

# IRR BLUEPRINT FOR GROWTH:

BREAKING THE BEE BARRIER TO  
GROWTH



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# AGENDA

- 1** Importance of Growth
- 2** Key justifications for racial ‘transformation’
- 3** EE, BEE, and preferential procurement
- 4** Why SA needs a better empowerment tool - EED
- 5** Tax-funded vouchers
- 6** From BEE to EED for GROWTH and prosperity

## Importance of GROWTH, economic freedom

- 7% GDP growth doubles SA's economy every decade.
- Economic freedom leads to robust growth.
- 'Most free' countries: Avg. GDP/capita \$48,600; 'Least free': \$6,300.
- Poorest 10%: Avg. income \$14,100 vs. \$1,700.
- Extreme poverty: 2% vs. 31%.
- Life expectancy: 81 vs. 65 years

# SA has failed to live up to its growth potential



- Transformation is far advanced, but **poverty/inequality are worse**
- **SOEs** are collapsing
- Unemployment is at **32%** on official definition, **41%** on expanded



# Key justifications for racial ‘transformation’

- Redress is needed, plus 'demographic representivity' is supposedly the norm
- Expected distribution: mixed-race populations should mirror EAP in jobs, land, and contracts.
- SA's EAP: 80% black, thus 80% representation needed.
- EAP factors: age, employment, and skills gaps prevent representivity.
- No global norm: disparities in age, education, skills, and attitudes make this impossible.



# ‘Employment equity’ in public, private sectors

- Major loss of capacity, state increasingly dysfunctional
- Minister to set racial targets under EE Amendment Act, risking bankruptcy for businesses
- Burdensome and changing rules discourage investment, growth, and jobs: and thus harm the poor.

## Public sector



**73%**



Black in top management

**75%**



At senior level

## Private sector



**14%**



Black in top management

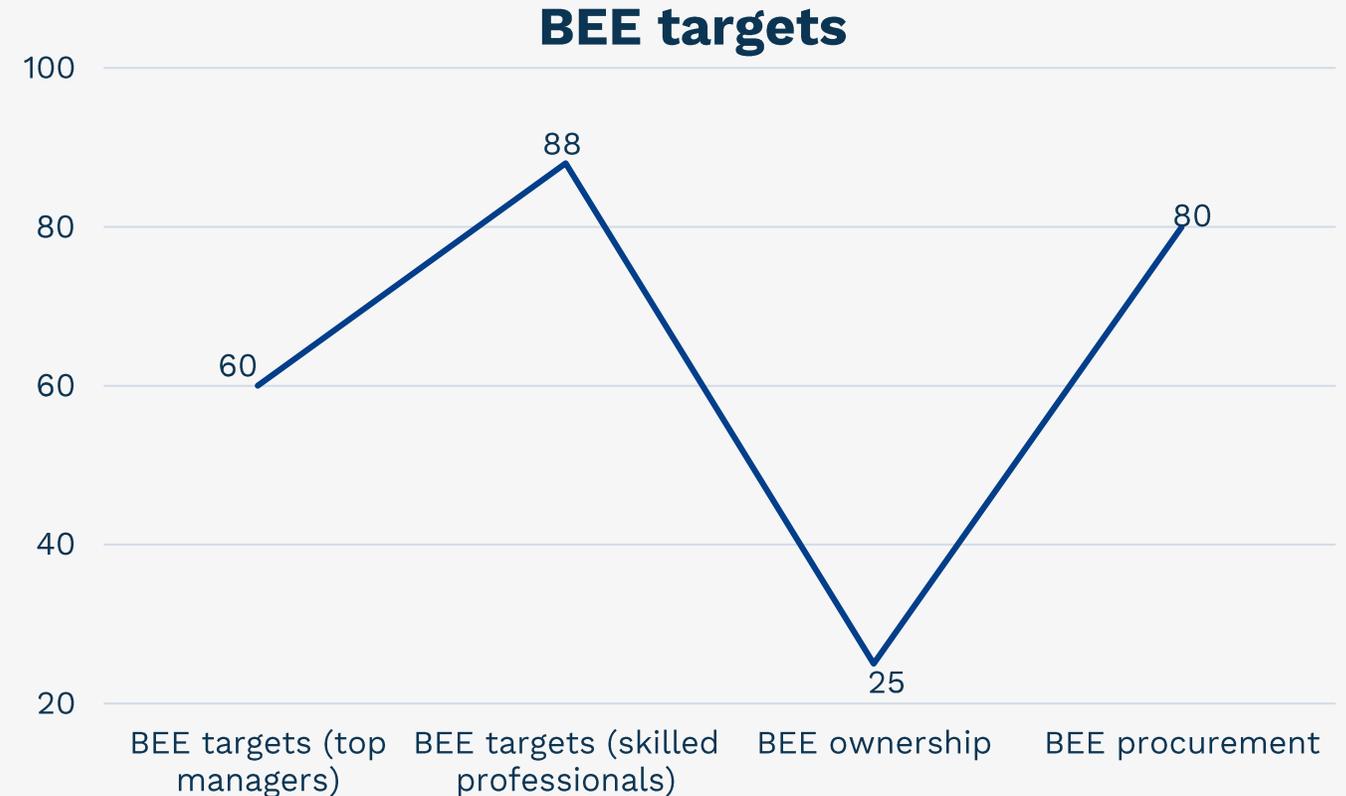
**20%**



At senior level

# BEE targets under generic, sector codes

- Pressure for higher levels: 51% BEE ownership, sometimes 100%
- Similar sector codes/charters for banks, mines, ICT, etc
- Unrealistic demands, shifting rules deter investment, growth, jobs

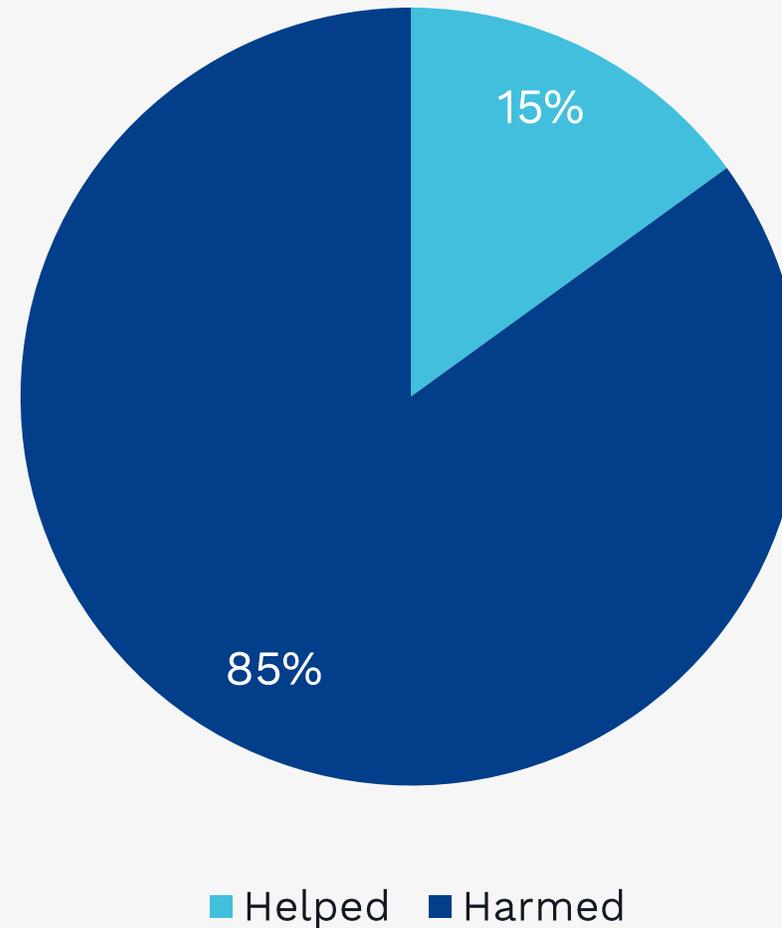


# Preferential state procurement under PPPFA

- PPPFA: 25% premium for state contracts < R50m, 11.1% for >.
- At 11.1%: Annual cost: R130bn on R1.2 trillion budget.
- Often higher: R935k vs. R4k (kneepads).
- Fraud and inflated prices: 30%-50% state contracts affected.
- BEE premiums aid 'tenderpreneurs' but harm black majority.
- Zondo: prioritize 'value-for-money' procurement.

## Why SA needs a better empowerment tool

- BEE: 15% helped, 85% harmed; state dysfunction, less investment, fewer jobs
- Inequality: Enriches few, impoverishes many; intra-black disparity rises (Gini: 59 to 63)
- Constitution conflict: Non-racialism; bar on race discrimination; fails ConCourt tests
- Alternative needed: Non-racial, growth-oriented, grassroots-focused aid



## EED alternative meets all three tests



- Uses means test for beneficiaries, eliminating race proxy.
- EED scorecard boosts investment, employment, tax revenue, exports, R&D, skills.
- EED provides tax-funded vouchers for sound schooling, housing, healthcare



# 80% of public schools are free, dysfunctional

- SA spending R300bn on schooling, exceeds other countries
- Poor outcomes: 50% drop out, 81% Grade 4s struggle to read, SA's Grade 6s lag Kenya's by 3 years
- Teachers lack skills, lack accountability
- SADTU's power undermines schooling quality
- Similar issues globally, from India to US
- Poor parents opt for low-cost private schools, often found in slums



# Many poor parents want choice and private schools

- India: 92M students in 450K low-cost private schools
- Sub-Saharan Africa: 74M students in similar schools
- Monrovia, Liberia: 100K+ students in 430 schools
- Common in slums, informal areas
- Affordable fees for poorest families
- Public schools often free (e.g., SA)
- Poor choose private schools for better outcomes, discipline, values



## Tax-funded vouchers give ALL poor parents a choice

- Parents with vouchers can choose schools they want
- Schools must compete for their custom
- Competition helps improve quality, hold down costs
- Bad public schools have incentives to improve and most will do so
- Many more independent and non-profit schools will be established, some might buy buildings of closed public schools
- Schools become accountable to parents and pupils

# 'RDP' houses are free, but badly built, located

- 3.4M houses, 1.2M serviced sites since '94
- Housing backlog: 2.3M, up from 1.5M in '94
- Informal settlements: 300 in '94, 3,200 in '23
- Households split to get more 'free' houses
- Slow delivery: 28K houses in '21, 38K in '22
- Shift to housing vouchers since '70s
- SA has various housing subsidies, including FLISP
- Avg. 1,500 FLISP subsidies granted yearly



## Single housing voucher needed in SA instead

- Chile pioneers versatile housing subsidies
- Brazil, Mexico, US, and others offer similar vouchers
- SA needs consolidated voucher system
- Poor can then meet own housing needs (e.g., build backyard flats)
- Private sector incentivized to build more flats, terrace housing
- Informal settlements less overcrowded, aids upgrades

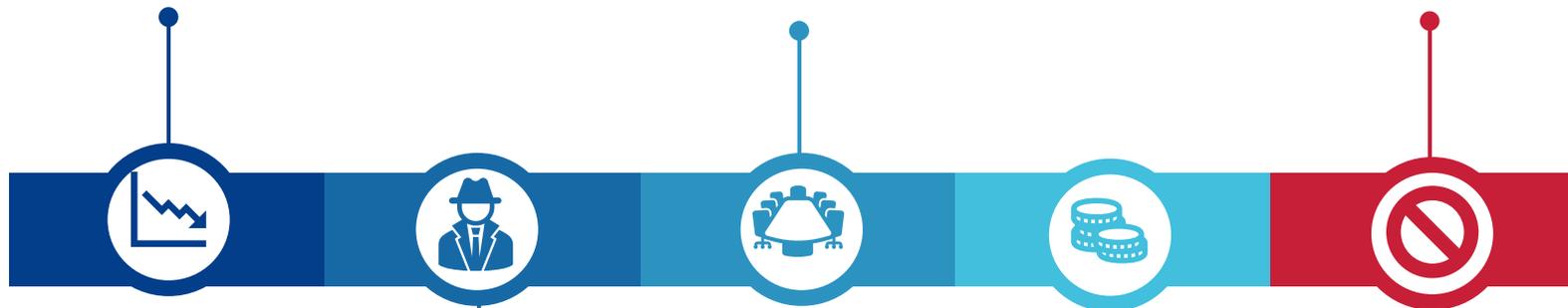


# Public healthcare dysfunctional, private costly

80% of public hospitals/clinics don't meet minimum standards

NHI no solution: will end all medical schemes, turn healthcare into a state monopoly which is increasingly inefficient and corrupt

ANC won't allow low-cost medical schemes or health insurance policies

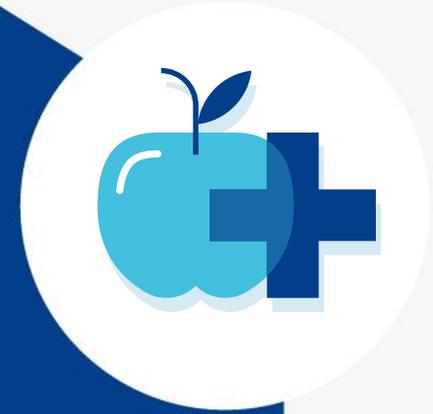


Medical negligence cases rising, corruption a big problem

Government should instead allow low-cost medical schemes (R180 or R130 per person per month) And also introduce tax-funded health vouchers

# Health vouchers in various countries

- Competition drives public and private providers to vie for customers
- More choices for the poor; competition spurs clinics to enhance services
- NHI abolishes competition, stifles innovation (bureaucratic control the key focus)
- Uttar Pradesh, Gujarat, Bangladesh, Cambodia, Vietnam, Kenya, Uganda, Tanzania, and US (migrant farm labour)



# From BEE to EED for GROWTH and prosperity



- Increased revenues will help sustain social grants
- Vouchers will stimulate better schooling, housing, and healthcare
- **Growth at 7%** will double the size of the economy every 10 years, providing a huge boost to prosperity for all



- Under EED, tangible benefits will go to the poor, not the relative elite
- Businesses will have incentives to invest, expand, and offer more jobs



- EED will be **non-racial** and effective in empowering the poor
- BEE leg-iron will fall away, so improving efficiency, encouraging investment, and stimulating **GROWTH**

# THANK YOU



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