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The IRR's Blueprint for Growth: Breaking the BEE Barrier to Growth

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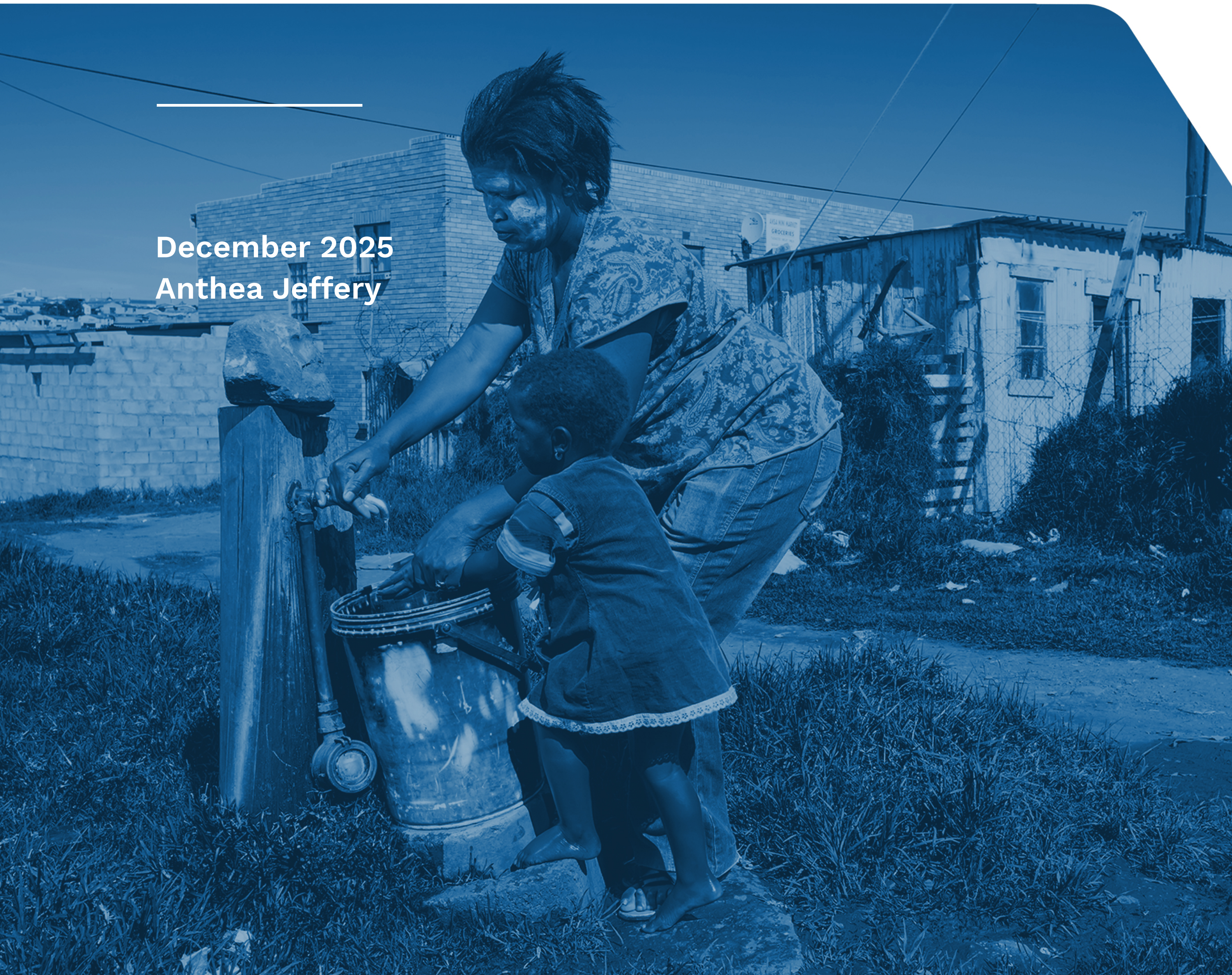

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Executive Summary

In 2025, *criticisms of race-based black economic empowerment (BEE) rules* in South Africa reached new levels of intensity. Many commentators began to emphasise that BEE helps only the black elite while harming the black majority.

Professor William Gumede of Wits University, a long-standing critic, said BEE had transferred about R100 trillion to around 100 people, with the same small group of people "re-empowered over and over". *The Economist* reported that BEE had "mostly benefited a tiny black elite while restraining economic growth [and] undermining the social stability it was meant to underpin". In a subsequent editorial, it added: "Meeting ownership requirements and paying extortionate transaction costs is an inefficient use of capital. De facto quotas reduce productivity. Forcing firms to buy from black suppliers, even if they are more expensive, squeezes profits... Worse, BEE begets graft: when the state must procure based on race, not cost, it makes deals with cronies easier." The magazine also called for BEE to be "scrapped".

The African National Congress (ANC) jumped to the *defence of BEE*. President Cyril Ramaphosa, who owes his billions to the policy, claimed that the government could not "separate our drive for inclusive growth from our drive for economic empowerment". He failed to acknowledge that BEE has reduced growth and increased unemployment. Its three key elements – employment equity, preferential procurement and ownership deals – have also undermined state delivery and caused major economic damage.

As regards *employment equity*, rigid racial targets (quotas in all but name) in the public sector have so reduced capacity as to bring about the collapse of most public services. Now similar targets are being imposed on the private sector, even though it has no tax revenues to fall back on as its competitiveness declines. Large companies may be able to shoulder the burden, but smaller ones will find it hard to survive.

Preferential procurement in the public sector has unleashed massive corruption and resulted in "BEE premiums" – inflated prices on state tenders – currently amounting to some R150bn a year. Worse abuses are looming under the vague provisions of the Public Procurement Act of 2024, which has been signed into law but is not yet operative. In the private sector, onerous BEE rules require companies to buy 80% of the goods and services they need each year from black-empowered firms, many of which must have 51% black ownership. They must also allocate 3% of net after-tax profit to incubating firms with 51% black ownership.

As for *BEE ownership*, at least R1 trillion to R2 trillion is needed to fund all the deals required to fulfil a 25% (or higher) black ownership target. No business case can be made for requiring prospective investors in South Africa to transfer stakes of this magnitude to "partners" not of their choosing and at heavily discounted prices. Ownership rules are thus a major deterrent to foreign direct investment, as the South African subsidiaries of both US and European Union (EU) companies have cautioned.

Most BEE proponents focus on what the policy is *intended to achieve*: effective redress for past wrongs through faster and more inclusive economic growth. In practice, however, *outcomes* are very different. Growth has diminished to 1% of GDP or less, fixed investment has come down to half the global average, and joblessness has soared, especially among often badly educated black South Africans. Since almost all the benefits of BEE have gone to a small politically connected elite, inequality within the black population has increased significantly.

BEE is a *fake form of transformation* which has greatly enriched a small black elite while making life far worse for the great majority of black people. It needs to be replaced by a non-racial alternative, which the IRR calls *Economic Empowerment for the Disadvantaged (EED*). This policy would be far more effective in growing the economy, expanding employment and helping the disadvantaged to get ahead.

EED has three core features. First, it is a *non-racial policy* which identifies disadvantage via a means test, instead of using race as a proxy for this. Second, under a *new EED scorecard*, it accords businesses voluntary EED points for their contributions to the investment, employment, tax revenues, innovation and export earnings needed for growth and upward mobility. Third, EED aims to equip the poor with *tax-funded vouchers* for the sound schooling, housing and healthcare of their choice.

Though South Africa already spends some R650bn a year on these three core needs, the state's centralised and top-down delivery system is so mismanaged and inefficient that outcomes are often extraordinarily poor. Some 80% of public schools and clinics are largely dysfunctional, for instance, while housing delivery is slow, deficient and frequently corrupt.

EED recognises that current budgets for schooling, housing and healthcare cannot be increased. Rather, with public debt approaching 78% of GDP, the key need is to get far more bang for every tax 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 have a long history. One of the first voucher schemes was introduced in the Netherlands in 1917, while in Denmark vouchers and school choice go back to 1849. The Czech Republic introduced vouchers for private schools after the disbandment of the Soviet Union in 1991. Vouchers are also available in Bangladesh, Chile, Colombia, Estonia, Guatemala, India and the state of Punjab in Pakistan.

Housing vouchers were introduced in various developing countries in the 1970s. This innovation was brought in when it became apparent that housing delivery by the state was generally sub-standard and often plagued by corruption in construction contracts and the allocation of new houses. Various governments then opted to provide tax-funded housing vouchers or subsidies directly to poor families, to enable them to build the homes of their choice. Chile was the first to adopt this approach and soon became its primary exemplar. Similar policies have since been adopted by Brazil, Colombia, Costa Rica, Ecuador, India, Mexico, and Panama.

Tax-funded *health vouchers* have been introduced in several developing countries to help give the poor access to the better quality health services supplied by private providers. By 2013 health vouchers had been introduced in 12 countries, including Armenia, Cambodia, Kenya, Nicaragua, Tanzania, Uganda, Vietnam and Yemen. Most of these voucher programmes provided low-income women with access to ante- and post-natal care, as well as institutional deliveries. In 2013 a London-based consultancy evaluated the voucher programmes in these 12 countries and reported that "vouchers had improved demand for services". Added the 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.

The introduction of schooling, housing and health vouchers in South Africa could substantially benefit the poor. In the interim, concerns about the *high economic costs of BEE* have been fuelled by a June 2025 study by the Solidarity Research Institute (SRI) and the Free Market Foundation (FMF). This put annual BEE compliance costs at between R145bn and R190bn, or between 2% and 4% of GDP. The study also found that BEE had reduced GDP growth by 1.5% to 3% a year and by R5 trillion in total since 2007. In addition, between 96,000 and 192,000 jobs had been lost to BEE every year, giving a total of 3.8 million to 4 million over the same period.

The SRI/FMF report lacks the detailed data that some critics would prefer, but the information it has assembled on the likely costs of BEE nevertheless provides important insights. It also gives the lie to Mr Ramaphosa's claim that BEE is vital to "inclusive growth".

Some BEE proponents claim that the *corruption the policy is known to spawn* is relatively rare. International experience shows the opposite, however, for extensive and discretionary state powers are always vulnerable to abuse for private gain. In the words of the late Walter Williams, an American economist: "When politicians decide who gets what, corruption is inevitable." Adds Eustace Davie of the FMF: "When government holds power to decide who may trade, who may contract, and who may work, corruption follows as surely as night follows day. Every permit, licence and tender becomes an opportunity to sell favour... BEE entrenches the power of officials to decide who may participate in the economy, and they use that power to reward allies and exclude others. Corruption is therefore not an aberration; it is a function of the law itself."

Such factors make it all the more important that a real debate on the costs and consequences of BEE has finally begun. The ANC cadres who have benefited the most from race-based BEE are digging in to defend and sustain it, but public anger at the damage the policy is causing may yet lead to real reform.

EED offers the best way of limiting discretionary state power, freeing the country from the BEE leg-iron and achieving transformation of a truly beneficial kind. As the IRR notes in its 2025 *Growth Strategy*, many other policy changes 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. A shift from BEE to EED is nevertheless one of the most important changes needing to be made if the country is to start realising its great potential. In addition, little could be more important in reducing racial polarisation and strengthening the *social cohesion* on which the future stability of the country depends.

A different debate in 2025

In 2025 criticisms of race-based black economic empowerment (BEE) rules in South Africa reached new levels of intensity. Many commentators began to emphasise that BEE helps only the black elite while harming the black majority. Professor William Gumede of Wits University, a long-standing critic, warned that BEE had transferred at least R1 trillion to fewer than a hundred people. "The same people have been empowered and re-empowered over and over", he said.[1] Moeletsi Mbeki, another long-time critic, had earlier castigated BEE for "creating a small class of unproductive but wealthy black crony capitalists made up of ANC politicians".[2] In 2025 he reiterated that BEE had created a narrow and "parasitic club" of beneficiaries, focused on "taking their share of existing firms rather than building their own".[3]

Senior figures in the African National Congress (ANC) and its dominant ally, the South African Communist Party (SACP), had previously said much the same. In 2010, the late Pravin Gordhan, then finance minister in President Jacob Zuma's first administration, stated: "South Africa's BEE policies...have not worked... They have led to small elite group benefiting, and that is not good enough."[4] In 2016, Mathews Phosa, a former ANC treasurer general, noted that BEE had empowered "a handful of people" at the expense of most South Africans.[5]

In 2017, the SACP warned that the "intra-African inequality" that BEE had fostered was "the main contributor to South Africa's extraordinarily high Gini coefficient" of income inequality. The party added: "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."[6]

In the past, criticisms of this kind had generally withered away without having much impact. Now some of the most powerful voices in the media echoed the critique. In August 2025, an article in *The Economist* magazine spelt out the many negative consequences of BEE. BEE had "mostly benefited a tiny black elite while restraining economic growth [and] undermining the social stability it was meant to underpin". BEE had also "add[ed] costs to firms and creat[ed] perverse incentives". At the same time, preferential procurement rules had provided "a pretext for giving contracts to cronies". In addition, the system had been "plagued by 'inputitis'", with "points...given for spending, not results". [7]

Soon afterwards *The Economist* published an editorial on "Why South Africa should scrap Black Economic Empowerment". Here the magazine commented:[8]

> BEE is meant to reduce South Africa's stratospheric levels of inequality. But the main beneficiaries have been a tiny group of new Randlords... This is oligopoly, not equality. Under the ANC, inequality between black South Africans has exploded. The top 10% of black earners have seen incomes more than triple. Those of the bottom 50% have fallen slightly. This is mostly because of high joblessness, which reflects persistently low growth.

> One reason is BEE. Meeting ownership requirements and paying extortionate transaction costs is an inefficient use of capital. De facto quotas reduce productivity. Forcing firms to buy from black suppliers, even if they are more expensive, squeezes profits. A recent estimate puts the costs of complying with BEE at 145-290bn rand per year, or 2-4% of GDP. This helps explain why South Africa is last for 'ease of doing business' on a list of 49 countries compiled by the World Bank... Worse, BEE begets graft: when the state must procure based on race, not cost, it makes deals with cronies easier.

In October 2025, an article in the *Wall Street Journal* added to the criticism by citing several notorious abuses of BEE's preferential public procurement rules. In 2019, the newspaper reported, a joint venture involving businessman Edwin Sodi had "won a $16.9 million tender to upgrade a water-treatment plant north of Pretoria, South Africa's capital. The project was never completed, and a subsequent cholera outbreak in the area killed at least 20 people." During the Covid-19 lockdown, the report went on, "hundreds of millions of dollars in irregular procurement tenders [had been] awarded, including to a company linked to family members of the health minister at the time." Overall, it commented: "South Africa's affirmative-action policy, known as BEE, [though] intended to empower Black citizens, is criticized for enriching elites and fostering corruption."[9]

President Donald Trump also found fault with BEE. In February 2025, in issuing an Executive Order ending further US assistance to South Africa, he complained of "countless [SA] government policies designed to dismantle equal opportunity in employment, education, and business."[10] In July 2025, his announcement of imminent 30% tariffs on all South African imports into the US was linked to his earlier call for American companies operating in South Africa to be "exempted from all discriminatory race-based legislation, such as Black Economic Empowerment."[11] In March 2025, the National Trade Estimate Report by the US Trade Representative identified South Africa's BEE public procurement rules as a non-tariff barrier that prioritises contracts for "historically disadvantaged individuals" and makes it "more difficult for U.S...companies to compete in the South African market unless they form partnerships with local firms."[12]

The ANC's secretary general, Fikile Mbalula, responded that the ANC could not be forced to withdraw its transformation laws. "We will never back imperialists to subvert our democracy, to subvert our sovereignty," he said. He claimed that the ANC has to keep "pursu[ing] redress because we are not equal in this economy. The economy is still male, white-dominated."[13] He omitted to mention that the private sector is obliged to comply with government legislation and regulation – and that BEE's main effect has been to enrich a small black elite while greatly harming the black majority.

President Cyril Ramaphosa, who owes his billions to BEE,[14] chimed in too, saying: "We cannot separate our drive for inclusive growth from our drive for economic empowerment."[15] He failed to acknowledge that ever stricter BEE requirements over many years have reduced growth and expanded unemployment. Mr Ramaphosa also refused to identify BEE as "a cost to the economy" or to mention the major damage that it has caused.[16]

Since that damage varies according to which aspect of BEE is in issue, the three most important elements in the strategy merit brief overview. These three elements are employment equity, preferential procurement and BEE ownership.

Employment equity

Under the Employment Equity ("EE") Act of 1998, all "designated" employers of 50 people or more must ensure that "designated groups" – defined as "black people", women and the disabled – are "equitably represented" at all levels of the workforce: from the most senior down.[17] This requirement is based on a supposed "norm" of demographic representivity, which has never been found to exist in any heterogeneous society.

In 1998 Firoz Cachalia, then an ANC office-bearer in Gauteng and now the acting police minister, summed up the supposed "norm" in saying: "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."[18]

Cachalia's argument may seem convincing at first glance. It also assumes that black people – who make up 80% of the "economically active population" (those between the ages of 15 and 64 who work or want to do so) – ought also to occupy 80% of all jobs at all levels. However, this is clearly impractical when age, experience, education, and skills are taken into account.

Close on 64% of black South Africans are under the age of 35[19] and lack the experience needed for senior posts. Some 47% are unemployed (on an expanded definition that includes those not actively seeking work),[20] which further limits their workplace expertise. Roughly half have dropped out of school,[21] while even those with matric are often functionally illiterate and innumerate. In addition, only 7% have the degrees generally required for management and professional positions.[22] These factors explain why EE targets approaching 80% are unrealistic and difficult in practice to fulfil.

In *public sector entities* under ANC control, the goal of demographic representivity has nevertheless largely been reached. According to the May 2025 report of the Commission for Employment Equity, a monitoring body established under the EE Act, black people hold 75% of top management posts in all government jobs. They also hold 76% of senior management positions and 75% of professionally qualified posts. (In addition, coloured people and Indians hold 16% of top management posts and 13% of both senior management and professionally qualified posts.) [23]

The people deployed to these demanding positions have often been ANC cadres selected for their political loyalties rather than their skills and experience. These deployments have thus helped the ANC fulfil its *Cadre Policy and Deployment Strategy* of 1998, which seeks to "win hegemony" for the organisation by deploying the "correct people" to all "key centres of power."[24] The ANC's pursuit of hegemony has been allowed to trump all other considerations, including the merit principle and the importance of effective public service delivery. [25]

This explains why public infrastructure and state services have largely collapsed under 31 years of ANC rule. In the words of veteran political analyst RW Johnson, this implosion is now evident in "the polluted beaches, the power cuts, the water shortages, the leaking pipes, the sewage flowing in the streets, the great cities that are failing at multiple points. The railways and ports that don't work, the traffic lights that don't function, the potholes, the abandoned and captured buildings, the corrupt police, the broken down post office, the corruption everywhere. The hospitals that no longer work, the schools that are worse than under Bantu Education, the crime that is worse" in all parts of the country.[26]

Designated employers in *the private sector* must also make "reasonable progress" towards demographic representivity at all levels, from top management down. This wording initially gave business some discretion as to how fast to proceed towards the supposed "norm", but that flexibility has gradually been whittled away. This was first done under the Broad-Based Black Economic Empowerment Act of 2003 ("the BEE Act") and its "generic" codes of good BEE practice, which took effect in 2008. (As the name suggests, the "generic" codes apply across the economy, while various "sector" codes and charters set somewhat different BEE rules for construction, finance, mining, transport, and other sectors.)

Though BEE is supposed to be voluntary, the targets in the generic codes are in practice binding on companies that need state permits to operate or want to sell goods and services to the government. Companies in this position must comply with the EE targets set out in the "management control" element in the BEE generic codes. These require 60% black representation at the senior management level, 75% among middle managers and 88% for junior managers.[27] These targets overlook the age and skills profile of the black population.

In addition, the EE Act was amended in 2023 to empower the minister of employment and labour to determine by regulation the targets that businesses must reach. The minister's targets came into effect on 1 September 2025 and differ somewhat among 18 specified sectors. In all sectors, however, the minister has stipulated what proportions of "designated" (ie, black, female and disabled) people are required at different levels of the workforce within five years. [28]

In "financial and insurance activities", for example, the targets to be met by 2030 include 95.6% at the skilled/technical level and 63.1% among top management.[29] In "human health and social work activities", five-year targets range from 95.9% at the skilled/technical level to 71.3% for top management. For "water supply and sewerage activities", targets are again 95.9% at the skilled/ technical level and 85.5% for top management.[30] These targets also ignore the age and skills profile of the black population.

Though compliance with unrealistic EE targets has already crippled the state's delivery of vital goods and services, similar targets are now being imposed on business too. Yet the private sector has no tax revenues to fall back on as its competitiveness declines. Large companies may be able to shoulder the burden, but smaller ones will find it hard to survive in a largely stagnant economy beset by many other obstacles to growth. All firms, moreover, have reason to fear the increased penalties for non-compliance that now apply.

Maximum fines start at 2% of annual turnover (not profit) for an initial failure to meet EE targets without adequate justification. Repeat offences of this kind are punishable by fines of up to 10% of annual turnover, which could bankrupt many companies.[31]

Preferential procurement

Preferential procurement aims to help black businesses gain procurement contracts in both the public and private sectors. In the *public sector*, the Preferential Public Procurement Framework Act of 2000 (PPPFA) allows black firms to charge higher prices than their competitors and still win state tenders. The price inflation permitted them is officially capped at 25% for contracts valued at R50m or less and 11.1% for contracts above that. This in itself adds considerably to the state's procurement costs. In practice, moreover, BEE premiums often far exceed the permitted mark-ups. Examples of illicit premiums well above the 25% maximum include:

- R40m for a new school that should have cost R15m (as the late Pravin Gordhan, then finance minister, acknowledged in 2009);[32]
- R935,000 for kneepads that should have cost R4,000 (as André de Ruyter, a former Eskom CEO, wrote in 2023);[33]
- R1.1m for a train coach chassis assembly that should have cost R40,000 (as law firm Webber Wentzel said in a draft forensic report to the Passenger Rail Agency of South Africa in 2024);[34] and
- R91m, against a quoted price of R49m, for fire suppression systems supplied to Gauteng hospitals by BEE companies with indirect links to Deputy President Alex Mashatile (as *News24.com* reported in 2025).[35]

Senior officials in the National Treasury have at times highlighted the resulting public procurement losses to the fiscus. In October 2016, the Treasury's 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".[36] 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".[37]

The government's procurement budget has since risen to about R1.2-trillion, while BEE price inflation has increased too. The Treasury has omitted to report on the amount of revenue being lost each year to authorised and illegal BEE premiums, but the IRR estimates the current total at R150bn a year.[38] The cumulative cost over decades is thus enormous.

BEE premiums are nevertheless set to rise still further under the Public Procurement Act of 2024, which has been signed into law but is not yet operative. Under this statute, current limits on BEE premiums will fall away. Instead, state procurement contracts will increasingly be set aside for a wide range of BEE beneficiaries, including black youth, black military veterans and black people living in "particular geographical areas".[39] Inflated pricing is set to soar, while businesses with a proven capacity for cost-effective delivery will be barred from tendering at all for contracts reserved for BEE firms.

In the *private sector*, the "preferential procurement" element in the BEE generic codes requires companies to buy 80% of the goods and services they need each year from firms with good BEE scores. Meeting the 80% target is also only the start of what is required. Of the 80% total, 40% must come from "51% black-owned" suppliers and 12% from suppliers that are "30% black women-owned". Further sub-targets also apply.[40]

Also relevant here is the "supplier and enterprise development" element in the codes. This requires companies to contribute 3% of net after-tax profit to the development of suppliers operating both within and outside their supply chains. All the enterprises helped in this way must be "at least 51% black-owned or at least 51% black women-owned".[41]

BEE ownership deals

The "ownership" element in the BEE generic codes requires companies to have 25% BEE ownership. Other sector codes either echo this target or set higher ones, with 30% required in the construction and ICT sectors, for example.[42] Since BEE investors generally lack capital, vendor companies must often help finance deals. They must also ensure that 40% of the required BEE shareholding vests immediately in black investors, free from debt. In practice, this requires a 40% discount on share prices.[43]

In 2007, the National Empowerment Fund (NEF), a government vehicle set up in 1998 to help fund ownership transactions, estimated that between R770bn and R2 trillion would be needed to fund the BEE ownership deals required by the codes for companies listed on the Johannesburg Stock Exchange (JSE). This estimate was a conservative one, for it excluded likely outlays on the many BEE deals unlisted companies would also need to do.[44]

Ownership deals are costly in other ways too. This is partly because most BEE investors (as the NEF acknowledged in 2007) have "a limited knowledge of industry,...a lack of management experience, and...a lack of bankable business plans."[45] In addition, BEE ownership requirements damage the entire economy by deterring the foreign direct investment (FDI) vital to increased growth and employment.

In the words of Peter Bruce, a former editor of *Business Day* and the *Financial Mail*, many countries across the world constantly compete for the capital of prospective direct investors. South Africa is not an attractive option, however, for it is plagued by crime, "unreliable electricity" and "rotten governance", as well as "the requirement to offer 30% of any incoming investment... to black investors". Adds Mr Bruce: "I can't prove that BEE and the 30% requirement are a barrier, but can anyone explain what the attractions might be of surrendering 30% of your investment in SA before you even start doing business here? What's the investment case for that requirement?"[46]

BEE intentions versus BEE outcomes

As the debate on the costs of BEE has intensified, so many of its proponents have sought to defend the policy by focusing on what BEE is *intended* to achieve: effective redress for past wrongs through faster and more inclusive economic growth; more black ownership and management of the economy; and increased black participation in public and private procurement. Few, if any, of BEE's defenders have acknowledged that actual outcomes have persistently lagged well behind mooted gains.

Economic growth has been meagre for many years. It has also slowed down as BEE rules have been ratcheted up. In the words of IRR CEO John Endres: [47]

> A healthy economy in a well-resourced country like South Africa should grow at 4% to 6% per year... That was the rate achieved by many comparable countries in Asia, Latin America, and parts of Africa during their take-off periods. South Africa, by contrast, has been stagnating. The World Bank records that from 2010 to 2019 our economy grew at an average of only 1.7% per year, barely above population growth. Between 2014 and 2019, the average was even lower, at just 1%. And since the COVID [lockdown], growth has fallen further. In 2022 it was 1.9%, in 2023 it was 0.8%, and in 2024 it slowed to 0.5%. As race-based laws keep intensifying, the growth rate keeps falling.

South Africa's growth rate will not increase without much more *fixed investment* in the factories, equipment and infrastructure needed to boost economic productivity. But the country's fixed investment rate has averaged a lowly 15% of GDP for many years and fell further (to 14%) in 2024. By contrast, the world average stands at 26.5% of GDP per annum, while successful emerging markets have fixed investment rates of between 25% and 35% a year.[48]

If South Africa is to start matching even the 26.5% world average, it will have to attract many more foreign direct investors. But it cannot do so while:

- BEE ownership deals require them to transfer 25% to 30% of their equity at discounted prices to investors not of their choice;
- Both the EE Act and BEE management control rules demand that they meet racial targets out of sync with the age and skills profile of the black population; and
- BEE procurement rules require that they buy at least 80% of the goods and services they need each year from often more expensive BEE suppliers, while also spending 3% of net after-tax profit on incubating black enterprises.

BEE rules are also extraordinarily complex and difficult to understand. They have often been amended too, which has generated much uncertainty as to what further shifts might lie ahead. In 2017, the local subsidiaries of US companies operating in South Africa identified BEE as one of the main obstacles to doing business here. Verbatim comments by US firms included:[49]

- "The cost of doing BEE is increasing every year";
- "We are spending a huge amount of man hours trying to...understand the BEE regulations, never mind the amount of time we spend actually complying"; and
- "No one plays a game where the goal posts keep moving".

In 2020, a number of companies based in the European Union (EU) but doing business in South Africa voiced similar concerns. They warned against "too many ambiguous and often-changing rules". They highlighted the "costs incurred through BEE as…a key challenge". They also identified BEE ownership rules as "a deterrent for investments", with one company noting that "compliance in terms of shares will result in 26% ROI [return on investment] being lost to the business". Overall, these companies urged the "relaxing" of ownership rules and a stronger focus on skills development instead.[50]

Low rates of investment and growth have curtailed *employment* and led to a massive mismatch between the demand for jobs and their supply. As the Centre for Development and Enterprise (CDE), a civil society organisation, points out, South Africa's labour force grew by 42% between 2008 and 2025, whereas employment rose by a mere 15%. "That means nearly 1,000 South Africans joined the unemployment queue every single day for 17 years," it notes.[51]

In 1994, the official unemployment rate was 23%. Today it stands at 32%. On an expanded definition, which includes people too discouraged to keep seeking jobs, the rate rises to 42%. Some 12.6 million people out of a workforce 25 million strong are thus unemployed.[52]

Youth joblessness is even worse. Says Dr Endres: "For young people the situation is catastrophic. Among those aged 15-24, unemployment is over 60%. That means that most young South Africans have no realistic prospect of a job… One of the cruel ironies of BEE is that it was meant to expand opportunity for black South Africans, yet it coincides with and contributes to the highest levels of black unemployment in our history."[53]

Since the ANC came to power, *vast resources* have been poured into fulfilling BEE ownership, management and procurement targets. Those resources include the R1 trillion to R2 trillion needed for ownership deals, along with the massive BEE premiums – currently some R150bn a year – being paid on public procurement contracts. Also relevant are the large salaries being paid to managers and other staff in the public service, where the overall annual wage bill amounts to 14% of South Africa's GDP. This far exceeds the equivalent public service wage bill in wealthy countries belonging to the Organisation for Economic Cooperation and Development (OECD), which averages 10% of GDP. [54]

However, almost all the benefits of BEE have gone to *a relatively small black elite*, many of whom are deployed ANC cadres. A few, including Mr Ramaphosa, have become billionaires. Many more have become millionaires able to afford high levels of conspicuous consumption. Very few of these benefits have flowed to the great majority of poor black South Africans. This is not surprising, as most black people have no prospect of ever obtaining lucrative BEE deals, managment posts, or preferential tenders. At the same time, most black South Africans have been greatly harmed by dysfunctional state services, a moribund economy and the massive unemployment that BEE has helped to perpetuate.

Inequality between the wealthy black elite and the suffering black majority has intensified steadily over the years. This is the main reason why the Gini coefficient of income inequality in South Africa has risen from 57 in 1994 to 67 today.[55] Inequality is thus far worse than it was in the apartheid era – and race-based BEE bears much of the blame.

Comments Dr Endres: "BEE was supposed to be a policy of empowerment, but in practice it has delivered stagnation, unemployment, inequality, disinvestment, and corruption. It has enriched a few, while leaving the many behind. That is why we say BEE is not empowerment at all.... It is...a clientelist project that shunts benefits towards connected elites while making life worse for the poor, most of whom are black."

Shifting from BEE to Economic Empowerment for the Disadvantaged (EED)

In the past year, various proponents of BEE have acknowledged that the policy is not working as well as was intended. They have nevertheless claimed that BEE must be retained because there is no credible alternative to it. That claim is false. The IRR has for many years been developing just such an alternative, which it calls Economic Empowerment for the Disadvantaged or EED.

The EED alternative has three core features. First, it is race-neutral, which means it targets the poor and its benefits cannot be captured by the black elite. Second, it promotes economic growth and employment, which are the essential foundations for upward mobility. Third, it reaches right down right down to the grassroots by providing millions of disadvantaged South Africans with the tangible support they need to foster self-reliance and help them get ahead.

A non-racial focus

BEE's race-based targets undermine the dignity of all South Africans by treating their racial identity as more important than their unique talents and efforts. They also require the continued classification of all South Africans into essentially the same racial categories as were set out in the Population Registration Act of 1950. Since that statute was repealed by the National Party government in 1991, race classification should have ended some 35 years ago. Instead, race-based BEE has resuscitated an odious system of racial tagging that was rightly condemned across the country and the world.

This race-based approach is also unnecessary. Disadvantage is the issue that needs to be addressed. And disadvantage can be identified directly, via a means test, and without reference to race.

A scorecard that promotes investment and growth

BEE scorecards in the generic and sector codes ignore all that the private sector contributes to investment, employment, export earnings, innovation and tax revenues. However, these are the most valuable contributions that business can make to growth and upward mobility – and they need to be taken into account.

EED would replace all current BEE scorecards with a new one giving companies EED voluntary 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;
- Funding 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.

This EED scorecard would be easy to fill in, as businesses must in any event keep track of the issues that it covers. Companies that choose to report on their EED contributions would not be rewarded with preferential access to state permits or public tenders, which must always be awarded on the basis of capacity and other objective criteria. Instead, companies would obtain more societal recognition for their contributions to growth and upward mobility. This would give them a higher standing for the positive part they play.

The EED scorecard would also give businesses the option of contributing to the third element in EED – the tax-funded voucher system outlined below. Companies could opt to top up the vouchers of their employees, for example, or they might choose to contribute to a general top-up fund. Such contributions would give firms additional EED points. They would also identify them as particularly responsible corporate citizens helping to increase upward mobility for those most in need.

The voucher element in EED

EED would reach down to the grassroots by equipping the poor with the sound schooling, housing and healthcare they need to help them get ahead. In the 2025/26 financial year, some R650bn has been budgeted for these vital goods and services, which is a considerable amount.[56] But the state's centralised and top-down delivery system is so mismanaged and inefficient that outcomes are often 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.[57] Not surprisingly, thus, more than half of all pupils drop out of school or fail their final examinations.[58] In the housing sphere, millions of small and badly built "RDP houses" (after the Reconstruction and Development programme) have been provided at considerable cost, but the housing backlog (at 2.3 million units) is bigger now than it was in 1994 (1.5 million). In public healthcare, almost 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.[59]

EED recognises that current budgets in these spheres cannot be increased significantly. Rather, with public debt approaching 78% of GDP,[60] the key need is to get far more bang for every tax 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.

South Africans strongly support the voucher idea, as IRR opinion polls over several years have consistently shown. In 2016 some 85% of black respondents expressed support for school vouchers, while 83% endorsed both healthcare and housing vouchers. In addition, 74% of black respondents said these vouchers would be more effective than BEE in helping them to get ahead. Subsequent IRR polling on these issues has repeatedly shown the same pattern, with at least 80% of black respondents supporting school, health and housing vouchers. In 2024, in the IRR's most recent opinion poll, 92% of South Africans favoured school vouchers, 83% supported health ones, and 80% endorsed housing vouchers. Asked if vouchers would be more effective in helping them than BEE, 81% answered "Yes" and 12% "No". (The remaining 7% were undecided or uncertain.)

School vouchers

In 2024 the National Senior Certificate (NSC) pass rate was 87.3%, which suggests that schooling is working well. In fact, however, the official figure conceals a high drop-out rate and many other shortcomings. The "real" pass rate was far lower, as the 615,429 pupils who passed their NSC exams in 2024 made up only 50.3% of the roughly 1.22 million pupils who had enrolled in Grade 1 in 2013. Some 607,422 youngsters, nearly half the original Grade 1 class, thus left school in 2024 or earlier without even a matric.[61]

International assessments of the quality of South Africa's schooling 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.[62] These outcomes placed the country last among 50 participating nations.[63]

South African pupils also do badly on the Trends in International Mathematics and Science Study (TIMSS). In 2023 South Africa came last among the 64 developed nations evaluated, even though it had entered Grade 5 and 9 pupils for a test aimed at grades 4 and 8. South Africa's overall scores in maths (362) and science (308) were far below the international average. They compared particularly poorly with those notched up by Singapore, the best performing country, which scored 615 points for Grade 4 maths, for example, and 607 for Grade 4 science.[64]

South Africa's abysmal performance stems largely from the poor quality of teaching in public schools, where some 80% of teachers lack essential subject and pedagogical knowledge. Teachers are also often absent from schools and use only two thirds of their classroom time for teaching,[65] while the large education bureaucracy is generally incompetent.[66] At the same time, 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.[67]

For many years, Sadtu allegedly 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 accusations – first reported in 2014 by the Sunday newspaper *City Press* – were in time confirmed by an official inquiry, which urged strong action to end these abuses. However, since Sadtu has considerable power (it controls at least six of the nine provincial education departments), little was done. Public outrage petered out and Sadtu's "capture" of public schooling was largely forgotten.[68] The sale of principal (plus teacher) posts has thus reportedly continued, prompting the Department of Basic Education to launch a further probe in August 2025.[69]

Flaws in public schools in many 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 (UK) 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".[70]

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. This is "centrally directed and bureaucratically managed" and "has little use for competition or market incentives".[71] The contrast between a state monopoly and competitive private provision is stark, as Mr Boaz notes: [72]

> 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.

Schools become inflexible and increasingly set in their bureaucratic ways. Adds Mr 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."[73]

The growth of low-cost private schools

Because the quality of public schooling is generally poor – and especially so in developing countries – millions of poor parents have been voting with their children's feet by taking them 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.[74] 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 pay.[75]

Despite their limited resources, low-cost private schools generally notch up significantly better academic results than public ones.[76] 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.[77] 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 societal need and make a living for themselves.[78] Most of these schools succeed in generating small profits, which are often ploughed back into improvements. This makes them self-sustaining and frees them having to obtain external grants or donations to survive.[79]

James Tooley, vice chancellor of the University of Buckingham in the UK,[80] has comprehensively investigated the growth of low-cost private schooling in 22 countries across four continents.[81] 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.[82]

Low-cost private schools are also found in Pakistan, Indonesia, and the Philippines, as well as in Brazil, Chile, Guatemala, Honduras, and Peru.[83] In Sub-Saharan Africa, which is less well researched, various studies put the number of children attending low-cost private schools at 74 million.[84] 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.[85] Even in conflict-ridden Liberia, Sierra Leone, and South Sudan, Professor Tooley found that affordable, "low-cost private schools were serving the majority of poor children, who outperformed those in public schools".[86] (In the Liberian capital of Monrovia, for instance, researchers found 430 low-cost private schools located in seven slum areas and accommodating more than 100,000 pupils.)[87]

Private schools have also been expanding in South Africa. In 2023, according to official statistics, the country had some 2,325 private or "independent" schools attended by some 738,000 pupils.[88] Since 2000, the number of private schools has increased by 145% while the number of pupils attending them has risen by close on 200%.[89] Many of these private schools charge middling or low fees.

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 22 510 public schools.[90] 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 school voucher idea is a simple one. Instead of funding public schools directly – and maintaining that funding irrespective of how poorly schools perform – the government works out the per capita amount it is spending on children in low-income families and allocates that amount to each child's parents. As Professor 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," who can take their offspring elsewhere if dissatisfied. The introduction of vouchers "spurs competition and innovation in schooling, leading to great improvements". Dysfunctional state schools also come under pressure to retain their pupils, prompting them to improve their performance. [91]

If vouchers were introduced in South Africa, many parents would have many more 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. Many more could take advantage of the innovative "blended" teaching – a mix of online and in person tuition – being offered at some low-cost private schools. In these schools, writes teacher and education expert Michael Caplan, pupils using affordable devices "work at their own pace through online courses with explanatory notes, videos, quizzes, and formative tasks" – and are attaining significantly better pass rates in English and maths than their counterparts in public schools.[92]

Most parents would want to avoid persistently bad state schools, which would find themselves abandoned and forced to shut down. Their buildings could then be auctioned to independent schools, which would refurbish and re-open them. However, dysfunctional state schools would want to avoid this outcome, so teachers and principals would put great effort into improving their performance.[93] The competition generated by vouchers would thus improve the quality of both public and private schools.

Vouchers in international experience

School vouchers have a long history. One of the first voucher schemes was introduced in the Netherlands in 1917, while in Denmark vouchers and school choice go back to 1849. The Czech Republic introduced vouchers for private schools after the disbandment of the Soviet Union in 1991. Vouchers are also available in Bangladesh, Chile, Colombia, Estonia, Guatemala, India and the state of Punjab in Pakistan.

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: 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.[94] This programme has helped expand enrolments in private schools, improve grade point averages, shorten distances travelled, and reduce spending on education for poor families.[95]

Chile's voucher scheme, introduced in 1981, is a universal one under which public funds follow all pupils to the public or private schools of their choice. Independent schools have thus grown to the point where 52% of pupils attend them.[96] As private school enrolment has increased, various critics have questioned whether vouchers have improved academic performance and, if so, whether this has come at the cost of heightened socio-economic segregation.

In 2018 a study of *The Chile Experiment* by Mariano Narodowski examined both these issues. It compared Chile's performance with schooling in seven other Latin American countries: Argentina, Brazil, Colombia, the Dominican Republic, Mexico, Peru and Uruguay. All these countries have similar socioeconomic structures and educational systems focused on traditional public schooling.[97] Changes in academic achievement were assessed by comparing six sets of data collected at three-yearly intervals (from 2000 to 2015) by the Programme for International Student Assessment (PISA). This comparison, reports Mr Narodowski, "showed considerably higher academic achievement for Chile, which continued to improve between 2000–2015. In PISA 2000, Mexico ranked as the top Latin American country with an average of 410 points followed by Chile (402) and Argentina (400). In PISA 2015, Chile ranked first with 443 points followed by Mexico and Costa Rica (both 416)". Chile thus notched up a considerable improvement in academic performance and in 2015 "scored higher than any other Latin American country in math, reading and science".[98]

The study also found that fears of increased segregation in Chile's schools were misplaced. All the school systems in the eight countries assessed were relatively segregated, but Chile's school voucher system seemed to have prevented segregation from becoming worse**.** Mr Narodowski put it thus: "Most Latin American countries experience similar segregation trends without voucher systems. In fact, this report's analysis reveals that other Latin American countries have higher segregation and lower academic performance, while the Chilean voucher system stabilises segregation levels and improves test scores."[99]

Other voucher successes are apparent. Colombia has "one of the largest voucher programs in the world [and] awards vouchers by random assignment", notes EdChoice, a United States (US) non-profit foundation committed to expanding school choice. The Colombian voucher programme has also been effective in "improving student achievement and attainment", it says. In one study, for example, economists from the Massachusetts Institute of Technology (MIT) and Harvard University found that "vouchers increased high school graduation rates by five to seven percentage points, compared to a baseline graduation rate of 25 percent to 30 percent".[100]

Voucher benefits are also evident in Pakistan. Here, as EdChoice reports, "a study on the effects of the Education Voucher Scheme…found that the voucher students, all of whom came from disadvantaged backgrounds, generally showed equal levels of academic success as the students who came from middle-income groups. Considering the large disparity between these two groups, the 'catch-up rate' [was] impressive". The voucher programme also "brought back some 20–25 percent of drop-out students", helping to resolve a major problem.[101]

Countries in the European Union (EU) provide considerable school choice, with many pupils attending private schools partially funded by governments.[102] In 2010 a comparative assessment by Harvard Graduate School of Education Assistant Professor Martin West and University of Munich Professor Ludger Woessmann used data from the Programme for International Student Assessment (PISA) to analyse "the mathematical, scientific, and reading literacy" of nearly 220,000 students in 29 OECD countries".[103] The study found that "students in countries with higher proportions of children enrolled in private schools scored higher on internationally comparable exams". Added Professors West and Woessmann: [104]

> Our results suggest that students in public schools profit nearly as much from increased private school competition as do a nation's students as a whole. Competition from private schools improves student achievement, and appears to do so for public school as well as private school students. And it produces these benefits while decreasing the total resources devoted to education, as measured by cumulative educational spending per pupil.

The extent of the improvement revealed by the study was striking. According to the news editor at the Harvard Graduate School of Education, "the results showed that a 10 percent increase in enrolment in private schools improved a country's mathematics test scores on PISA by almost half a year's worth of learning. A 10 percent increase in private school enrolment also reduced the total educational spending per student by over 5 percent of the OECD average."[105]

Voucher and other school-choice programmes have also grown in the United States since the start of the Covid-19 lockdown in 2020. By 2024/25, school choice – based either on vouchers or a variety of similar educational scholarships and tax credits – had been introduced in 33 states (plus Washington DC and Puerto Rico) and reached approximately 1.2 million pupils. In addition, as EdChoice noted in its 2025 report on *The ABCs of School Choice* in the US, the number of states offering universal access to school choice to all their K-12 students had grown from zero in 2021 to 13. This means that "approximately 40% of the nation's students are eligible to participate in a private school choice program".[106]

Florida is one of these 13 states, having opted in 2023 to provide "universal…access to all K–12 students" via a state-funded "educational savings account" (Florida's Empowerment Scholarship) and the conversion of an existing voucher scheme into an education savings account with "a broadly flexible use". This, says EdChoice, has made Florida into "the nationwide model for educational freedom and choice". The state currently has close on 221,000 participating students at 1,960 participating schools, while "any Florida student who wishes to participate may receive funding".[107]

Vouchers remain particularly popular among black families, who have used them since the 1990s – when the Milwaukee Parental Choice Program gained momentum – to remove their children from bad inner-city schools and enrol them in better-quality suburban ones.[108] One recent opinion poll indicates that 79% of black families approve of school vouchers, while another puts support for school vouchers among black Americans at 74%.[109] In 2019 the Cato Institute found that 69% of black Americans supported school vouchers, as did 73% of people with annual incomes below $20,000.[110]

Black pupils with access to vouchers (or similar assistance) have benefited significantly, achieving better educational outcomes and increasing their prospects of graduating from high school or college. Wrote Patrick J. Wolf, a distinguished professor of education policy at the University of Arkansas in Fayetteville in 2021: "The 19 most rigorous scientific studies of private school-choice programs find that they tend to have positive effects on student achievement, especially several years after students have entered a private school of their parents' choosing. The evidence is even stronger that choice programs increase the chances of a student graduating from high school, attending college, and receiving a college degree."[111]

Housing vouchers

In 1994 South Africa's housing backlog stood at 1.5 million units, prompting the ANC government to promise the delivery of a million "free" houses within five years. By 2024, according to official figures, the government had provided very much more: some 5.2 million houses and flats, along with close on 1.3 million serviced sites. 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, 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.[112]

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. These Reconstruction and Development ("RDP") houses were to be financed via a state subsidy of R12,500 per household, which had to cover land and services as well as a top structure. RDP houses, at some 25m^2 on average, were thus far smaller than the four-room dwellings the National Party government had earlier provided in many townships and were often derided as "dog kennels".[113]

In response to mounting dissatisfaction, the National Housing Act of 1997 gave provincial administrations the task of approving housing projects, contracting with construction firms, overseeing projects, and administering the subsidy system.[114] However, BEE preferences in procurement soon resulted in inflated pricing, corruption, and defective delivery. Said Frank Chikane, a former director-general in the presidency, in 2010: [115]

> 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 worse cases were houses reported as built and paid for when they did not exist. The [contractors] had just stolen the money.

BEE procurement 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.[116]

In time, persistent dissatisfaction prompted the adoption in 2004 of a revised housing policy called *Breaking New Ground* (*BNG*). BNG houses were bigger (at 40 m^2), 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.[117] Often, however, these promises remained unmet.

By 2014 individual subsidies for BNG houses had risen to some R160,500 for the top structure alone, without land or title.[118] 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.

Slower delivery was a significant factor in the rising housing backlog. However, the main reason for it lay 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.[119]

In addition, 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.[120]

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.[121]

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.[122]

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" by accumulating savings to help meet their housing needs. Another important goal was to "mak[e] the rules for allocating subsidies transparent, [so that] opportunities for corruption and political favouritism would be reduced."[123]

Chile's housing voucher programme has notched up significant successes in reducing the proportion of households with no or sub-standard housing. The proportion of households lacking adequate housing fell from 23% in 1992 to 10% in 2011 and declined further to 7.5% in 2024.[124] The country's housing subsidies have also 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.[125]

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.[126] 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.[127] A recent evaluation of this rental voucher found that it "significantly reduced over-crowding", which showed a 37% decline among voucher recipients compared to a control group. It also "increased residential mobility", making it easier for recipients to move to other areas. In addition, it gave many people access to homes with more desirable features, including independent kitchens and heating.[128]

Rental vouchers are also available in the US, via the tax-funded Housing Choice Voucher scheme introduced in 1974.[129] In 2025 these vouchers went to some 2.3 million low-income families in many different states.[130] Though these vouchers were initially intended to cover home rentals only, they can now also be used to help buy houses.[131]

This US 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. However, funding is limited, so waiting times in many states are long.[132]

A plethora of subsidies in South Africa but little progress

Despite the lessons from abroad, South Africa continues to focus too much on new housing delivery by the state. According to the 2025 *Budget Review*, the national department, working together with provinces and municipalities, aims to provide close on 86,000 subsidised houses over the next three years.[133] However, both the targets set and the delivery achieved in recent years remain too low to meet the scale of need. In 2021/22, for instance, some 28,350 BNG houses were completed[134], while 38,360 were delivered in 2022/23 and 35,460 in 2023/24.[135] At this last delivery rate, it will take 65 years for the state to provide new houses for the 2.3 million households already on the national waiting list – let alone for it to start meeting future needs.

Some positive developments have also occurred. Individual subsidies – which used to be 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 to some R260,000,[136] while the qualifying income ceiling was raised in 2017 from R3,500 to R5,500 a month.[137]

In addition, households with monthly incomes above the specified ceiling but below R22,000 a month are eligible for the Finance-Linked Individual Subsidy Programme (FLISP). This provides subsidies on a sliding scale, ranging from R169,300 for those at the lowest income level to R39,000 for those at the highest. FLISP subsidies may also 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, families may add top-up funding either from their own savings or by obtaining mortgage or other loans. [138]

However, since FLISP began in 2012, the number of subsidies granted has remained low. In the first four years, a mere 6,300 FLISP subsidies were approved, or roughly 1,575 a year.[139] Though the pace has picked up slightly since then,[140] the target for FLISP subsidies in the 2024/25 financial year was a mere 2,170. Though 2,203 subsidies were in fact provided,[141] these are again small numbers compared to the housing shortfall.

In addition to the individual and FLISP subsidies earlier described, the government currently provides nine other subsidies geared towards specified housing needs. These subsidies focus, for example, on the building of homes on farms owned by others or on land held in customary tenure. Various subsidies aim at developing affordable rental units for social housing purposes.[142] However, the many different subsidies currently available all have to be administered and monitored by officials. This adds to the bureaucratic burden but has little positive impact on delivery. This plethora of programmes needs to be reconsidered.

The upgrading of informal settlements continues too, as the BNG policy recommended in 2004. Some 1.5 million serviced sites were provided by 2022/24,[143] but this total is too small to meet the scale of need. Annual progress is often slow, with a mere 25,300 serviced sites provided in the 2022/23 financial year, for instance.[144] The number of informal settlements has thus increased sharply from the 300 evident in 1994 to the 2,700 reported in 2019[145] and the 3,200 reflected in the 2024 *White Paper for Human Settlements*.[146] (The number of informal settlements might in fact be higher still, at some 4,300, as the *Mail & Guardian* reported in October 2023.)[147] Informal settlements are continuing to "mushroom", notes the 2024 *White Paper*, while almost 5 million people now live in them.[148]

A simplified housing voucher

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 households. 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.

This simplified housing voucher system would stimulate housing supply, as every household that received a voucher would have a strong interest in ensuring its optimal use. 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.[149] 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.

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 new housing developments. However, the expropriation of privately-owned land for housing purposes – as recommended in the 2024 *White Paper*[150] – should be avoided to safeguard property rights, attract investment, and help stimulate economic growth.

The government should also streamline 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 be provided to all new and existing home-owners – including the roughly 9.6 million black South Africans who already own houses but often lack secure title to them.[151] To speed up this process, the skills and resources of the private sector and civil society organisations should 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.

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

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 subsidies or supply them with a small and probably defective BNG home. Competition and innovation would expand, along with individual initiative and self-reliance. 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

Since 1994 spending on public healthcare has gone up from R15.6bn to R296bn in 2025/26, an increase in nominal terms of some 1,800%.[152] 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. 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 Mr 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".[153] Often, moreover, BEE procurement rules have facilitated this corruption. According to an interim report by the Special Investigation Unit (SIU), some R2bn has been looted from Tembisa Hospital in Ekurhuleni through a complex web of fraudulent tenders at inflated prices. Of this R2bn, adds the SIU, roughly R122m has gone to health officials in corrupt payments.[154]

The public sector's capacity to comply with basic healthcare norms is also poor. From 2015 to 2019, four successive reports by the Office of Health Standards Compliance (OHSC) – a state entity charged with measuring compliance with healthcare standards – found that some 80% of public clinics and hospitals did not comply with these important norms. Persistent failures were evident in this period, even on such essentials as hygiene and the availability of medicines.[155] The OHSC attributed these outcomes to "a lack of competence", coupled with poor "leadership and management".[156] In its 2018 report it added that "there was no evidence of oversight and/or accountability" at many of the facilities it assessed.[157]

The most recent OHSC *Annual Inspection Report*, for the 2022/23 financial year, paints a similar picture. In the four years from 2019/20 to 2022/23, it says, the percentage of compliant health establishments rose from 15% in the first year to 42% in the fourth. (However, the improvement in this last year is largely because 51 acute private hospitals were included in the OHSC assessment for the first time and attained a compliance rate of 86%.) Cumulative figures for the period from 2019 to 2022 show that 2,410 health establishments were inspected in this time, of which 699 were found to be compliant. This yields an overall compliance rate of 29% over these four years.[158]

By contrast, South Africa has a world-class system of private healthcare to which more than 40% of households have access. According to Discovery Health, the country's largest medical scheme, many of these households obtain private health services through out-of-pocket payments, while 15% have access via medical schemes and some 1.2 million people are covered by health insurance policies.[159] In the 2024/25 financial year, spending on private healthcare amounted to around R300bn. Of this, some R250bn went to medical scheme contributions and personal medical savings, while some R44bn was spent on out-of-pocket purchases and the rest on health insurance cover.[160]

The number of people belonging to the country's 71 medical schemes has risen from 6.9 million in 1997 to 9 million in 2024.[161] However, the population has increased over the period, so medical scheme membership as a proportion of the total has fallen from 17% in 1997 to 15% in 2024.[162] Many more South Africans would be able to afford medical aids if economic growth was high, employment was expanding, and medical schemes were less expensive. However, far from promoting positive changes of this kind, the government has hobbled the economy and pushed up the costs of medical scheme membership through 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 pushes premiums up for all members.[163] 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,[164] which most people cannot afford.[165]

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.[166]

Low-cost options of this kind were supposed to become operative in January 2016.[167] But 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 outlined below.[168] Yet if low-cost options were allowed, at least 10 million more people could join the medical schemes of their choice and the pressure on the public sector would be greatly reduced.[169] (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.)[170]

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 generally excellent but costly private one – lies in the introduction of the NHI. The National Health Insurance Act of 2023 – which was signed into law in May 2024 but has yet to become operative – will in practice put an end to all medical schemes. It will also 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 considerable additional taxes will be needed to fund the new system. In addition, all NHI procurement will be made subject to BEE preferences, which will greatly expand the scope for corruption and inflated pricing.[171]

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 affordable 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 people 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 would probably need to shoulder 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.)[172]

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 to how the monies in their HSAs are spent. Individuals should also be allowed to carry forward any unspent monies from one year to the next and access their accumulated HSA savings on a tax-free basis when they retire. This would encourage people to be prudent in their healthcare purchases.[173] It would also encourage doctors and other healthcare providers to start competing more vigorously for the custom of people spending what they now regard as their "own" money. This would help to stimulate a range of cost-effective innovations in the provision of health services.[174]

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.[175]

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 important incentives to improve its performance.

Health vouchers for the disadvantaged

Tax-funded health vouchers are used in several 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:

> Health care policies in developing countries have traditionally focused on public financing and provision... Low-priced or officially free public health care was intended to ensure the entire population's access to care. [Yet] in many developing countries, people, including many poor, seek better-quality health care in the private sector and pay out of pocket... In response, policymakers are trying various demand-side approaches to financing health care, that is, subsidizing the consumer of health care 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 Reproductive Health/Family Planning), and are usually for use in the private sector, as public care is supposed to be free or low cost.

India introduced a health voucher scheme in 2005. Called Janani Suraksha Yojana (JSY), it took the form of a conditional cash transfer aimed at incentivising women to give birth in a health facility. Though subsequent evaluation has found that JSY payments often bypass the poorest and least educated women, they have nevertheless "had a significant effect on increasing antenatal care and in-facility births". They have also shown some success in reducing neo-natal deaths.[176]

By 2013, health vouchers had been introduced in 12 countries, including Armenia, Cambodia, Kenya, Nicaragua, Tanzania, Uganda, Vietnam and Yemen. Most of these voucher programmes provided low-income women with access to ante- and post-natal care, as well as institutional deliveries. In 2013, a London-based consultancy evaluated the voucher programmes in these 12 countries and reported that "vouchers had improved demand for services". Added the 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.[177]

The consultancy's 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. Added the report: [178]

> 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... 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.

In 2016, a World Bank report on health vouchers in Uganda highlighted another advantage of "output-based aid (OBA)" of this kind, saying: [179]

> 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 health care 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 health care 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 health care and health outcomes at the facility level and among the general population.

This report also found that the reproductive health voucher program implemented in 20 western and southwest districts of Uganda from 2008 to 2012 had resulted in "a 16-percentage-point net increase in private facility deliveries and a decrease in home deliveries among women who had used the voucher". In addition, "a net 33-percentage-point decrease in out-of-pocket expenditure at private facilities in villages with voucher clients was found, [while] a higher percentage of voucher users came from households in the two poorest quintiles". These results indicated that "a scaled program could help to move the country toward universal coverage of maternal health care".[180]

In 2024, another study sought to evaluate the impact of Uganda's reproductive vouchers in providing access to "a package of safe delivery services". (This package comprised four antenatal visits, safe delivery, and one postnatal visit", coupled with emergency transport and the treatment of "selected pregnancy-related medical conditions and complications".) Having tracked some 1,880 pregnancies involving both beneficiary and non-beneficiary mothers over the period from 2016 to 2019, the study found a significant "positive effect on the survival of new-born babies". According to the study, "the difference in the survival rate between the control group and the treatment group was 5.4 percentage points, indicating that the voucher project reduced infant mortality by more than 65 percent".[181]

In Yemen, another of the 12 countries in which reproductive health vouchers were introduced, a further study drew on data from 2019 to evaluate the impact of the vouchers. It found that "the voucher-supported program had greatly improved mothers' satisfaction, access, and use of all reproductive health services", including modern contraception.[182]

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".[183]

From BEE to EED for growth and prosperity

The economic costs of BEE have never been fully quantified, partly because this is extremely difficult to do. In June 2025, however, the Solidarity Research Institute (SRI) and the Free Market Foundation (FMF) published a comprehensive report, *The Costs of B-BBEE Compliance*. This drew on data from the Broad-Based Black Econonomic Empowerment Commission (which monitors compliance with BEE rules), Statistics South Africa and the Johannesburg Stock Exchange. It also canvassed experience in various other countries where affirmative action programmes have been implemented.[184]

The SRI/FMF report put annual BEE compliance costs at between R145bn and R190bn, amounting to between 2% and 4% of GDP. It estimated that BEE had reduced GDP growth by 1.5% to 3% a year and hence by R5 trillion since 2007. It pointed out that higher growth would have increased tax revenues by R1.15 trillion a year, helping to reduce South Africa's high public debt. It assessed the jobs lost to BEE each year at between 96,000 and 192,000, giving a total of at 3.8 million to 4 million over the years. It indicated that the unemployment rate could have come down to 17% without BEE, providing millions more people with livelihoods and opportunities for upward mobility.[185]

The report was criticised for incomplete data and vague cost estimates. Putting total compliance costs at "2% to 4%" of GDP – the latter being double the former – was little more than "a thumbsuck", wrote Mr Bruce.[186] BEE proponent Safiyyah Patel pilloried the report for failing to isolate the impact of BEE from other economic challenges, including "chronic electricity and water shortages,…endemic corruption…and governance failures". (That these problems have largely been caused and/or exacerbated by BEE was overlooked in her critique.)[187]

At the same time, however, the SRI/FMF report is consistent with other research into South Africa's unusually low growth rates. A recent report by Investec Wealth & Investment International (Investec), for example, contrasts nominal GDP growth in South Africa since 2010 with what could have been achieved at the 4.5% annual growth rates notched up by the country's emerging market peers. Said Investec investment strategist Osagyefo Mazwai: "Had the economy grown at 4.5%, our nominal GDP would have been just below R12 trillion in 2024, compared with the actual number of R7.5 trillion."[188] Growth at 4.5% would have brought many other benefits, including an additional R800bn in tax revenue in 2024 alone. Instead, limited growth since 2010 had diminished the overall tax take by around R5 trillion: enough to "clear almost 90%" of gross public debt. GDP per capita in South Africa had also shrunk, whereas in other emerging markets it had continued to rise. So great was the resulting gap, said Mr Mazwai, that "per capita, the rest of the world was 50% richer than the average South African".[189]

The SRI/FMF report may lack the detailed data that some critics would prefer, but the information it has assembled on the likely costs of BEE nevertheless provides important insights. At the very least, it gives the lie to Mr Ramaphosa's claim that BEE is vital to "inclusive growth". It also shows that the "fake" transformation that BEE provides will never generate the investment, growth, and employment the country so badly need. "True" transformation of the EED kind would help achieve this, but BEE cannot.

Moreover, BEE has been particularly damaging in the pervasive and persistent corruption it has spawned. Some BEE proponents claim that this corruption is relatively rare, with only "a minority co-opting the policy to amass obscene wealth", as *Daily Maverick* editor Zukiswa Pikoli has put it.[190] But corruption is in fact the inevitable outcome of according the government – and the ANC's deployed cadres – extensive discretionary powers to dispense with merit in employment and competence in procurement. These discretionary powers also allow them to divert the state's resources to their own families and friends, who commonly hide behind the veil of companies set up solely to secure state tenders at inflated prices.

The close link between discretionary state power and corruption is evident in many other countries too. In the words of the late Walter Williams, an American economist: "When politicians decide who gets what, corruption is inevitable."[191] Adds Eustace Davie of the FMF: [192]

> When government holds power to decide who may trade, who may contract, and who may work, corruption follows as surely as night follows day. Every permit, licence and tender becomes an opportunity to sell favour... BEE entrenches the power of officials to decide who may participate in the economy, and they use that power to reward allies and exclude others. Corruption is therefore not an aberration; it is a function of the law itself.

Once corruption of this kind takes root, "every expansion of government discretion reduces the scope for honest business", says Mr Davie. It also undermines morality in other ways, for "it teaches South Africans that success depends on political favour, not on creating value for others". In addition, "it divides people between those who grant favour and those who must seek it, replacing the pride of self-reliance with submission to authority and the hope of patronage."[193]

Factors of this kind make it all the more important that a real debate on the costs and consequences of BEE has finally begun. Significantly, a non-racial alternative to BEE has also been put before Parliament, in the form of a private member's bill entitled the Public Procurement Amendment Bill or the Economic Inclusion for All Bill.[194] Though this DA-sponsored Bill is unlikely to be adopted, it underscores the urgent need for a new empowerment policy – one that emphasises non-racialism and limits abuses by a self-serving elite.

The DA Bill seeks to repeal the BEE Act and its codes, wind down the BEE Commission within 12 months, and systematically remove all references to BEE from the Statute Book. It also aims to amend the Public Procurement (PP) Act of 2024, which is still to be made operative. The Bill would delete all racial preferences and set-asides from the PP Act. It would also introduce a new scorecard for companies wanting to win tenders from state entities for the supply of goods and services.

Under the "value-for-money" element in this scorecard, bidding companies would earn 80 points out of 100 for efficient, cost-effective, timely and innovative delivery. Under the "economic inclusion" element, companies would earn the remaining 20 points for measurable actions that help advance one or more of the United Nations Sustainable Development Goals (UN SDGs). In addition, any bidding company with "a proven record of fraud, corruption or misrepresentation" would be disqualified.[195]

The 17 UN SDGs cover a broad range of objectives, from "no poverty" and "zero hunger" to "clean water and sanitation", "good health and well-being", "quality education", "decent work and economic growth", "responsible consumption and production" and "affordable and clean energy".[196] According to the DA, making 20 points available to bidders for their contributions in any of these areas will promote a necessary focus on "poverty alleviation, job creation, education, health, and environmental sustainability".[197]

The DA Bill is an important step towards removing the BEE leg-iron hobbling the economy and hurting the poor. Under this approach, however, the EE Act would remain, along with the racial classification this statute requires. Racial targets in employment would continue to undermine public sector efficiency, erode private sector competitiveness, and provide the ANC with cover for its cadre deployment strategy. For as long as deployed cadres in state entities are in charge of public procurement, moreover, it will be difficult to end corruption and inflated pricing in state tenders, as the Bill seeks to do.

In addition, though developmental projects of the kind envisaged in the UN SDGs may help alleviate poverty, there is a risk that business contributions spread over 17 wide-ranging goals will have too little impact overall. The Bill's approach is also unlikely to bring significant improvements to the state's dysfunctional schools, health services and housing programmes. To achieve this, South Africa needs to terminate the racial targets in the EE Act (and in all other race-based laws). It also needs to empower the disadvantaged – in tangible and effective ways – to obtain the schooling, healthcare and housing of their choice. In seeking fundamental reform, it is important, thus, to go still further than DA has done and push strongly for a shift from BEE to EED.

EED offers the best way of ending all race-based laws, eliminating the abuse of discretionary state power, and achieving transformation of a truly beneficial kind. By rewarding business for all its vital economic contributions, EED will lift business confidence, encourage investment, promote entrepreneurship, increase the growth rate, and help generate millions more jobs. At the same time, EED's focus on disadvantage rather than race will terminate race classification, reduce racial polarisation, increase social cohesion and halt the capture of empowerment benefits by a relatively small black elite. In addition, the voucher element in EED will offer a swift and effective solution to vital and largely unmet needs for sound schooling, housing and healthcare.

As the IRR has noted once again in its 2025 *Growth Strategy*, many other sound policy interventions are also needed 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, exacerbated unemployment, encouraged rent-seeking and corruption, and promoted a debilitating sense of victimhood and dependence on the state. By contrast, EED reduces discretionary state power, while fostering competition, innovation and self-reliance. EED, in short, puts its emphasis on all the right '**E**s', for it seeks to bring about rapid **e**conomic growth, very much more **e**mployment, greatly increased **e**fficiency and cost-**e**ffectiveness, vibrant and successful **e**ntrepreneurship, and a dependable means of achieving **e**xcellent education, housing and healthcare.

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