax revenues now being badly spent – and often looted – by a vast and remote bureaucracy into the hands of disadvantaged South Africans. This would greatly increase their choices, encourage competition for their custom, and give them the capacity to hold both private and public providers to account.

This change in itself would greatly improve efficiency and contain costs. The EED system could also enhance delivery still further by giving business additional EED points for encouraging innovation or increasing capacity. In the schooling context, for example, business could earn extra EED points by helping to develop or distribute interactive on-line tutorials to help pupils test their knowledge and understand where their efforts have gone wrong. In the housing sphere, it could develop low-cost housing materials that would be readily available, easy to assemble, and environmentally sound. In terms of healthcare needs, the private sector could expand capacity by providing training vouchers for those wanting to qualify as nurses or other health professionals.

With three vital spheres opened up to competitive provision via the voucher system, improvements and innovations would rapidly expand. Business would earn EED points for all their contributions, while disadvantaged South Africans would benefit enormously.

Additional costs would be minimal, as tax revenues would generally be redirected to the voucher system, rather than increased. Public support for tax-funded vouchers is also already high. In September 2022, 93% of black respondents in an IRR opinion poll (up from 86% in 2016) supported the idea of education vouchers. Black support for housing vouchers was strong as well, at 78% (down from 83% in 2016), while support for healthcare vouchers came in at 89% (up from 83% in 2016).

As the IRR has noted in its 2024 Growth Strategy, many other sound policy interventions are needed too if South Africa is to lift its annual growth rate to 7% of GDP and see its economy double in size every ten years. However, a shift from BEE to EED is one of the most important changes needing to be made.

BEE focuses on redistribution and fosters racial division. In practice, it has hobbled investment, encouraged rent-seeking, unleashed corruption, undermined black entrepreneurship, and promoted a debilitating sense of victimhood and entitlement. By contrast, EED puts its emphasis on all the right 'Es', for it aims to bring about rapid economic growth, excellent education, very much more employment, and a renewed focus on vibrant and successful entrepreneurship.

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