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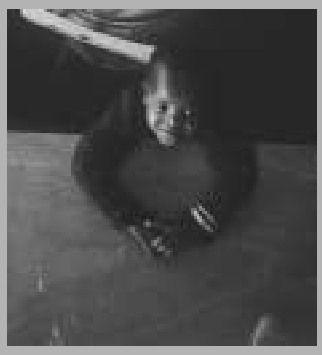

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Transforming the Present - Protecting the Future

Consolidated Report

Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa

March 2002

Dr ZST Skweyiya, MP
Minister for Social Development
South Africa

Minister

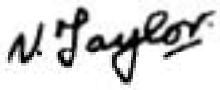
Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa

We have the honour to present to you the Report setting out our findings, conclusions and recommendations.

A comprehensive Report of the Committee of Inquiry is presented here, drawn from the detailed research chapters developed by the Committee.

Careful consideration has been given to meeting the Terms of Reference of the Committee as approved by Cabinet. The Committee has been mindful of the significance of social protection as an instrument to redress the legacy of apartheid and promote social and economic development that prioritises the most disadvantaged.

Professor Viviene Taylor
Chairperson



Signed: March 2002

Committee Members

The Cabinet appointed the following as Committee Members.

- Professor Viviene Taylor (Chairperson): Special Advisor, Minister for Social Development
- Mr Fezile Makiwane, Chief Director: Social Security, Department of Social Development
- Professor Pieter le Roux, Director: Institute for Social Development. University of Western Cape
- Mr Elias Masilela, Chief Director: Macro-economic Policy Department of Finance
- Mr Alex Van den Heever, Advisor, Council for Medical Schemes
- Dr Charles Meth, Senior Lecturer: Department of Economics. University of Natal
- Mr Shadrack Mkhonto, Commissioner: Unemployment Insurance Fund. Department of Labour
- Professor Guy Mhone, Director: Graduate School of Public and Development Management, University of Witwatersrand
- Professor Anthony Asher, Department of Statistics and Actuarial Science, Wits University
- Mr John Kruger, Chief Director: Social Services. Department of Finance
- Professor Marius Olivier, Director: Centre for International and Comparative Labour and Social Security Law (CICLASS), Rand Afrikaans University (RAU)
- Mr Ravi Naidoo, Director: National Labour and Economic Development Institute (NALEDI)
- Mr James Chiumya, Chief Director: Department of Transport
- Mr Patrick Masobe, CEO: Council for Medical Schemes
- Ms Nobayeni Dladla, Chief Director: The Presidency
- Ms Doris Sikhosana, Executive Director: Community Internship and Development Programme. University of Natal
- Adv. Michael Masutha. Member of Parliament
- Ms Brenda Khunoane, Director: Department of Health.

Professor Francie Lund was unable to take up her membership on the Committee because of other work pressures and Ms Doris Sikhosana was also unable to fully participate in the work of the Committee. However, both Professor Lund and Ms Sikhosana made useful contributions to the work of the Committee.

Contributors

South African

Many academics, research institutions, non-governmental agencies and universities made valuable research and other contributions. Their role in the Inquiry was essential to the work of the Committee. The various policy research institutes and others that assisted the Commission include:

- Economic Policy Research Institute (EPRI) especially Dr Michael Samson who with his colleagues, Mr Gilbert, Mr Kenneth Mac Quene, and Ms Ingrid van Niekerk, provided significant insights on various scenarios and micro-simulations commissioned by the Committee
- National Labour and Economic Development Institute (NALEDI) especially Ebrahim Hassen, Mandy Moussouris, David Jarvis, Eric Watkinson and Claire Horton
- National Institute of Economic Policy (NIEP), especially Dr Asghar Adelzedah
- Dr Claudia Haarmann and Dr Dirk Haarmann from the Institute for Social Development at the University of the Western Cape for sharing their research with us
- Professor Nicoli Nattrass of the University of Cape Town and Marlese von Broembsen for contributing extremely useful research papers and analysis
- Professor Sandra Liebenberg of the Community Law Centre of the University of Western Cape
- Centre for International and Comparative Labour and Social Security Law (CICLASS), RAU – staff members, researchers and associates: Ms Adriette Dekker, Mr George Mpedi, Ms Gail Kuppan, Ms Elsabe Klinck, Prof. Linda Jansen van Rensburg, and Mr Francisco Khoza
- South African Development and Policy Research Unit (SADEP) and the Department of Social Development of tha University of Cape Town
- Health Economics Unit especially Prof. Di McIntyre
- The Child Health Policy Unit of the University of Cape Town
- Industrial Health Research Group of the University of Cape Town
- Ms Debbie Budlender of the Community Agency for Social Enquiry (CASE)
- The South African Federal Council on Disability.

In addition views and insights were received from bodies such as:

- The Commission on Gender Equality
- The Human Rights Commission
- The Youth Commission
- The Finance and Fiscal Commission
- The Office of the Public Protector
- The Financial Services Board
- The Competition Board.

Major stakeholders who contributed through consultations and submissions include:

- Business South Africa
- Cosatu
- Nedlac
- Sangoco
- Sanco
- SACC
- Catholic Bishops Conference.

International Experts

The Committee benefited from the contributions made by leading international experts and organisations. Particular mention must be made of the role of Mr John Langmore, Director of the Bureau for Economic and Social Policy in the Division of Economic and Social Affairs of the United Nations and Dr Sergei Zelenev, Senior Policy Analyst who facilitated the participation of an expert group of international participants in the South African process.

In addition Dr Guy Standing of the ILO and Dr Robert Holzman from the World Bank together with other leading international experts shared valuable experience.

United Nations Expert Group on Social Protection

Particularly for their participation, as the United Nations Expert Group on Social Protection, in a number of workshops and discussions.

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Faith Innerarity: Chairperson of the Commission for Social Development and Director, Social Security, Ministry of Labour, Social Security and Sport, Kingston, Jamaica.

United Kingdom

The role of Mike Noble and Robert van Niekerk of Oxford University facilitated the sharing of experiences from the United Kingdom in research debates on *"Alleviating Poverty and Building Citizenship in South Africa through Social Security: What lessons from the UK Experience"*. The Rhodes Trust and DFID provided financial assistance for the UK debates. The contributors are listed below:

Sir Anthony B Atkinson: Warden, Nuffield College, Oxford University. He served as member of Royal Commission on the Distribution of Income and Wealth, Pension Law Review Committee, and Social Justice Commission

Fran Bennet: Research Fellow, Department of Social Policy and Social, previously worked as Oxfam Policy Adviser on EU/UK Poverty Issues

Martin Evans: Research Fellow at the Centre for the Analysis of Social Exclusion at the London School of Economics

John Hills, CBE: Director of the Centre for Analysis of Social Exclusion and Professor of Social Policy at London School of Economics

Marilyn Howard: Independent Social Policy Analyst related to sick and disabled people

Jane Lewis: Barnett Professor of Social Policy in the Department of Social Policy and Social Work I (Oxford)

Ruth Lister, CBE: Professor of Social Policy and Acting Head of Department of Loughborough University

Jane Millar, OBE: Professor of Social Policy Department of Social and Policy Sciences Director of the Centre for the Analysis of Social Policy, University of Bath

Michael Noble: Head of Department, Department of Social Policy and Social Work, Oxford University and Reader of Green College

David Piachaud: Professor of Social Policy at the London School of Economics. Professor Piachaud has written extensively on child poverty, social security and social exclusion

Katherine Rake: Lecturer in Social Policy at the London School of Economics

Adrian Sinfield: Professor Emeritus of Social Policy of The University of Edinburgh

George Smith: University Research Lecturer in the Department of Social Policy and Social Work, Oxford University and is Co-director of the Social Disadvantage Research Centre

Gavin Williams: Fellow of St Peter's College, Oxford University.

Other International Experts

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Prof. Jos Berghman: Catholic University of Leuven, President: European Institute of Social Security

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Mr Wouter van Ginneken: Co-ordinator, Extension of Social Protection: Research and Policy Development, ILO, Geneva. Switzerland.

Acknowledgements

The Committee has benefited from a large number of individuals and organisations from all sectors of our society. We are grateful to all of them, and especially to the following:

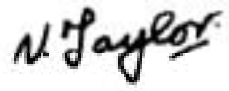
- Ministers, Deputy Ministers, MECs, Directors General, senior officials and many others from all levels of Government who assisted with, or participated in the process in one way or another. Special thanks are due to the Department of Social Development for institutional support provided for the work of the Committee.
- Consultations held with the Directors General of Social Development, Finance, Health, Labour, Public Service and Administration, Transport as well as feedback during presentations made to the Social Sector Cluster of Directors General was useful in identifying current Government measures under way and the issues related to policy monitoring.
- Members of the Social Transformation Committee of the ANC also made useful comments on the work in progress of the Committee.
- International agencies, including the Frederich Ebert Stiftung, the UN Expert Group on Social Protection, The Rhodes Trust and The UK Department for International Development (DfID) for support to the process.
- We also want to acknowledge all those individuals and organisations who participated in the public hearings, those who made written submissions, and those international agencies, NGOs, private sector, unions, universities and research institutions which participated in a number of very useful workshops. A full list of these together with the consultation process is made available separately.

The work of the Committee and of the Chair was supported during various stages in the Inquiry by a core team of individuals whose effort, commitment and energy in the process was invaluable. Mr Fezile Makiwane and his staff, Mr Ravi Naidoo and his team of researchers, Dr Charles Meth, Mr Alex van den Heever, Prof. Pieter le Roux and other Committee members who chaired task teams and subcommittees such as Prof. Marius Olivier and his team of researchers, Prof. Anthony Asher, Prof. Guy Mhone must be acknowledged.

The staff in the Ministry of Social development, particularly Ms Theresa Small and Lana Peterson, provided invaluable support to the Chair. Ms Lydia Ntenga provided invaluable assistance both as a researcher and with administrative co-ordination. Ms Sandra Campbell who consistently supported the work of the Committee and other administrative and secretarial staff from the Social Security Directorate must be acknowledged with grateful thanks.

In the process of cross checking and verifying research findings and data and sourcing the most up to date research I was pleased to have the able and committed assistance of many individuals but Mr Oliver Babson, from Princeton University, was extremely helpful and invaluable in this regard, as a research assistant to the Chair.

There were many individuals and organisations who contributed and whose support in the process was important such as Kate Skinner and Allan Taylor.



Professor Viviene Taylor

Chairperson

Foreword by the Chair

The findings and recommendations contained in the Report of the Committee of Inquiry into Comprehensive Social Security represent a wide range of views, empirical research and policy analysis based on the most recent data available. It is in keeping with the Terms of Reference as laid out by the South African Cabinet. It also includes additional areas that the Committee was requested to investigate such as Disability and a necessary expansion of the brief based on certain problems identified that required urgent attention in the short term.

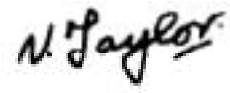
The findings in the report indicate that South Africa has made significant advances in addressing some of the most fundamental problems in social development. However, given the historic backlogs as a result of apartheid and the contradictory impacts of this phase of economic globalisation, the challenges of addressing structural poverty and inequality are many. Government's emphasis on the need to redesign the existing piecemeal and fragmented system in response to these challenges is timely and significant.

Throughout the Inquiry, the Committee was mindful of the complex nature of the issues that were before it and also of the many diverse and competing claims and interests that had to be considered. Despite this, the overwhelming experience of the Committee was the commitment shown by all sectors across South Africa to address persistent and pervasive poverty.

This report provides a comprehensive attempt to bring together the different elements of a fragmented social security system to address, in a coherent and phased way, the constitutional and democratic imperatives as well as the socio-economic challenges facing South Africa.

While this is not the first time issues of social security have been engaged, this Report is significant for a number of reasons. First, it is one of the most comprehensive inquiries into both public and private forms of social security in South Africa and seeks to identify those who fall through the system and are without any social protection. Second, it identifies the need to ensure that there are complementary and considered relationships between economic and social objectives. Third, it provides recommendations that could ultimately lead to comprehensive social protection within an integrated public-private benefit system. Fourth it prioritises the needs of the poorest and excluded in line with Government's policy framework. Fifth, it provides a baseline of social policy information and analysis that could contribute in a small way to building knowledge and capacity within and outside of Government to make informed decisions on available options to transform the lives of those who are in desperate need and protect the future of all.

Navigating and negotiating a process of social security reform, especially within a comprehensive social protection framework, as suggested by the Committee, is an ongoing and complex process. The Committee is pleased to be able to contribute to this process. The Committee recognises that while a long-term vision and policy framework is essential to ensure a balanced response to economic and social objectives, there is also an urgent need to respond to those whose everyday survival is being compromised.



Professor Viviene Taylor

Chairperson

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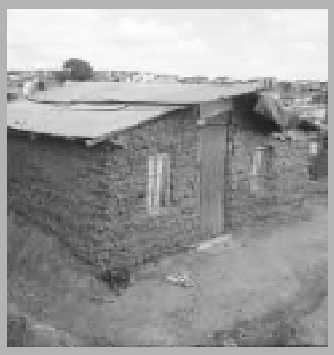


Chapter 1
Introduction

1.1 Purpose of the Committee of Inquiry (the Committee)

1.1.1 Government commitments

Following the 1994 elections, the Government committed itself to a number of specific goals in the area of social policy, including:

- The elimination of poverty and the establishment of a reasonable, and widely acceptable, distribution of income
- The provision of a reasonable income in old age
- The provision of affordable, decent and effective healthcare for all
- Full employment, or if this proves not possible, an adequate mechanism to deal with poverty.

The above are reflected in the Constitution where, as stated in Chapter 2, section 27 (1)(c), everyone has the right to have access to social security, including appropriate social assistance, which is part of a publicly funded social security system.

These commitments have also been taken forward in a number of policy documents including the Reconstruction and Development Programme (RDP) and in tripartite agreements.

The essence of these policy objectives is also included in the Growth, Employment and Redistribution (GEAR) framework.

1.1.2 Findings of the inter-departmental task team reporting in 1999

An inter-departmental task team, convened by the Department of Social Development, reviewed the social security system and identified crucial gaps. These include:

- The Unemployment Insurance Fund (UIF) covers less than 40 per cent of the labour force at any given point in time, and offers benefits to less than 6 per cent of the unemployed.
- The private old age pension system provides benefits with insufficiently reliable replacement rates, vesting and portability problems.
- Disability provisions are not comprehensive with overlaps existing between Compensation for Occupational Injuries and Diseases Act (COIDA), the Road Accident Fund (RAF), the Department of Social Development and the private sector.
- Many people remain financially vulnerable in respect of healthcare.
- No child benefits are available for children older than 7 years, and under school-leaving age.
- Large numbers of South Africans remain vulnerable to harsh poverty with limited means of advancement.

In light of the above challenges, the task team recommended that South Africa should

investigate a move to a comprehensive and integrated social security structure. The task team also recommended that a common revenue collection system be investigated.

The task team noted that changes of this kind would require considerable planning, political debate and consultations with the social partners and all sections of the community.

The task team therefore proposed that an inter-departmental task team or committee engage in the necessary consultations and generate final proposals with respect to an improved and better structured social security system.

1.2 Terms of reference

1.2.1 Broad terms of reference

The terms of reference given to the Committee requires the review of a broad number of elements relating to social security. The general objectives of this analysis include:

- ***Options on ultimate objectives and targets for the social security system*:** Alternative options indicating an envisaged final structure should be provided. These should be extensively motivated and viable (Terms of Reference, 2000, par. 2.1.1).
- ***Options for immediate practical implementation:*** Alternatives consistent with envisaged ultimate objectives should be outlined. These would need to be practical and focused on immediate needs, the current level of South Africa's development and affordability (Terms of Reference, 2000, par. 2.1.2).
- ***Viability and implications of options considered*:** All relevant information concerning the viability and significant negative or positive implications linked to any options considered must be provided (Terms of Reference, 2000, par. 2.1.3).

The specific social security areas that must be covered are:

- ***National pensions system*:** This must involve an assessment of the entire environment providing for post-retirement cover, as well as general financial support for the aged (Terms of Reference, 2000, par. 2.2.1).
- ***Social assistance grants*:** This must involve an evaluation of the entire social assistance mechanism including all grants, their funding mechanisms, and the efficiency with which they achieve their goals (Terms of Reference, 2000, par. 2.2.2).
- ***Social insurance schemes*:** All social insurance schemes, including funding and protections for injury on duty and cover for road accident victims, must be examined (Terms of Reference, 2000, par. 2.2.3).
- ***Unemployment insurance*:** The current system of unemployment protection must be examined. This must include the adequacy of all forms of support for the unemployed, including special employment programmes (Terms of Reference, 2000, par. 2.2.4).
- ***Health funding and insurance*:** The public and private sector environments must be examined with a view toward ensuring universal access to basic healthcare (Terms of Reference, 2000, par. 2.2.5).

Each of the specific areas identified above must include the following analyses (Terms of Reference, 2000, section 2.3):

- ***Existing processes*:** In many instances there are existing policy processes examining specific funds and safety nets. The Committee will be expected to liaise extensively with these initiatives in order to inform the final recommendations.
- ***Core issues*:** Each policy area must be examined taking account of the following:
  - Adequacy of adherence to principles of social solidarity
  - The legislative and general regulatory environment
  - The social budget
  - Institutional structure
  - The tax environment
  - Sources of finance
  - Perverse incentives
  - Significant gaps and the underlying reasons
  - Macro-economic environment

- Impacts on Government as an employer
- Income distribution.

- ***Key recommendations on future directions*:**
  - Long-term or ultimate objectives and targets
  - Short-term or required intermediate reforms consistent with the long-term objectives.
- ***Implementation process*:** The Committee must make concrete recommendations on implementation steps and prerequisites.

In addition to the specific analyses indicated above, the Committee is also required to develop a social budget for all the key social security areas (Terms of Reference, 2000, section 2.4):

- The Committee must generate a detailed social budget for the country, outlining public and private expenditure on key areas of social policy.
- The Committee must also set up the basis for the annual presentation of a social budget for the country. This will involve the creation of the relevant capacity within key Government departments to ensure this can be done.

The Committee is also expected to enter into a fairly broad consultation process with all stakeholders (Terms of Reference, 2000, section 2.5):

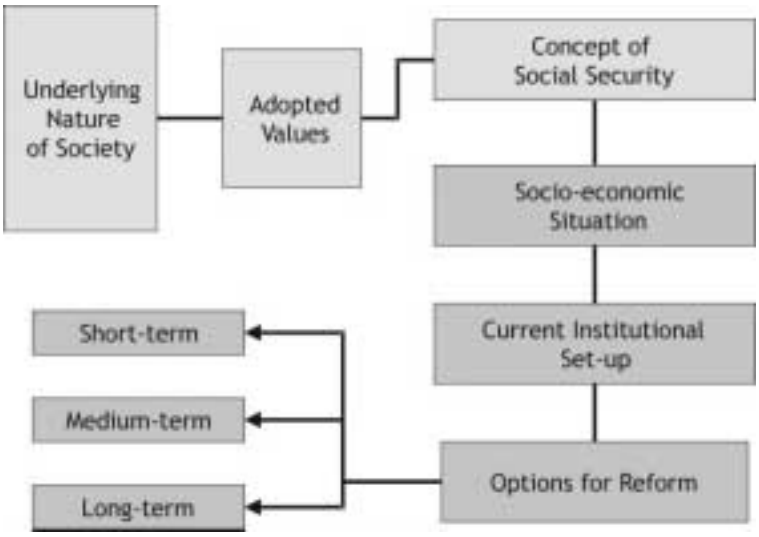
- The Committee will be required to consult with all relevant stakeholders linked to the core issues under examination. The nature and structure of this consultation will be at the discretion of the Committee.
- The Committee will be expected to take inputs from all relevant South African experts in the various policy areas under examination.
- The Committee will be expected to consult directly with all Government departments affected by the proposals.
- The Committee will be expected to review all relevant material on international practice in both industrialised and developing country settings.

1.2.2 Interpretation of terms of reference

The broad and complex nature of the issues raised in the terms of reference provided to the Committee required the initial development of a conceptual framework for defining and evaluating social security in South Africa. The framework settled upon is reflected in figure 1 and highlights the following:

- ***Underlying nature of society*:** This is distinct from the socio-economic structure and reflects the objective state of affairs resulting from the natural incidence of a range of contingencies endemic to human life. These refer to periods of particular vulnerability to which all persons are exposed such as, accident, the loss of parental support, old age, etc.
- ***Adopted values*:** The manner in which any individual or group of individuals responds to the objective conditions underlying the nature of society is essentially based on a set of subjectively determined values. A society can decide to abandon all orphans to the streets, or decide to only assist those from wealthy families. Values can be interpreted from the degree to which organised responses to particular contingencies are arranged (or not arranged). Such values can be explicitly framed in a constitution, a bill of rights and/or legislation. In this sense, socio-economic structure and the related distribution of power in society influence values.
- ***Concept of social security*:** The adopted values can be made explicit in the form a concept of social security, which elaborates the principles that will underpin any organised response to particular contingencies. Such a concept would interpret explicit and implicit values and seek to give them practical form.
- ***Socio-economic situation*:** The prevailing socio-economic environment reflects an additional consideration that may exacerbate particular contingencies faced by society. Certain groups may be more severely affected by disease, early parental mortality, etc.

Figure 1
Framework for evaluating the social security system.

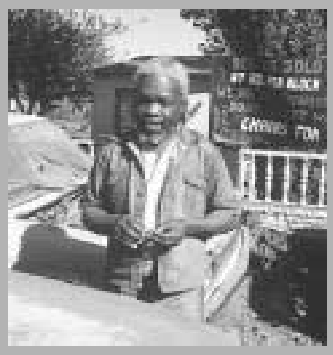


- ***Current institutional set-up*:** The current institutional set-up reflects the prevailing response to the underlying nature and socio-economic situation. This may accurately reflect the adopted values, or be significantly out of step. If the latter, reform options need to be considered.
- ***Options for reform*:** Where the response to prevailing needs in a society is inconsistent with the adopted values, reform is required. Such reform will require short- medium- and long-term objectives to be set.

1.3 Process followed by the Committee

In addition to the above, the Committee noted the fragmented nature of social security policy formulation in a number of critical areas, notably retirement and old age, health, disability, poverty and unemployment. This required that all major areas of social security be examined holistically. The Committee formed a number of sub-committees to facilitate a process consistent with this approach. The sub-committees dealt with health, retirement and old age, unemployment, and poverty. Sub-committees were also formed to focus on cross-cutting issues related to institutional arrangements, financing social assistance, social insurance and non-traditional forms of social security.

The Committee collated information on South Africa's social security system, including views from researchers, Government and private sector stakeholders, and international experts as rapidly as possible. This process included the establishment of sub-committees in key areas focused on by the Terms of Reference. In addition, hearings were set up, research works commissioned, and there was a call for written submissions. Individual meetings were also held with key stakeholders and organisations where this proved necessary.



Chapter 2
The Socio-economic Context

and the Need for Comprehensive Social Protection

2.1 Introduction

South Africa's social safety net has its roots in a set of apartheid labour and welfare policies that were racially biased and premised on full-employment. The last vestiges of state racial discrimination have subsequently been removed, but a key underlying principle of the old system remains in place, i.e. the assumption that those in the labour force can support themselves through work, and that unemployment is a temporary condition. In reality, those who cannot find work (and who do not, or no longer, qualify for UIF payments) fall through a vast hole in the social safety net.

This chapter outlines an analysis of the socio-economic context within which the Committee of Inquiry formulated its recommendations for a reform of the social security system. It points to the changing nature of inequality in South Africa and shows that the current safety net needs adapting to suit today's labour-surplus economy.

Ideally, people should be able to earn a living through employment rather than rely on welfare transfers. In this regard, Government's macro-economic strategy aims to push the economy onto a sustainable growth path that will generate jobs. However, given the size of the unemployment problem and the extent of the growth challenge, full employment is not a feasible scenario in the short to medium term. Moreover, the high levels of unemployment and the social deficit (including extreme poverty and inequality) pose a barrier to the attainment of a sustainable growth path.

2.2 Definition of socio-economic concepts

It is important to clarify the meaning of the terms "poverty", "inequality", "unemployment", "social exclusion" and "vulnerability" because these terms have specific connotations in social security. Also it is necessary to establish why these concepts, in practice, matter to people in their everyday lives.

2.2.1 Poverty

Poverty is usually defined either in absolute or relative terms. In absolute terms, poverty reflects an inability to afford an adequate standard of consumption. In this event, one would use a poverty line, reflecting an income level sufficient to afford adequate consumption, as a point to determine who is poor and who is not. This definition overlooks the distribution of resources in society that often underpins absolute poverty. Thus "relative poverty" refers to the individual's or group's lack of resources when compared to that of other members of that society.

Bringing these absolute and relative concepts together, the Committee of Inquiry states that for a comprehensive social security system, poverty can be defined as the inability of individuals, households or entire communities to command sufficient resources to satisfy a socially acceptable minimum standard of living.

Aside from these technical definitions, how do the poor themselves see poverty? During research for the Poverty and Inequality Report (PIR), developed for the then Deputy President

in 1998, the poor characterised their poverty in the following manner:

- ***Alienation from the community*** They are isolated from the institutions of kinship and community.
- ***Food insecurity*** The inability to provide sufficient or good quality food for the family is seen as an outcome of poverty.
- ***Crowded homes*** The poor are perceived to live in crowded conditions and in homes in need of maintenance.
- ***Use of basic forms of energy*** The poor lack access to safe and efficient sources of energy. In rural communities the poor, particularly the women, walk long distances to gather firewood or water, risking physical attack and sexual assault.
- ***Lack of adequately paid, secure jobs*** Lack of employment opportunities, low wages and lack of job security is a regarded as a major contributor to people's poverty.
- ***Fragmentation of the family*** Many poor households are characterised by absent fathers or children living apart from their parents. Households may be split over a number of sites as a survival strategy.

Apart from the above, poverty matters because it is the best predictor of one's future life trajectory. In particular, the negative impacts of poverty tend to accumulate through a person's lifetime. The greater vulnerability resulting from poverty in youth tends to result in a continuous exposure to various risks (unemployment, ill health, and disability) effectively trapping people and their dependants in a cycle of poverty.

Committe analysis of poverty in South Africa today revealed the following:

- Forty five per cent of the population (18 million people) live on less than $2 a day, as measured by the World Bank.
- Twenty five per cent of African children are stunted (that is, short for their age)
- Ten per cent of Africans are malnourished (that is, underweight for their age)
- Sixty per cent of the poor get no social security transfers.

The Committee of Inquiry has taken into account the quantitative measures of poverty as well as people's actual experiences and perceptions of poverty and how these manifest in social exclusion and instability.

2.2.2 Inequality

Inequality refers to the unequal benefits or opportunities for individuals or groups within a society. Inequality applies both to economic and social aspects, and to conditions of opportunity and outcome. Social class, gender, ethnicity, and locality generally influence inequality. Reducing inequality includes:

- Increasing the relative share of the least well-off
- Improving relative mobility of the poor through reducing barriers to advancement in social and economic life, through promoting participation of disadvantaged groups, and eliminating the disproportionate advantages of the rich in terms of education, access, political power, etc.

Measured by Gini-coefficient, inequality in South Africa is ranked as the fifth highest in the world.

Inequality between races is a striking feature of South Africa. In 1996, 61 per cent of Africans lived in poverty, compared with only 1 per cent of whites. While this figure has probably changed somewhat since then, the continued stark contrast contributes to a perpetuation of apartheid-style prejudice, where notions of an "underclass" are carried over into the post-apartheid era. Flowing from this there is also a stark race differential in terms of who accesses private services (catering for the better off) and who accesses public services (catering mainly for the poor).

In the period 1991-1996, while inequality between races decreased, intra-racial (that is, class) inequality increased. This suggests that the racial divide of the apartheid era, if left to its own devices, could become entrenched as a deep class divide in the post-1994 transformation period.

In designing a comprehensive conceptual framework for social security, the Committee has considered the implications of these factors and the inequalities that emerge from its trajectory into contemporary society. From a social security perspective the key issue is to ensure that those who are currently excluded are

Table 1
Declining household incomes and growing inequality (1991–1996)

	African	White	Coloured	Asian
Poorest 50 per cent	-11 per cent	-16 per cent	0 per cent	-5 per cent
Richest 10	17 per cent	-0,3 per cent	16 per cent	28 per cent

given a stake in the present, and that those who have benefited from past privileges promote a level of solidarity.

2.2.3 Unemployment

The loss of a job, or the inability to find one, has a devastating impact on individuals and their dependents. This goes beyond the loss of income and what it can buy, to questions of social participation and personal identity.

There are two widely used definitions of unemployment: a "strict" and an "expanded" one, with the latter including "discouraged workers" who have given up looking for work.

The Committee's review has shown that employment statistical data and analysis is generally highly contested. Although significant improvements have been made to employment data, some important problems remain to be tackled.

Importantly, with changing forms of employment, and hence changing statistical definitions of unemployment, the distinction between "employed" and "unemployed" is also becoming blurred. For the purposes of social policy, for example, the difference between an unemployed person and someone employed in the informal sector at virtually no income appears insignificant, since such work does not provide adequate job and income security.

However, using the one available set of comparable employment statistics,[1] formal sector employment has fallen significantly. This decline has serious social and economic implications. As mentioned, there well may be concurrent informal-sector employment that is unrecorded. However, household survey evidence demonstrates most of these jobs to be considerably lower-paid and less secure, and thus not significantly compensating for the loss of formal sector jobs.

An important factor that the Committee has had to consider is that South Africa is characterised by a labour surplus economy that is unlikely to change in the foreseeable future. A labour surplus economy with high skills' deficits at the lower end has significant implications for the design of a comprehensive social security system in the short to medium term.

2.2.4 Social exclusion

Social exclusion covers both the static condition (poverty) and the dynamic process (exclusion) through which poverty is caused. As such, the term "social exclusion" is, conceptually, more appropriate for integrated policy purposes than "poverty".

Social exclusion functions through the twin mechanisms of exclusion and inclusion. It is essentially based upon the power of one group to deny access to reward and life-chances to another group; this is on the basis of certain criteria that the former seeks to justify. These criteria could, for example, be income, education, skin colour, language, sex or religious belief.

As in South Africa's apartheid past, social exclusion was about mobilising state machinery and policies to exclude others (black people) from reward and privilege. Social exclusion manifests itself in barriers to advancement based on the economically arbitrary individual characteristics mentioned above. Many of these take the form of exclusion from markets; others take the form of exclusion even when markets are competitive.

Social exclusion implies a dynamic set of processes with a number of aspects:

- ***Relativity*** People are excluded from a particular society, as opposed to a focus on ability to purchase an "absolute" basket of goods that might have been regarded as adequate at another time.
- ***Multi-dimensionality*** Income and consumption are central, but so are other aspects of participation such as the ability to carry out socially valued activity (not

just paid work), political involvement and social interaction. In each dimension inclusion/exclusion are matters of degree, rather than simply of sharp cut-offs.

- ***Agency*** Someone, something or some process is responsible for exclusion or inclusion occurring, while inability to control major aspects of one's life is an important aspect of being excluded.
- ***Dynamics*** Such processes occur over time with long-lasting or cumulative effects. Duration in particular states matter and so do prospects for the future.
- ***Multi-layered*** Exclusion operates at different levels – individual, household, community/neighbourhood, and institutions.

2.2.5 Vulnerability

Vulnerability refers to the risk of a particular individual or group falling into poverty or in situations that compromise their human well-being. Certain individuals or groups, due to their position in society, are more vulnerable than others to the negative consequences of economic, political and social trends, cyclical changes or "shocks". Generally women, children, the unemployed, households and communities with limited assets are least able to cope with the effects of, say, a negative change in basic service provision or access to remittances.

Therefore policy interventions that seek to move people out of poverty, and have them stay out of poverty, need to address questions of vulnerability. Such an approach requires strategies to advance vulnerable individuals or groups more easily out of their precarious environments or at least enable them cope better with any future negative changes.

2.3 South Africa's demographic challenge

Demographic trends are important in determining the direction of a country's social security system. In countries where population growth outstrips economic growth, the pressures on state centred social protection tend to increase. However, population change itself is not the problem, but rather the manner in which the population changes. In many OECD countries, for example, declining population growth with increasing numbers concentrated in the higher age groups have placed pressures on health and retirement cover among others.[5] Where social security benefit systems are designed in part on inter-generational solidarity, such trends raise concerns. Governments' responses to these trends vary with some encouraging birth rates through family and children's allowances and other measures. However, population trends and features that characterise countries in the south (less industrialised countries) differ. In the south, growth trends are higher, populations are concentrated in the younger age categories and life expectancy is relatively low.

Over the past five years, the South African population has grown at an average rate of 2,2 per cent. Currently South Africa's population features by age and gender, depicted in figure 2, reveal a high concentration of the population between the age categories of 0-34 with a higher proportion of women above the ages of 20.

HIV/ AIDS will affect population trends and dynamics such as the size, growth and age structure of the population.

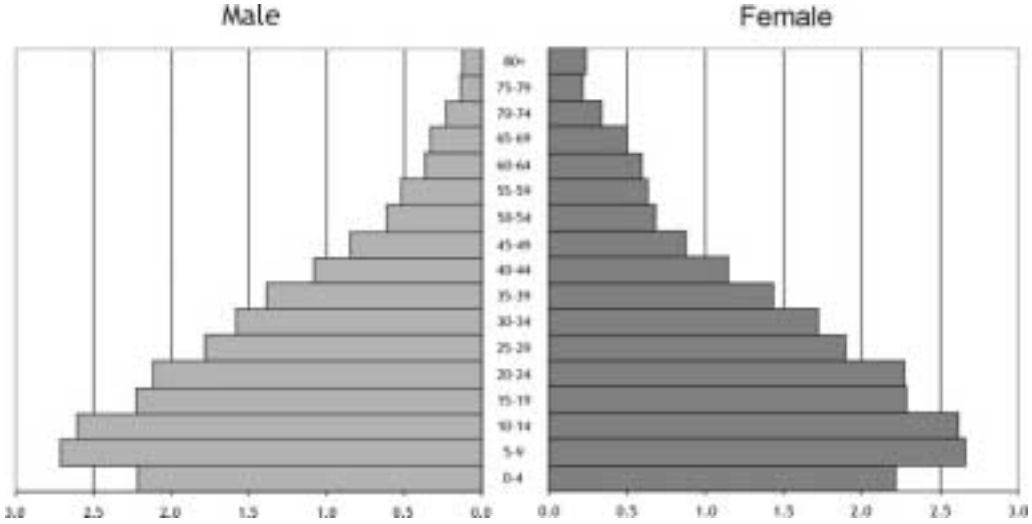
HIV/AIDS is having a profound impact on fertility and mortality rates in South Africa. Life expectancy at birth is also declining. Available information indicates that the average life expectancy at birth in South Africa has already declined from about 63 in 1996 to about 55 in 1999. It is expected to decline even further. There will also be a decline in the number of people in specific age groups, namely 0-4 year olds and 25-34 year olds.

Simultaneously, however, the real number of the old age population in South Africa is increasing rapidly, due to the improved quality of life of people who live through the young adult years of high risk to HIV infection.

The proportion of women in the total population will decline, as women are more vulnerable to HIV infection due to their lower social and economic status, and because of physiological reasons.

As a result of the above, it is expected that HIV/ AIDS will impact upon dependency ratios in South Africa. The projected age structure of the population shows that the proportion of the population in dependent age groups, both children and elderly people, will increase considerably in relation to the potentially

Figure 2
Estimate of the South African population by age and gender (millions of people).



economic active proportion of the population. This, in turn, means that the dependency rate will increase substantially during the coming years, and that there will be proportionally fewer people to care for children and elderly people.

In short, HIV/AIDS will continue to challenge the capability of existing social security programmes to address the increased impoverishment and vulnerability of people.

An important consideration in the design of comprehensive social security for South Africa is the extent to which social security can promote prevention and mitigate the impacts of HIV/AIDS and other chronic illnesses. Critical in this is the increased vulnerability and risk experienced by many because of poverty.

2.4 The structure of the labour force and the employment challenge

2.4.1 The extent of the problem

Unemployment levels have risen almost without pause for the past decade. Apparently accompanying this, at least until fairly recent times, has been a steady loss in formal sector jobs. This latter finding has given rise to an energetic debate, one whose weight can scarcely be borne by the statistics. The September 2000 LFS results record a statistically insignificant increase in formal sector employment over the February 2000 figures – the February 2001 figures, in turn, record a statistically insignificant decline over the September 2000 figures. It seems that at best, formal sector employment is now roughly static, with gains in those industries where employment is growing being counterbalanced by losses in those where it is shrinking.

In the absence of significant formal sector employment growth, the burden of absorbing the country's expanding labour force falls on the informal sector. It is difficult to construct a coherent time series for informal sector employment. Apart from anything else, the survey instruments used to capture the desired information changed in the middle of the period with which we are concerned (the 1999 October Household Survey [OHS] gave way to the February 2000 LFS). As far as can be determined, once unpaid subsistence agricultural producers have been removed from the picture, employment in the informal sector was roughly constant at about 1,8-1,9 million in October 1999 and September 2000.

Official unemployment figures show that unemployment increased from 2,2 million (19,3 per cent) in 1996 to 4,2 million (26,4 per cent) by 2001. An expanded definition of unemployment increases the figure from 4,6 million (33 per cent) in 1996 to 6,96 million (37 per cent) by 2001 (table 2).

South Africa's employment creation record is presented in table 3. The SEE (a survey of earnings and employment) covers a sample of

formal sector firms. The non-SEE figures are drawn from household surveys, and are discounted by the SEE figures to give an estimate of employment in firms that are not covered by the SEE sample. The findings of these surveys have been controversial.

The areas of the economy covered and in which jobs are reportedly being lost were probably those containing "good" jobs (relatively secure and relatively well-paid). Expanding areas, by contrast, mainly in services, will be creating some "good" jobs (in areas such as financial services), but will also see the growth of many insecure and poorly-paid jobs.

According to table 3 formal sector employment declined from 6,8 million in 1996 to 6,7 million in 2001, a loss of around 100 000 jobs. Over the same period the informal sector grew from 1 million to 2,7 million.

With the economically active population growing by more that half-a-million each year, the outcome depicted in the tables – rising unemployment offset somewhat by rising informal sector employment (mainly in survivalist activities) – seems inevitable. This, at first sight, and as far as can be ascertained from the official statistics, is the reality with which social security policies have to cope.

2.4.1.1 Youth unemployment

All told, there were some 2,5 million unemployed young people in 1999, 1,4 million women, and just fewer than 1,1 million men. Slightly more than 1,3 million of them are in urban areas; the remainder in non-urban areas face a reality in which economic opportunities are few and far between. The age category 15-19 years contained only about 8 or 9 per cent of the unemployed youth – the others were divided roughly evenly between the two age categories 20-24, and 25-29 years. About 600 000 of the young men, and 700 000 of the women had previously been employed. Those above the age of 25 years who had never previously been employed, more than 860 000, would have been starting to move into the "difficult to place" category – almost half of them (410 000) had already slipped into non-searching status. As may be expected, this tendency is more marked in the non-urban areas.

Table 2
Unemployment in South Africa (1996-2001)

	Official unemployment		Expanded unemployment	
Period	**Number (1000s)**	**Rate (%)**	**Number (1000s)**	**Rate (%)**
1996	2 224	19,3	4 566	33,0
1997	2 451	21,0	5 202	36,0
1998	3 163	25,2	5 634	37,5
1999	3 158	23,3	5 882	36,2
Feb 2000	4 333	26,7	6 553	35,5
Feb 2001	4 240	26,4	6 961	37,0

Table 3
Employment (1 000s) in South Africa (1996-2001)

	Formal sector			
Period	**SEE/STEE**	**Non SEE/STEE**	**Total**	**Informal sector**
1996	5 242	1 550	6 792	996
1997	5 139	1 587	6 726	1 136
1998	4 945	1 445	6 390	1 316
1999	4 840	1 724	6 564	1 907
Feb 2000	4 754	1 924	6 678	1 821
Feb 2001	4 676	2 002	6 678	2 665

Note: The formal sector employment figures exclude agriculture.

2.4.1.2 The informal economy

Two sets of changes are driving trends in employment totals in the sector. The first of these, the massive decline in informal agricultural employment (mainly unpaid), has witnessed a decline of almost 850 000. The other big change, that in employment in wholesale and retail trade, has seen 600 000 new workers joining the industry between September 2000 and February 2001. This is difficult to verify. The sudden appearance of 600 000 workers in six months, not to mention the fact that so few observations exist at present, make it difficult to determine with any degree of certainty the trends in the sector.

The Committee notes that whereas almost one quarter of formal sector workers earn R1 000 or less per month, more than three quarters (76,3 per cent) of informal sector workers, and more than 90 per cent of domestic workers are to be found in this income category. Another striking result is the figure of 18 per cent for informal economy workers who receive no income (it was 30 per cent in September 2000). Their condition is relatively easily explained – they fall either into the category "helping without pay in a family business", or that of subsistence agricultural workers.

Ignoring those working in subsistence agriculture, the earnings of domestic workers are even lower than those of informal economy workers in general – almost two thirds of domestic workers (64,3 per cent) were paid R500 per month or less. With a further 27 per cent being paid between R501-R1 000, that left only 7 per cent earning close to a living wage.

2.5 The apartheid labour-welfare nexus

2.5.1 Income distribution

Governments affect income distribution in indirect and direct ways.

- Indirect ways include labour market and economic policies that shape the growth path (and hence the level and pattern of incomes in society).
- Direct ways include taxation and the public provision of social services (understood broadly to include public education, health and housing programmes) as well as income support (such as old age pensions or unemployment benefits).

Personal income is particularly affected by the combination of labour market and welfare or social policies: the labour-welfare nexus.

The apartheid system discriminated along racial lines, with poor white people benefiting especially. Education, health and housing benefits were biased towards whites, and job reservation ensured that white wage earnings were protected. Labour policies were designed to protect the labour-market position of white workers. The industrial conciliation machinery provided wage protection, job reservation ensured that the least competitive white workers obtained employment, and unemployment insurance was provided on a temporary basis. In this respect, the apartheid state was a racially exclusive variant of the Australian "wage-earners" welfare state, i.e. a welfare state that sought to ensure a certain standard of living for Australians as wage earners rather than as citizens.[12]

By contrast, black South Africans were subjected to extensive labour-market discrimination and disadvantage. Inferior education, influx control, the Group Areas Act and a range of other instruments undermined black incomes and consequently their social development. Given the chronic labour shortages that plagued low-wage sectors (notably agriculture and mining) during the post-war period, the apartheid state was averse to providing any alternative means of subsistence for African job seekers. Instead, it relied on coercive labour legislation to channel (mostly unskilled) African labour where it was needed most.

In contrast to its limited welfare coverage of the working-age population, the Government provided a universal (albeit racially discriminatory) welfare net in the form of the old age pension. This proved to be an important lifeline for poor African families, particularly from the 1970s onwards, as unemployment rose and as the real value of the pension increased. The Committee calculates that limited redistribution from white to black South Africans probably occurred through patterns of Government taxation and expenditure (see table 4). In other words, even under apartheid, the final distribution of income was significantly more egalitarian than the market distribution of income.

The development of the labour-welfare policy nexus under apartheid reflected the changing

class interests of powerful white constituencies. The massive investment in public education for white children in the 1950s and 1960s resulted in white workers securing the skills that enabled them, in the 1970s and 1980s, to command high incomes in free labour markets. This largely removed their dependence on direct state interventions (such as job reservation through the "colour bar"). As labour market regulation was de-racialised, the wage-setting machinery was extended to the African working class. Essentially apartheid social welfare for whites was based on a combination of income (cash) measures through job reservation and other forms of assistance and in kind benefits through education, health and housing to name a few. This could be characterised as a state-driven or institutional approach to social policy for whites.

Despite the decline in discrimination, inequality remained stubbornly high. In the last year of apartheid (1993), the poorest four deciles (40 per cent) of households, equivalent to 52 per cent of the population, accounted for less than 10 per cent of total income. While the richest decile (10 per cent) of households, equivalent to just 6 per cent of the population, captured well over 40 per cent of total income.

High and persistent inequality is one of the enduring legacies of apartheid. But its determinants shifted over the apartheid period. Whereas inequality was initially driven by the gap in racial incomes, this situation changed over time as African workers advanced up the occupational ladder and as unemployment increased. By the end of apartheid, the gap between the incomes of the employed and the unemployed had become a significant driver of inequality.

A range of economic factors contributed to the rise in open unemployment from the mid-1970s onwards. These included:

- The slowdown in economic growth from just under 6 per cent per annum in the 1960s, to 1 per cent per year in the 1980s
- Capital-intensive strategic investment by the state
- Policies to replace labour with capital in agriculture
- Tax breaks for capital investment
- The coincidence of negative real interest rates and rising wages in the in the 1970s and early 1980s.

By the end of the apartheid period, the economic structure had shifted away from absorbing large quantities of unskilled labour, and open unemployment had become a permanent feature of the socio-economic landscape.

2.5.2 Inequality at the end of the apartheid era

At the dawn of South Africa's new democracy, there was still a clear correlation between race and household income (see figure 3). Affirmative action policies are designed in part to address this legacy of apartheid.

However, by the end of apartheid, intra-racial (class) inequality was contributing more to overall inequality than inter-racial inequality. The contribution of "within-group" inequality to total inequality rose from 38 per cent in 1975 to 58 per cent in 1991 and to 67 per cent in 1996.

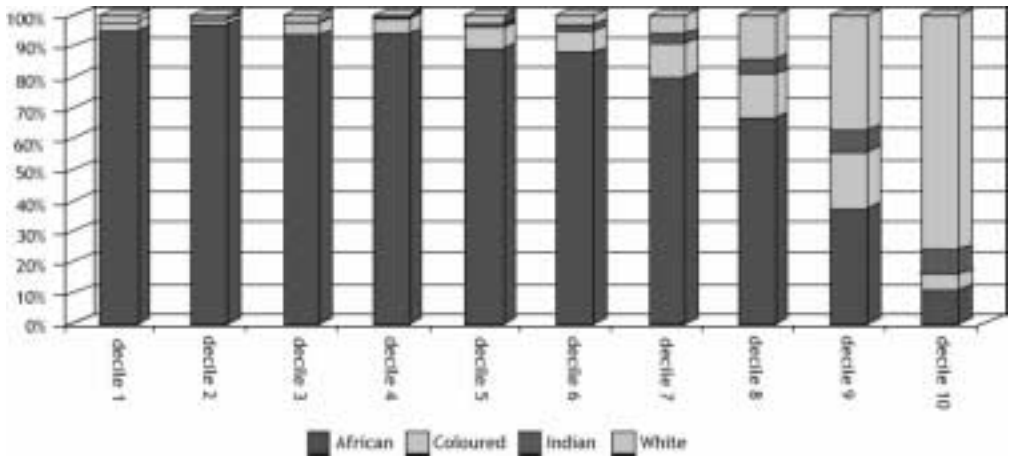
Figure 4 shows the composition of mean household income for each income decile – in other words, the sources from which the

Table 4
Racial income and population shares (1970–1996)

	Share of total income				Share of population			
	1970	**1980**	**1991**	**1996**	**1970**	**1980**	**1991**	**1996**
African	19,8%	24,9%	29,9%	35,7%	70,7%	72,4%	75,2%	76,2%
White	71,2%	65,0%	59,5%	51,9%	17,0%	15,5%	13,5%	12,6%
Coloured	6,7%	7,2%	6,8%	7,9%	9,4%	9,3%	8,7%	8,6%
Asian	2,4%	3,0%	3,8%	4,5%	2,9%	2,8%	2,6%	2,6%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Note: Totals may not add up to 100% due to rounding.

Figure 3
Income deciles by race, 1993.



average household in each decile received its income. The bottom, or poorest decile, received most (48,5 per cent) of its income from remittances (including monetary remittances and remittances in kind, for example in the form of food). Old age pensions were very important to deciles 2 through 4. For every decile from the fourth up, wages comprised by far the most important source of household income.

- The top five deciles were heavily dependent on wages from regular employment. The top, or 10th, decile supplemented its wage income (64,5 per cent) with small but significant incomes from agriculture (6,8 per cent), self-employment (6,7 per cent) and income from capital (12,1 per cent).
- Government old age pensions were of minimal importance to the top decile (at less than 1 per cent). The lower, poorer deciles relied more heavily on remittances and old age pensions.
- Income from agricultural production was of little importance, except to the top decile (which included high-income, capitalist farmers) and the bottom decile (where the incomes were so low that even R8 per month from smallholdings was an important contribution to the decile's income).
- Old age pensions were the most important public transfer payment.

Figure 4
Composition of household income, by income decile and source (%).

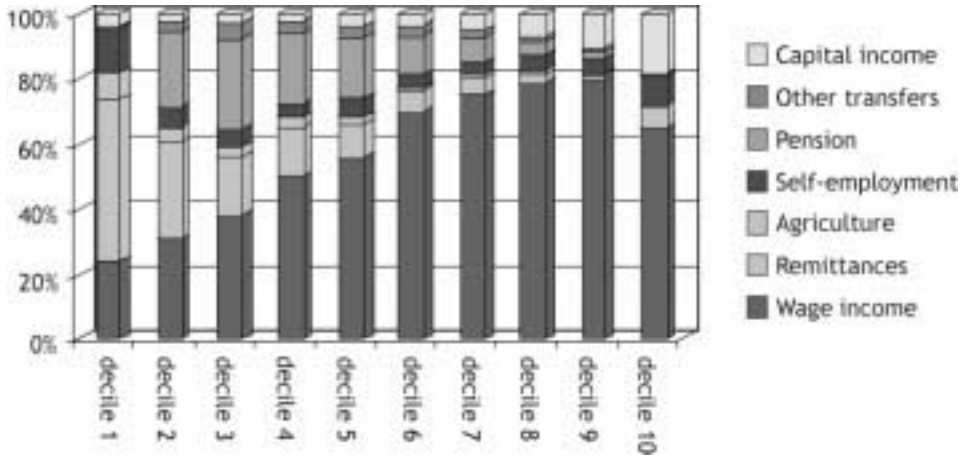
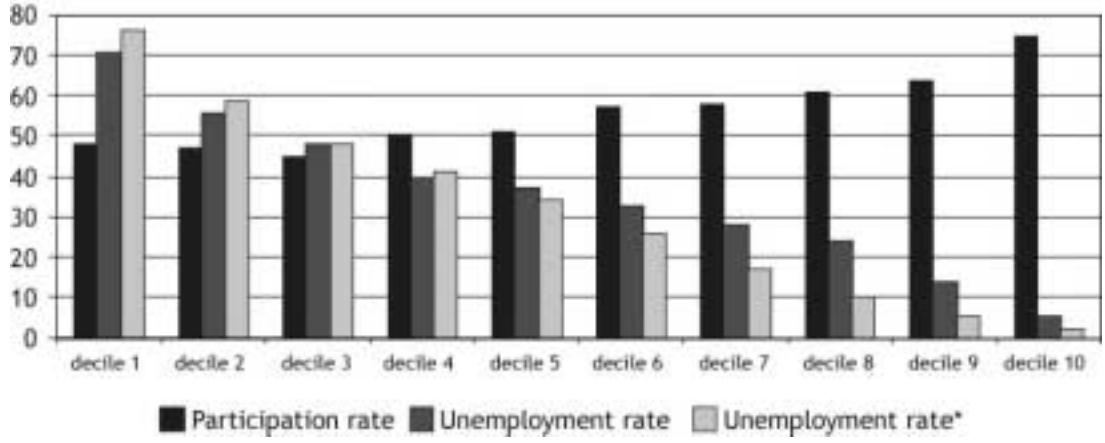


Figure 5
Participation rates and broad unemployment rates by income decile (1993).

(Lower income households have less access to the labour market.)



2.5.3 The importance of public transfers

Figure 5 testifies to the continuing importance of transfers in South Africa. The scale of private inter-household transfers, i.e. remittances, reflects the continuing importance of migrancy. One-third of all African rural households in 1993 had members who were migrant workers. The scale of public transfers, in the form of the Government old age pension and other forms of welfare, reflects the expansion of the public welfare system since the 1980s.

As shown in figure 4, over a quarter of household income in the second and third deciles came from state old age pensions. Indeed, the presence of an old age pensioner in a household was often the main reason for lifting households out of abject poverty. Remittances were a further important source of income – although, overall, they were much less important than Government old age pensions, contributing less than 4 per cent of total income to pensions' 12 per cent (figure 4). Not all remittances came out of wages – there were cases of pensioners

Table 5
The redistributive effects of public transfers (1993)

Income decile	Distribution of public transfers received (%)		Incidence of taxation on the poor (%)		Net transfer through taxes and public welfare (%)	
			Low	High	Low	High
1	0	+7	-2	-3	+5	+4
2	+7					
3	+12	+26	-2	-4	+23	+22
4	+13					
5	+15	+29	-4	-5	+25	+24
6	+14					
7	+12	+23	-11	-12	+12	+10
8	+11					
9	+9	+15	-80	-76	-65	-61
10	+6					
Total	100	100	-100	-100	0	0

sending a share of their pension to family members living elsewhere – but it is safe to assume that most remittances came out of wage income.

Table 5 provides information to assess the redistributive effect of public transfers, i.e. the transfer of resources from taxpayers to old age pensioners and the recipients of other non-contributory welfare payments (primarily disability and child maintenance grants). The first column shows the distribution of public transfers, by decile. *Clearly evident in this column is the fact that the lowest income deciles, those in destitution, receive the lowest share of public transfers.* Once again, this demonstrates the perverse effects of ineffective means testing – the exclusion of a significant number of the poorest households from public transfers.

The second column shows the incidence of taxation. The final column shows the net transfer of resources through taxation and public welfare.

2.5.4 Access to wage income

Poverty and inequality in South Africa are rooted in the labour market: in part in low wages, and in part in very high rates of unemployment. Whereas inequality until the 1970s was determined largely by the gap between white and black incomes, inequality in the 1990s is primarily driven by: (a) inequality within the distribution of wages, and (b) by the fact that 30 per cent of households had no wage income at all. In other words, households in the lower echelons of the income distribution are those with no access to the labour market (the very poor) or with low-paying jobs.

Participation and broad unemployment rates by decile in South Africa are shown in figure 4. The participation rate corresponds to the proportion of adult household members participating in the labour force, and the unemployment rate corresponds to the proportion of the labour force that is unemployed. Both rates are presented here using an expanded definition of unemployment, which includes people who are not actively looking for jobs because they believe there are none available (i.e. the "discouraged" unemployed).

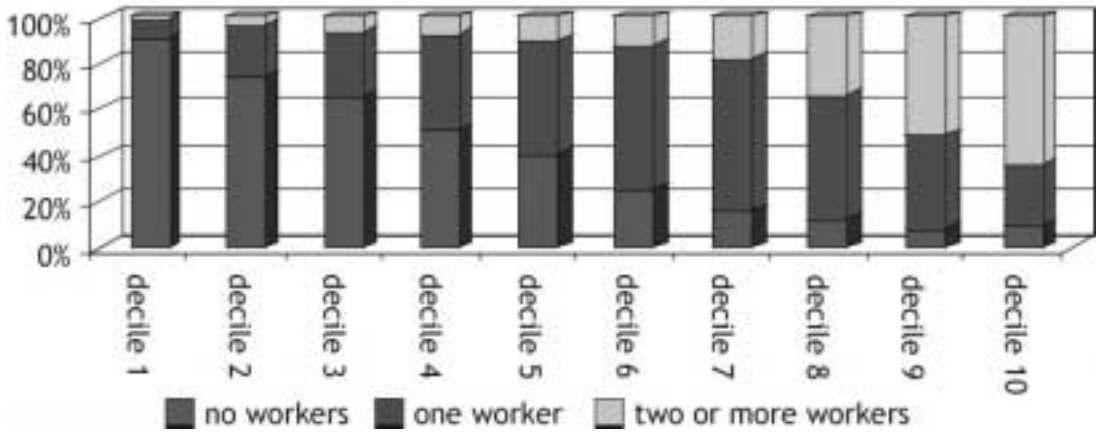
There is a clear and close correlation between unemployment rates and income. This can be seen in Figure 5. However, not only are poor households likely to have more unemployed adults than richer households, but they are also likely to have more adults who said they are not available for work (and hence are defined outside the labour force). Figure 5 shows that labour force participation rates rise steadily up the income deciles. The dual correlation between unemployment and income, and labour force participation and income, suggests that low-income households are significantly marginalised from the labour market.

Because low-income families tend to be larger than high-income families, the link between unemployment and poverty is stronger when income deciles are calculated on a *per capita* basis, as shown in the third bar in each set (unemployment rate*).

The incidence of employment is shown in a different way in figure 6. This shows the proportion of households in each income decile according to the number of household members

Figure 6
Employment per household by income decile.

(The number of workers increases with household income.)



in employment. A majority of households in each of the bottom four deciles have no members in employment. At the opposite extreme, a majority of households in each of the top two deciles have two or more members in employment.

The link between lack of employment and poverty is particularly strong in South Africa. In the OECD, the proportion of households in the bottom quintile without any members in employment is 42 per cent, with figures ranging from 21 per cent in Luxembourg, to 65 per cent in Ireland and 74 per cent in Finland. In South Africa, the corresponding figure is 83 per cent. This contrast is all the more striking when one considers that most jobless households have access to income support in the OECD, whereas this is not the case in South Africa.

Although participation rates are low and unemployment rates high in the lower deciles, those deciles nonetheless include a significant number of low-paid workers.

- About 30 per cent of employed workers are in households in the bottom five deciles. These workers are predominantly farm workers and, to a lesser extent, domestic workers.
- Only 13 per cent of manufacturing workers are in households in the bottom five deciles. Fully 77 per cent are in the top four deciles.
- Mineworkers are distributed more widely, with the largest numbers in deciles 4-7.
- In terms of occupation, people in professional, technical, managerial and administrative jobs are unsurprisingly in households in the top two deciles.
- Most machine operators and similar semi-skilled workers are in deciles 6-9.
- Unskilled labourers are spread across deciles 4-8.

In short, access to the labour market is an important determinant of inequality. Whether an individual has a job, or what kind of job he or she is able to get, plays a crucial role in determining their position in the income distribution. Labour-market institutions (bargaining councils and the Employment Conditions Commission) protect the incomes of wage-workers. Those who do not have jobs, however, enjoy no such income support.

2.5.5 Wage inequality

During the apartheid era, racial discrimination was an important determinant of wage inequality. The contribution of racial discrimination to wage determination declined significantly between 1980 and 1993, dropping from 20 per cent to 12 per cent of the African wage. The racial wage gap is now predominantly explained by factors other than discrimination, such as differences in education and skill, location (urban or rural), and economic sector. African workers have the lowest educational qualifications, live predominantly in rural areas, and have the highest concentration in low-paying sectors such as agriculture. Education is particularly important, with an estimated half of the difference in racial earnings attributed to differences in educational qualifications.

Despite the decline in racial discrimination and in the wage gap between white and African workers, overall wage inequality has not declined. This is because within-race wage inequality rose as between-race inequality declined. The increase in wage inequality amongst Africans was in part the result of increased occupational mobility. There was a significant movement of Africans up the occupational ladder, with the proportion in the labourer and semi-skilled categories dropping from 57 per cent in 1980 to 38 per cent in 1993. As the number of Africans in higher-paying occupations increased, so the gap between high- and low-paid African workers increased, thus widening wage inequality.

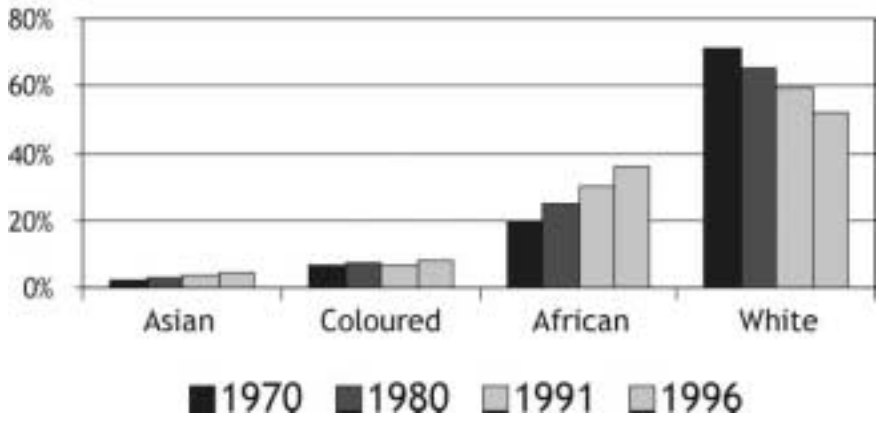
Union membership appears to benefit those at the bottom end of the wage distribution the most. By boosting the incomes of low-paid workers relative to higher-paid workers, the trade union movement would thus have acted to narrow the wage distribution in the unionised sector. But whether these efforts served to narrow the overall distribution of household income, however, is another matter (as the gap between unionised and non-unionised wages would have grown, and to the extent that job shedding occurred, the gap between the employed and the unemployed would have widened).

2.6 Changes in inequality in the 1990s

The distribution of income appears to have become more unequal between 1991 and 1996. The income share of the top decile increased from 52,3 per cent to 53 per cent, whereas that of the poorest 40 per cent dropped from 3,8 per cent

Figure 7
Shares of income by race (1970-1996).

(Racial shares of income.)



to 3,4 per cent. This resulted in the Gini-coefficient rising from 0,68 to 0,69. However racial income differences narrowed between 1991 and 1996. The share of total income received by African people rose from 29,9 per cent to 35,7 per cent, whilst the share received by white people fell from 59,5 per cent to 51,9 per cent. The steady decline in the share of total income received by whites in the face of the steady increase in that received by Africans from 1970 to 1996 is depicted in the figure 7.

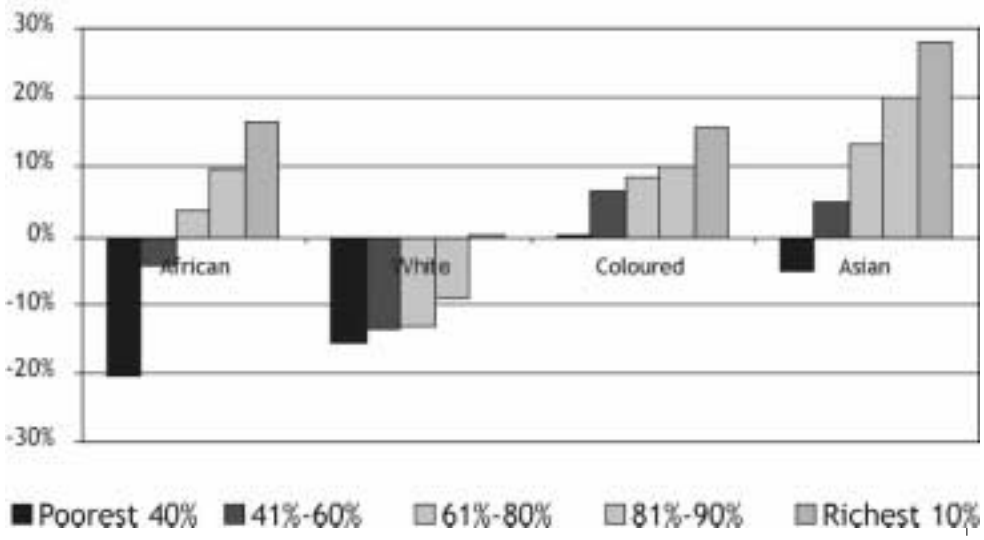
Average incomes *per capita* among African people rose by 4,1 per cent per year, whilst incomes *per capita* among white people fell by 0,7 per cent per year. Figure 8 depicts household income growth by economic group within race. In 1991 only 9 per cent of the top or richest income decile were African. In 1996 the proportion had risen to 22 per cent.

2.6.1 Intra-racial inequalities

At the same time as inter-racial inequalities were declining, intra-racial inequalities were continuing to grow.

- The Gini-coefficient for income distribution among African people rose from 0,62 to 0,66 and among white people from 0,46 to 0,5.
- The incomes of the richest 10 per cent of

Figure 8
Growth of household income by race (1991-1996).



African households rose by 17 per cent, whilst the incomes of the poorest 40 per cent of African households fell by 21 per cent.

- Overall, relatively poor African and white households experienced absolute declines in their income, whilst relatively rich African, coloured and Indian households saw big income gains.

The real winners in terms of rising incomes were the better off African and Asian households. Of the total real increase in income between 1991 and 1996, 40 per cent went to the richest 10 per cent of African people, and a total of 62,5 per cent went to the richest 40 per cent of African people. The poor majority of African people barely benefited at all.

These findings are broadly corroborated by data from the KwaZulu-Natal Income Dynamics Study (KIDS). KIDS entailed tracing and re-interviewing in 1998 the African and Indian households in KwaZulu-Natal that had been interviewed in 1993 as part of the PSLSD survey. KIDS found that the proportion who were poor had risen from 35 per cent to 42 per cent, and that a greater proportion of households were in the lower end of the income distribution in 1998 than in 1993. At the same time, the proportion of rich people had also grown. Both trends contributed to a rise of 4 percentage points in the Gini-coefficient between 1993 and 1998.

2.6.2 The growth/ inequality debate

It is axiomatic that the greater the degree of income inequality, the higher the growth rate required to reduce poverty. The difficulties of generating sustained and sustainable growth rates high enough to reduce poverty at an acceptable pace have started to attract increasing attention in recent times. The Committee conducted an extensive survey of the international literature into this question, and constructed a simple model to compare the impacts of different growth strategies on the incomes of the poor. The model's results confirm findings reported in other studies – modest and sustained redistribution, even under conditions of relatively slow growth, does much more for the poorest of the poor (the bottom three deciles of the income distribution) than does fast "trickle down" (distribution neutral) growth.

This finding, coupled with the finding that some substantial proportion of the unemployed probably fall into the category of "difficult-to-place", and coupled as well, with the fact that earnings for most of those catapulted into the informal sector are very low, prompts the Committee to recommend a re-evaluation of the balance of resources devoted to poverty reduction.

Even if the only target were the elimination of destitution, redistribution can achieve this much faster than sustained trickle-down economic growth. The strong likelihood is that grants will do more than merely alleviate poverty.

In many households, the guarantee of a minimum consumption level will enable household members to engage in the risk-taking behaviour so necessary to the generation of additional income.

2.7 Poverty in South Africa

2.7.1 Recent evidence on poverty in South Africa

New evidence of changes in poverty emerges from the preliminary results of a study that looks at socio-economic conditions in households containing no workers.

- In 1995, Statistics SA reported that: 32 per cent of African households (a minority of which are pensioner households) were "workerless" (contained no employed people).
- By 1999, that percentage had risen above 38. Translated into numbers of households, the data suggest that whereas there were about 1,9 million African workerless households in 1995, that number had risen to 3,1 million by 1999.[4] Only a few of these were "true" pensioner households, i.e. households in which the pensioner did not have to share a pension with other household members.
- Of approximately 210 000 African households in which there was no working age person present (many of them so-called "skip generation" households), about 182 000 of them spent, on average, less than R800 per month.

2.7.2 What is the level of poverty in South Africa?[5]

If a single set of statistics can disclose the extent of poverty in South Africa, it may be this – of the approximately 717 000 live births in 1999 that

can be sorted by household expenditure category, about 176 000 took place in households where total monthly expenditure was between R0 and R399. A further 231 000 babies where born into households where monthly total expenditure lay between R400 and R799. Into the next income class, R800 – R1 199 per month, some 119 000 babies were born. Accounting for almost three-quarters of the total, their prospects are bleak.

About 11 per cent of households with children under 7 went hungry in 1999 due to lack of money to buy food. Another 2,3 million households with people aged 7 years and older went hungry due to an inability to purchase food. The percentage of households reporting hunger in 1999 was 21,9 per cent.

Malnutrition remains one of the biggest contributors to child morbidity and mortality in South Africa. According to the national Food Consumption Survey of 1999, nearly 20 per cent of children aged 1-9 are affected by stunting, which is by far the most common nutritional disorder in South Africa. Around 23,3 per cent of children 1-6 are stunted.

Depending on which poverty line is used, researchers put the number of South Africans living in poverty at anywhere between 45 and 55 per cent (figure 9). Despite existing measures to address the various dimensions of poverty the reality is that, depending on the poverty line used, about 20-28 million citizens are living in poverty. The incidence of poverty differs between the different provinces. In all estimates the Western Cape and Gauteng have the lowest rates of poverty, and Mpumalanga, the Eastern Cape and the Northern Province the highest rates.

2.8 Addressing the challenges of social security reform in a democratic South Africa

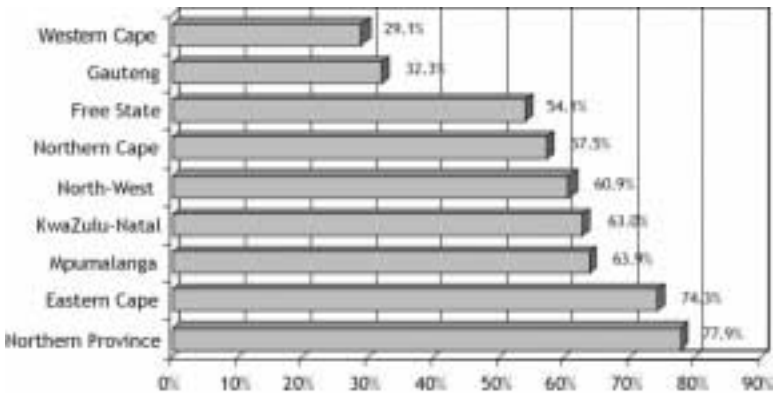
The distribution, extent and characteristics of social exclusion in South Africa have a definite material and structural basis. In short, the economic aspects of social exclusion are linked to the inability to command a sufficient flow of resources to avoid growing inequalities and to prevent deprivation – be it nutritional, medical, in terms of shelter, or a lack of full participation in society.

2.8.1 Inequalities in the distribution of wealth

There are five broad categories of economic flows reflecting different economic positions in an economy. These include income derived from owning property, income received in terms of salaries and wages, economic resources mobilised through subsistence and household activities, transfer payments received from private or Government sources and self-employment. Each of these categories is intimately connected to a set of economic relationships that define and structure a modern capitalist economy. Exclusion from, or marginalisation within, these sources of economic resource flows greatly increases the risk of poverty.

A key factor in South Africa is the skewed distribution of economic assets. Apartheid was central to this skewed distribution, driving the social exclusion of the majority and social

Figure 9
Percentage of population in poverty.



inclusion of the minority. In particular, the apartheid regime constructed citizenship and subject rights to determine which groups would have access to what level of social protection depending on their functionality to the racially constructed economic and social system.

The following are all examples of apartheid measures, which excluded the majority of people.

- The Land Act of 1913, which confined the land area that Africans could legally own or rent to 13 per cent of South Africa
- The 1913 Mines Act, which contained the first of many job reservations policies
- The Urban Areas Act of 1945
- Coloured Preference Policy
- The Group Areas Act of 1956, which restricted African access and African economic activity in the urban areas.

White South Africans were from 1924 onwards given substantial protection against poverty and vulnerability, partly by measures to exclude black South Africans referred to above, and partly by the introduction of social and economic policies similar to those adopted in the social democratic countries of Europe. Black South Africans were generally either excluded from these positive measures, or were protected to a much lesser extent than the white counterparts. For example, substantial maintenance grants were paid to single mothers with low income, but not if they were African.

Over the last few decades of the 20th century, blacks began to gain access to work related benefits and social insurance institutions primarily due to increasing unionisation and political pressure. This formed an important pressure that precipitated the breakdown of the citizenship/subject relationship underpinning the apartheid regime.

As democracy approached, the expectations of the excluded majority increased in regard to the role of the post-apartheid state in ensuring redress, employment and development. However, the apartheid regime, seeking to pre-empt effective post-apartheid intervention, sought to push through various pieces of legislation loosening the grip of Government over social and economic policy. In some instances they were successful (such as deregulating aspects of private healthcare and food production). In other areas, such as broader economic policy, social resistance manifested through mass mobilisation and the establishment of tripartite socio-economic forums restrained them.

2.8.2 Shortcomings in the South African social security system

First, regarding non-contributory social assistance, there are large gaps resulting in a large proportion of the poor being excluded, and those who are uncovered are often not given appropriate support.

The Social Assistance Act covers the following categories of people:

- ***Aged*** Women over 60 years of age, and men over 65 years of age receive a state old age grant of R570 per month. This grant is the largest current social security transfer in the country, and, for those elderly persons who receive it, the grant plays a pivotal poverty alleviation role for the entire household.
- ***Disabled*** There is a disabled grant of R570 per month for medically-diagnosed disabled persons over 18 years of age. This grant is a *de facto* poverty grant, as 77 per cent of recipients are also in poverty.
- ***Foster care*** There is a grant of R470 per month for caring for foster families caring for children under 18 years of age.
- ***Care dependency grant*** There is a grant of R540 per month for parents of a disabled child (0-18) who requires care at home by another person. Thereafter application must be made for the adult disability grant.
- ***Child support grant*** There is a child support grant of R110 per month, paid to the primary caregiver, for children under seven years of age. This grant has been afflicted by a slow take-up rate, with only 25 per cent of the targeted group receiving the grant three years after implementation.

The following categories remain uncovered by social assistance:

- ***Children*** 75 per cent of poor children below seven years of age do not get the child support grant. All children over seven do not get any support. Finally, all children without primary caregivers, and child-headed households (which are in the increase) do not get any grant.

- ***Disabled*** Those with a chronic illness but who do not meet the strict medically based criteria are excluded. Thus if the disability is not medically complete, but does prevent that person from carrying out their trade, they would not qualify for the grant.
- ***Unemployed*** The UIF covers only 5 per cent of the unemployed. Therefore excluding those unemployed getting disability and childcare related grants, about 5 million unemployed people are without any form of income support from the social security system.
- ***Poverty*** Those with incomes below the poverty line, including working poor, are without any social security transfers. Currently about 60 per cent of the all the poor, or 11 million people, are uncovered.
- ***Non-citizens*** While the Constitution in S27 (1) (c) states that "everyone" has a right to social security, current social assistance mostly excludes non-citizens. In this regard, there will probably be constitutional pressure to ensure all people (including illegal immigrants) have access to certain basic services (such as emergency healthcare), and full access to certain categories such as refugees.

In short, there are large gaps and inadequacies in the social assistance system.

Second, regarding contribution-funded social insurance and regulated private schemes, these, too, cover a relatively small number of the population. Moreover, the increasing numbers who fall outside of the formal sector undermine the scope of social insurance's contribution base, further limiting the system. In addition, there are internal distribution inadequacies within social insurance that provides the most vulnerable workers with a smaller share of benefits. The better paid generally seem to secure the largest share of benefits. Furthermore, some of the most vulnerable workers are often legally excluded from the system.

- The limited nature of the publicly provided benefits means that social security costs are, *de facto*, passed onto employers. This has increased non-wage costs in the economy. This acts as a disincentive for direct employment, that is, the employment of regular workers. The increase in indirect employment (including casualisation), and the stagnation of net permanent jobs, is partly the result of employers trying to avoid these non-wage costs.
- The growth of employer-linked benefits necessarily excludes a significant share of the population. The unemployed, informally employed and many temporary workers have no access to these benefits. A current legal framework that cannot cope with the changing forms of employment aids this. In the South African situation this forces the non-wage costs to be higher still, since workers require more to support many unemployed persons (with no benefits) in their household. Consequently, this contributes to upward pressure on workers' remuneration. This extreme pressure on the breadwinner effectively undermines any worker support for labour flexibility – since loss of employment equals loss of income.
- Private-provision schemes are contributing to escalating costs of services. Healthcare is a primary example of this. South Africa spends, including both public and private expenditure, about almost twice on health than considered necessary by the World Health Organisation – all this for relatively inadequate public and private service. The national overspend derives primarily from the cost-intensive private medical scheme environment that has created perverse incentives for over-servicing by private providers (who are paid on a fee-for-service basis), excessive administrator profit-taking and undermined consumer protection. The relatively high levels of expenditure is due to most health spending going towards the well resourced, private health sector which caters for only 15 per cent of the population.
- Profit-driven provision of services has often been accompanied by a removal of cross-subsidies to those unable to afford services. There is a tendency to "cherry-pick" high-income, low-risk groups that accordingly increases the difficulty of funding publicly provided social services through contributions.

2.9 The challenges

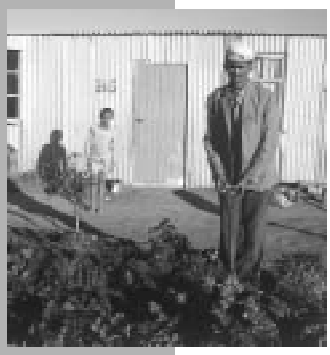
The inadequacy of current interventions, in a context of persistently high risk and deprivation, has contributed to several growing and, potentially, unsustainable challenges. The most important of these are the following:

- ***The wage-income relationship is breaking down*** — High unemployment, including the massive net loss of formal sector jobs, and growing shift towards so-called "atypical" work, has reduced the incomes of the poor. Historically, the working poor have supported the poor and unemployed via remittances and intra-household transfers. However, this relationship between formal sector wages and household incomes has declined due to the considerable loss of net formal jobs, and the downward qualitative shift in formal employment being created. In this period, there has been a decline in the incomes of the poorest 40 per cent.
- ***The state is vulnerable to Constitutional Court challenges*** — The Constitutional Court, in its *State* v. *Grootboom* judgement, has increased pressure on the state to put in place a coherent and comprehensive programme for progressively realising the constitutional obligations. This requires devising, formulating, funding, implementing and constantly reviewing relevant measures. The *Grootboom* judgement opens the way for further constitutional challenges against the state on the basis of not complying with the Constitution's Bill of Rights. It should also be noted that the Constitutional Court has the power to enforce socio-economic rights, with direct implications for budgetary matters.
- ***The impact of AIDS will exacerbate poverty and inequality*** — Research conducted for the Department of Health indicates that there will be 5,5 million people infected with HIV/AIDS by 2004, and the impact will be increasingly felt in society. The impact is apparently already evident on social service institutions (mainly public healthcare). This will increase downward pressure on households and household incomes, and could significantly undermine the country's medium- to long-term economic growth and social development potential.
- ***The racially differentiated composition of public service users reinforces apartheid-style prejudice*** — The poor (mainly black) are dependent on strained public services. The rich (mainly white) make use of private services. This contributes to a lack of racial tolerance and understanding, and undermines social solidarity.
- ***Delivery of key services is affected by inability of poor to pay for inclusion*** — More people have access to important basic service such as telecommunications, water and sanitation, electricity, housing, and primary healthcare. While these have been hard fought gains, this extension of services has been undermined by an inability of the poor to afford payment.[6]
- ***Poverty-related increase in crime and social instability*** — This is potentially undermining to legitimacy of new democracy, and investment strategies. Levels of crime remain far too high, and include an increasing incidence of domestic violence. This reflects the underlying causality of poverty and the resulting depressed aspirations among the poorest in society.
- ***Social development/investment backlogs are now widely recognised as barriers to economic growth and development*** There is growing recognition among international financial and credit rating institutions, national Government and domestic social formations, that insufficient social investment and social development backlogs are a primary barrier to the achievement of sustainable levels of economic growth and development.

The findings in this chapter are based on the political economy of South Africa's social security system and the challenges posed by some of its key features. The demographic trends and impacts of poverty, HIV/AIDS and other chronic illnesses as well as unemployment in the formal sector reinforce the need for a comprehensive approach to social security.

Furthermore, existing levels of poverty have reached unsustainable levels, and left unattended have the potential to reverse democratic gains achieved since 1994. The urgent need to address deepening social exclusion and alienation of

those households living in destitution cannot be ignored. A redesigned social security system has to respond to the constitutional, democratic and human development imperatives that provide the framework for transformation.



Chapter 3
Approach to a Comprehensive Social Security Provisioning

3.1 Introduction

The two-fold nature of the South African economy means that a comprehensive social security system has to deal with two different sets of needs. The first relates to the needs of the poor, excluded largely from the productive capacity and rewards of the formal economy. The second relates to the security needs of the informally employed. Without some protection against the contingencies of death, disability, ill-health and retirement, even the comparatively wealthy beneficiaries of the formal economy can be reduced to destitution. The brief of the Committee covers both areas.

Tackling poverty and deprivation, and its effects, is thus a critical challenge facing South Africa. The Reconstruction and Development Programme (RDP) states that:

> *No political democracy can survive and flourish if the mass of our people remains in poverty, without land, without tangible prospects for a better life. Attacking poverty and deprivation must therefore be the first priority of our democratic Government.*

This challenge, in its general sense, is of course not a new one, having been with South Africa throughout its past. However, the coming into being of a democratic dispensation in 1994, followed by a new Constitution (with a Bill of Socio-economic Rights) in 1996, has presented the nation with a unique opportunity to find a path away from this legacy.

The task of addressing, in the final instance, the reality of poverty and deprivation is generally regarded as a central feature of a country's social security system. In South Africa, however, up to 60 per cent of the poor are not getting any social security transfers at all. Further, the current social security system, principally for reasons of inherited design, is archaic, lacks integration, and has many gaps.

Economic globalisation is posing further challenges through changing labour markets and technological challenges. These changes are displacing full-time regular employment and changing the nature of work. Most new jobs being created are in the "informal sector", or of a part-time, casual, temporary, or home-based nature. There is thus a growing army of unemployed, underemployed and working poor subsisting alongside an increasingly threatened permanent workforce. The socio-economic challenge facing South Africa is made more ominous by the danger that the dynamics of globalisation may further fasten (at least in the short to medium term) onto these existing relations of vulnerability and exploitation, and exert pressure to intensify them. The consequences would be growing poverty, inequality, social polarisation, job insecurity, and crime – and a fraying social fabric.

With this scenario in mind, the 1998 Presidential Job Summit – comprising Government, labour, business, and community – agreed to "implement an effective comprehensive social security system, aimed especially at those living in poverty and the unemployed". This agreement aligns well with

the needs articulated in the *White Paper for Social Welfare* (1997) and the South African Constitution's Bill of Rights (especially S27 (1)(c)).

In short, South Africa faces two sets of imperatives. The first is the constitutional and democratic imperative, centred on a human rights approach. The Constitution gives socio-economic rights exactly the same status as civil and political rights. In particular, the following aspects are relevant:

- Ensure promotion of values of dignity, equality and freedom
- Build participation and voice of the excluded
- Support citizenship claims through equality of administrative justice, access to information, application procedures, adjudication of rights, monitoring of compliance and non-compliance.

The second is the socio-economic imperative, encapsulated in the RDP, to fundamentally improve the living standards of all people in the country. The socio-economic imperative stresses the following:

- Reduction in poverty, deprivation and social inequality
- Increased access to adequate basic services
- Create an environment for sustainable social and economic advancement of all people, and especially the poor and unemployed.

Both these sets of imperatives are inter-related and mutually reinforcing. The Constitutional Court, in the matter of *The Government of the Republic of South Africa et al* v. *Grootboom et al*, stated:

> *There can be no doubt that human dignity, freedom and equality, the foundational values of our society, are denied to those who have no food, clothing or shelter. Affording socio-economic rights to all people therefore enables them to enjoy the other rights enshrined in [the Constitution].*[7]

Thus there is a clear need to develop a new, comprehensive social security system that supports the achievement of socio-economic rights, and in so doing the overriding values of South African society. In this regard, this chapter of the Committee's report begins to outline the conceptual framework for such a system.

In developing a conceptual framework for South Africa, the Committee considered, amongst other things, the question of whether there is an international convergence of social security reform, and the potential implications of such for South Africa.

3.2 International trends in social security provisioning

The term "social security" has, internationally, attracted a wide range of meanings, and needs to be clarified at this point. In developed countries, where the term first originated, social security refers mainly to the following:

- ***Social assistance*** –This refers to state provided basic minimum protection to relieve poverty, essentially subject to qualifying criteria on a non-contributory basis.
- ***Social insurance*** – This refers to a mandatory contributory system of one kind or another, or regulated private sector provision, concerned with the spreading of income over the life cycle or the pooling of risks.

Social security, as defined by its European origins, developed as a complement to the formal employment relationship.

3.2.1 Western Europe

In many Western European countries, welfare systems are undergoing significant change. Three causes of the "welfare crisis" are often identified.

- The first is that welfare states stifle the market and erode the incentive to work.
- The second is the demographic challenge in that long-term effects of ageing are undermining inter-generational based solidarity systems.
- The third is that the global economy punishes high Government social expenditure and uncompetitive economies.

The Committee's analysis of some Western European social security systems indicates that perceptions of a "welfare crisis" appear somewhat exaggerated. Indeed most of the problems facing welfare states are exogenous – essentially driven by increasing costs due to badly performing

economic policies and labour markets that produce an overload on existing social programmes. Where the social security system's internal workings cannot respond to the new risks and needs of the socio-economic order, however, the causes of the crisis are endogenous. Additionally, important aspects of the reform debate may reflect an ideological shift or approach to the concept of social security — for example, the desire to create a private market in social services in place of a state function.

3.2.2 The United States

In the United States (US), the main focus in recent times has been to promote "back to work" schemes, through a combination of incentives and disincentives. However, inequality and polarisation have risen even with increased levels of job creation. While the incomes of 80 per cent of working families have stagnated, incomes for the top 20 per cent have risen sharply. Under the competitive pressures of the global economy, employers increasingly seek to lower their fixed labour costs and thus exclude many categories of workers (mainly non-unionised, atypical and women) from social security benefits. Hence the US has a very large proportion of its population without healthcare, for example. Social polarisation and exclusion is extensive.

3.2.3 South East Asia

In the "emerging" economies of South East Asia, the competitive wage cost advantage is evaporating (due to competition from even cheaper economies), forcing these countries to push towards new social programmes. Further the recent global economic crisis, which centred on South East Asia, has led to rapid job losses and expanding unemployment. This has motivated the development of unemployment insurance in these countries that, until recently, had achieved close to full employment.

3.2.4 Developing countries

In developing country contexts, such as Latin America and Africa, the problem is usually poverty, chronic inequality and exclusion from the informal sector, and the extent of "atypical" employment (as it is understood in Europe) that comprise up to 50 per cent of all jobs. The majority of the population often stands outside formal systems of social security, being engaged in rural and self-employment. Therefore the European social security focus on the risk of formal sector job loss is generally less relevant here.

Further, the contributory-social insurance bias inherent in unemployment benefit schemes will have limited effect in the context of high and persistent levels of unemployment and growing informal work. In such an environment, there would be little possibility of insuring oneself against the "contingency risk" of unemployment – rather the entire environment would be one of uncertainty, in which insurance would be impossible. Further, attempts to get the all of the working poor and socially excluded to contribute to such systems invariably fall short.

The implication of the above analysis is that there is no uniform system that is generally applicable across countries. Rather one can infer that a country's social security system needs to address its own particular set of risks and challenges in a manner that best reflects its societal values and resource base.

3.3 Implications for South African context

In looking at international reforms, the Committee has considered the pressures that primarily motivate the reform dynamic. In the context of globalisation, there is increasing pressure to promote social security markets in healthcare, retirement, education, welfare and livelihood services. This pressure is premised on the understanding that private markets are able to achieve better efficiency gains than the public sector. The Committee's research indicates that in such markets the tendency is to create profits rather than address underlying social needs. As a principally people-centred set of concerns motivates South Africa's need for social security reform, any conflicting market-centred motivations need to be made explicit, and evaluated against their ability to support fundamental social objectives.

Referring to the "mischievous euphemisms" behind which reform has taken place, Standing notes that:

> *There has been "deregulation" that has involved many new regulations, and there have been "safety nets" without safety, as millions more people are pushed into poverty and as inequalities have grown.*[8]

Underlying the mischievous euphemism of "social safety nets" are three principal changes. These he identifies as:

- Increased *selectivity* of state transfers
- *Multi-tierism* in modes of provision of social protection
- Partial *privatisation of social policy*.

Developing social security systems in a globalising era characterised by insecurity has led to significant debates on what type of approach or mix of interventions can best respond to the continuing crises of livelihoods and human security. "Third Way" supporters such as Giddens[9] are eloquent on the need for social democrats to find ways to deal with risks that welfare states are no longer able to address. Giddens refers to "technological change, social exclusion or the accelerating proportion of one-parent households" but says little about the increasing risks encountered in the labour market. Standing gives an indication of the need for coping mechanisms to be developed to respond to insecurity.

Labour security, previously the basis of welfare policy, has given way to insecurity along the following axes:

- ***Labour market insecurity*** has grown almost globally, with much higher unemployment, slower rates of employment growth (except in the US) and higher "labour slack".
- ***Employment insecurity*** is high and rising, with growing proportions of those in the labour force having insecure employment statuses and more workers lacking employment protection.
- ***Work insecurity*** has become greater, due to more people being in work statuses without coverage by protective institutions and regulations.
- ***Job insecurity*** has worsened, with more workers having to switch jobs and learn new ways of working.
- ***Skill reproduction insecurity*** is considerable, in part because skills become obsolescent more quickly and because few workers are receiving career skills.
- ***Income insecurity*** is greater for those in employment, due to flexible wages and so on, and for those outside employment, due to explicit disentitlement to benefits.
- ***Representation insecurity*** is growing due to de-unionisation, erosion of "tripartite" institutions and the changing character of collective bargaining.

International experiences also reflect two trends that are central to the South African discussion. These concern the merits of a social security strategy focused on the unemployed, and the usefulness or otherwise of "workfare".

3.3.1 Focus primary social security interventions on formally unemployed?

With wages being the key source of income, there is clearly a need for a range of national policies to focus on increasing employment and reducing unemployment. In terms of social protection, however, there is a need to consider the *condition* of being unemployed within the overall context of poverty and social exclusion.

Social security in industrialised countries largely developed around formal sector unemployment. These countries traditionally saw unemployment as their big problem, and therefore focused on "contingency risk" involved in the loss of that employment. However, mass unemployment and long-term unemployment lasting for a year or more is returning to these countries. At the same time, more flexible and informal labour markets mean that full-time, regular and stable wage labour is no longer the overwhelming norm.

Therefore the concept of social security, as focused on the formal sector unemployed, is increasingly challenged. For this reason the Committee has had to consider whether, in this context, social security reforms should primarily focus on the unemployed. Is the person in chronic "under-employment" not just as "deserving" of income security? Why provide income support to someone with zero hours of work last week, and not to someone who did a few (two) hours?

In developing countries, where stable full-time waged formal sector labour was never the norm, it is increasingly unlikely that it will become the norm. Moreover unlike industrialised countries, large proportions of the formally employed are in poverty and are categorised as the "working poor". In the context of a labour surplus economy, more and more people are being pushed into the informal economy. The Committee's research

Common pitfalls for countries' mix of SP interventions

In many countries the mix of social protection (SP) interventions have suffered several generic pitfalls. The World Bank has highlighted the following pitfalls[10]

- Trying to cure the ills caused by poor policy choices more generally (for example inappropriate macro structural policies).
- Lack of co-ordination of the many diverse policies, programs, and actors involved in SP interventions.
- Having so many interventions that few have adequate resources to operate efficiently, much less to accomplish their objectives.
- Missing the possible synergies and complementarities between programs (which leads to duplication or to missed economies of scale).
- Expanding the intervention's coverage or benefit level without dealing with the design or implementation issues that would make the interventions more effective.
- Focusing on the groups for which there is popular support but only a moderate correlation with poverty – for example, in some countries formal sector pensions may not reach the poor.
- Concentrating attention on the formal sector when poverty is largely in the informal sector, or on urban occupations when poverty is largely linked to agricultural activities or residence in rural areas.
- Failing to reach groups that may be highly correlated with poverty but outside the reach of traditional mechanisms or sympathies – for example refugees, internally displaced persons, and ethnic minorities.
- Not taking into account long run impact when designing initial interventions.

into unemployment trends and workerless households reveals that those involved in informal work or in the "informal sector" also tend to fall into the category of the working poor.

In short, there is a growing need for a platform of general social protection that supports both the unemployed and the working poor.

3.3.2 Workfare?

Workfare originated in the US. Its philosophical underpinning is the ancient conservative distinction between the "deserving" and the "undeserving" poor. Its theoretical underpinning derives primarily from the orthodox economic perspective that attributes unemployment largely to the behaviour and expectations of workers. In a sense, the new orthodox economics regards unemployment as largely "voluntary", due to behavioural and institutional rigidities.

Therefore one response to the persistence of high unemployment and the perceived behavioural rigidity has been to move social protection towards more active or regulatory systems. This typically links entitlement to benefits and the obligation to take a low-paying job or labour market training place.

The overall economic context in which workfare emerged in the US was the attempt to keep unemployment to a minimum (to maximise employment) by allowing wages at the bottom end of the labour market to be set at market-clearing levels. These lower-end wages did decline, resulting in household incomes for the bottom 20 per cent falling from $10 000 in 1977 to $8 800 in 1999.

A focal point of workfare activism in the US was against a piece of legislation called Aid to Families with Dependent Children. Known popularly as "Mother's Pensions", it originated in the period 1911-1920 as a form of social protection "for 'worthy', Protestant, white widows". Increasingly claimed by African-Americans and other minorities such as the divorced; the separated; the deserted; and increasingly, the never married; the numbers on welfare rolls grew between the late 1950s until the early 1980s from 2 million to about 13 million.

Allegedly due to the rising cost of the programme, conservatives began to advocate a variety of measures such as "... work

requirements for all able-bodied parents over age 21, and adoption for children whose parents are unable to provide support through work, family or private charity …" The real issue, research has shown, was not the increasing cost (which was actually relatively small) but that "welfare" has operated as a code-word for tensions over race, gender and ethnicity, focused overwhelmingly on young African-American women, allegedly breeding a criminal "underclass".

The result of workfare is that while welfare rolls have declined, it has resulted in little sustainable job creation. Analysis of the low-wage labour market into which nearly all of the workers from these families have been diverted reflects an abundance of part-time, temporary, contract or contingent work with no benefits, and for which there is often quite stiff competition. Despite the rising prosperity brought about by sustained economic growth, the proportion of the population below the poverty line continued to rise – from 11,8 per cent in 1997 to 12,8 per cent in 1998. Of the 34 million poor, some 13,8 million survived on incomes less than one-half of the poverty line.

Despite this background, there have been suggestions that workfare is a viable concept for developing countries. However, workfare policies require the existence of jobs. In a context of structural unemployment, as is the case in South Africa, such policies are unlikely to have any positive impacts. Further the workfare experience in the US has shown itself to be very administrative-intensive and expensive system, with little sustainable job creation.

Apart from these more technical drawbacks, in the South African context a workfare scheme, generated on notion of an "undeserving poor", or past apartheid state's manipulations of the labour market, may counteract the democratic state's efforts to rid society of its race-coded prejudices.

3.4 Defining an appropriate concept of comprehensive social security for South Africa

It follows from the earlier discussion that the extent to which one can adopt the traditional employment-centred concept of social security for South Africa can be questioned.

As a result of these weaknesses in the traditional concept of social security, the concept of "social protection" has originated, largely to accommodate the realities of developing countries.

The United Nations (UN) Commission on Social Development describes social protection as:

> *Social protection embodies society's responses to levels of either risk or deprivation … These include secure access to income, livelihood, employment, health and education services, nutrition and shelter.*

Further, the UN Commission notes that:

> *The ultimate purpose of social protection is to increase capabilities and opportunities and, thereby, human development. While by its very nature social protection aims at providing at least minimum standards of well-being to people in dire circumstances enabling them to live with dignity, one should not overlook that social protection should not simply be seen as a residual policy function of assuring the welfare of the poorest – but as a foundation at a societal level for promoting social justice and social cohesion, developing human capabilities and promoting economic dynamism and creativity.*[11]

Clearly a broad conceptualisation of social protection has many merits for South Africa.

- First, it incorporates developmental strategies and programmes more appropriate to a developing country such as South Africa. For instance, it increases opportunities for people doing "informal" work to gain access to social protection coverage.
- Second, it provides a coherent framework for integrating existing and proposed social and economic policy interventions. These wider functions and objectives of social protection are better able to address socially and economically embedded problems, new risks and increased vulnerabilities.
- Third, social protection could create added potential for integrated and linked private, public and community sector interventions and benefit systems.

For these reasons, the Committee of Inquiry has taken on board the concept of social protection.

However, such a system in South Africa, even more than suggested by the UN Commission, needs to be embedded in economic organisation and social relations enabling it to address the country's underlying structural and material basis of social exclusion.

For this reason, the Committee of Inquiry has settled on the term Comprehensive Social Protection (CSP). The Committee defines comprehensive social protection thus:

> *Comprehensive social protection for South Africa seeks to provide the basic means for all people living in the country to effectively participate and advance in social and economic life, and in turn to contribute to social and economic development.*
>
> *Comprehensive social protection is broader than the traditional concept of social security, and incorporates developmental strategies and programmes designed to ensure, collectively, at least a minimum acceptable living standard for all citizens. It embraces the traditional measures of social insurance, social assistance and social services, but goes beyond that to focus on causality through an integrated policy approach including many of the developmental initiatives undertaken by the State.*

This definition is consistent with that of the White Paper for Social Welfare of 1997, which began to map out the need for a broad conceptualisation of social security in South Africa. At the time it gave the objective of comprehensive social security as the

> *"provision of a national social security system" with the ultimate goal of ensuring that "all South Africans have a minimum income, sufficient to meet basic subsistence needs, and should not have to live below minimum acceptable standards".*

3.4.1 A comprehensive social protection "package"

CSP will work through a variety of mechanisms, embracing a "package" of social protection interventions and measures. The need for a package derives from an understanding that there are certain basic requirements that should be available to all, and not subject to being traded off against each other. For example, it is not acceptable to ask a poor parent to choose between attaining a certain level of household income or sending their children to school, though this is not an uncommon choice in reality.

Further, a package approach enables one to achieve a degree of balance between measures focused on reducing income, services (capability) and asset poverty. In this way, a dependence on cash benefits, ignoring the potential for basic service cost inflation, is avoided, or vice versa. Rather a poor person is guaranteed some cash support and a basic level of service delivery. This allows comprehensive social protection to better deliver on minimum acceptable living standard outcomes.

The "capabilities" approach developed by Amartya Sen, the recent Nobel-laureat, has been useful in developing the content of the CSP

Table 6
Matrix of means and ends[12]

Ends to promote	**Means**		
	Creation of entitlements	**Improvements in terms of exchange**	**Building capacities**
Healthy	Access to healthcare, water, sanitation	Grants and institutional reforms	
Productive	Redistribution of assets	Restructuring of markets and redistribution of opportunities	Improving access to and affordability of education and economic services
Secure lives	Tenure rights	Social welfare and safety nets	Community and individual safety

package. Basic incomes, services, and assets emerge as central components of the "capabilities" approach. This is set out in table 6.

In identifying the practical aspects of such an approach, and taking into account necessary adaptations for South Africa, the Committee of Inquiry has arrived at the following:

a) ***Measures to address "income poverty"*** This includes measures to ensure that people have adequate incomes throughout their life cycle, covering childhood, working age and old age. Income poverty can be addressed through a range of measures. However, the CSP package should comprise at least one primary income transfer which ensures that all South Africans have some income to mitigate or eradicate destitution and starvation. A basic level of income would also have other developmental spin-offs related to enabling that person to participate more effectively in the economy (for example, afford the bus fare to engage in job search).

b) ***Measures to address "capability poverty"*** This can be achieved through the provision of certain basic services deemed crucial to enable a person to live and function in society. This includes the provision of basic (lifeline tariff) water and electricity, free and adequate healthcare, free education, food security, and affordable housing and transport.

c) ***Measures to address "asset poverty"*** This includes income-generating assets, such as land, and social capital such as community infrastructure. This addresses the key underlying structural basis of poverty and inequality in South Africa.

d) ***Measures to address "special needs"*** This includes mainly standard measures to address special needs such as disability or child support.

In the CSP package, (a) + (b) + (c) are core elements of the comprehensive social protection basic platform that should be available to all South Africans (including certain categories of non-citizens). In general, these components need to be established as a universal-as-possible package of income transfers, services and access provided in a non work-related manner and whose availability is not primarily dependent on an ability to pay.

Table 7
Comprehensive social protection package and components

	Application	Key components
Income poverty	Universal (a)	• Basic Income Grant • Child support grant • Maintained state Old Age grant
Capability poverty	Universal/ Eligibility criteria (b)	• Free and adequate publicly-provided healthcare • Free primary and secondary education • Free water and sanitation (lifeline) • Free electricity (lifeline) • Accessible and affordable public transport • Access to affordable and adequate housing • Access to jobs and skills training
Asset poverty	Universal/ Eligibility criteria (c)	• Access to productive and income-generating assets such as land and credit • Access to social assets such as community infrastructure
Special needs	Eligibility (d) criteria	• Reformed disability grant, foster care grant, child dependence grant
Social insurance	Eligibility (e)	• Cover for old age, survivors', disability, unemployment, and health needs

To this basic floor, (d), which addresses special needs, and largely as it currently applies, will be added. A social insurance component (e), reformed for purposes of inclusivity, equity, consumer protection and efficiency of the benefit types, completes the package.

Crucially, what are the key components of such a CSP package? After detailed analysis of the social and economic cost-benefits of possible components, the key income transfers, services, assets and special needs measures put forward by the Committee of Inquiry are set out in table 7.

3.4.2 Determining the "minimum" requirements for the CSP package

The Constitution obliges the state to take positive action to meet the needs of those living in extreme conditions of poverty, basic services, and suffering from a lack of access to constitutionally stipulated socio-economic rights.

The difficulty for the state, and anyone insisting on the state's obligations, is that the "minimum essential level" must be described for each of the socio-economic rights (for example, the right to adequate housing). As the Constitutional Court, in *The Republic of South Africa et al* v. *Grootboom et al*, has observed:

> *It is not possible to determine the minimum threshold for progressive realisation of the right to access to adequate housing without first identifying the needs and opportunities for the enjoyment of such a right. This will vary according to factors such as income, unemployment, availability of land and poverty. The differences between city and rural communities will also determine the needs and opportunities for enjoyment of such a right. Variations ultimately depend on the economic and social history and circumstances of the country.*

While the Grootboom case has emphasised that it is incumbent on the state to take reasonable measures to give effect to each one of these rights, the Committee believes that this should be translated into making available a minimum level or measure of provision to everyone. As a result, it may be advisable for the State to stipulate up front its considered minimum obligations for service delivery, such as it is doing for the free water programme, and its intended schedule for progressively realising this.

Further, even while the state is rolling out these medium- to long-term programmes, it is has to ensure "temporary" relief for the poor who are "particularly vulnerable". In all likelihood, the state will be unable to ensure that all of its capability and asset programmes adequately have built-in measures for temporary relief for those most vulnerable. The result is that the state is again exposed to Constitutional Court challenges, and instances where the poor feel forced to take matters into their own hands (such as with land invasions).

In this regard, the "income poverty" aspect of the CSP package is relevant, particularly for three reasons:

First, income poverty measures are easier to rollout in the short term than more infrastructural and institutional intensive "capabilities" and "asset" poverty programmes.

Second, people who are in "capability" and "asset" poverty, or for that matter having "special needs", are invariable also facing "income poverty".

Third, the Constitutional Court has recognised that *if* the state were providing better social assistance to the poor there would be less pressure on other socio-economic rights.

> *The poor are particularly vulnerable and their needs require special attention. It is in this context that the relationship between sections 26 (housing) and section 27 (social security) and other socio-economic rights is most apparent. If under section 27 the state has in place programmes to provide adequate social assistance to those who are otherwise unable to support themselves and their dependants, that would be relevant to the state's other obligations in respect of other socio-economic rights.*

In other words, the state could buy time for progressive realisation of its other socio-economic rights if it improved income transfers to the poor in the short term.

3.5 Economic, institutional and social mobilisation implications of comprehensive social protection

While the Committee deals with financial and institutional implications in more detail later in this report, at this point it may be valuable in sharing some of the important considerations in this regard that were considered by the Committee in developing its conceptualisation of comprehensive social protection.

3.5.1 Social protection and the economy

The PIR concluded that the perpetuation of extreme poverty in South Africa would most likely act as a brake on the Government's economic growth strategy. And where higher growth was achieved, a noticeable reduction in poverty and inequality may not follow. As a result, it proposed that South Africa could pursue more redistributive policies without undermining current growth objectives – and rather that such policies would instead promote economic growth.

Indeed, the UN Commission for Social Development finds that:

> *Experiences of countries successful in economic, political and social terms show that economic development and social protection are mutually reinforcing – essentially they are elements of the same paradigm. Any trade-off between public spending items, between various economic needs and the need for social protection must incorporate recognition of the long-term social pathologies … This approach (of objecting to social protection because it costs too much) has proved to be short-sighted and superficial.*

Further, the UN Commission states, social protection facilitates the process of social and economic change by moderating the costs of economic transition and structural change. By providing a cushion, it can encourage the necessary economic restructuring.

Internationally, two factors have been important in shaping the limits, or otherwise, of "affordability". These two factors are:

- ***A country's level of economic development*** The level of economic development broadly determines the limits of the social security system. It is clear that, all other things being equal, a rich country can afford to provide a more comprehensive system than a poor one. South Africa, in this regard, is defined as an upper-middle income country.
- ***The relative strengths of social forces*** The relative strength of social forces and institutions determines the distribution of the country's resources. A rich country may be able to afford to provide for everyone, but may instead develop a system that caters for the wealthy. Therefore, conceptually, the "affordability" or otherwise of a social protection system is partially dependent on social contestation. However, political and institutional mechanisms can be used to avoid zero-sum trade-offs. For example, a productivity/ investment accord could be agreed to in the context of a new comprehensive social protection system.

A further factor is the extent to which "affordability" is determined by policy decisions, for example one to *reduce* public spending as a percentage of GDP. In this regard the parameters of "affordability" may be artificially constrained.

Further, Committee research (see chapter 14) indicates that there has been a reprioritisation away from social spending, without any prior explicit policy decision. The extent to which this has occurred represents some degree of "fiscal space" that can be reclaimed without a new policy decision being made.

The state provides numerous tax breaks or "subsidies" to private sector providers. Several of these tax arrangements – running into many billions of Rands each – are inherited from the past, and do not appear based on any clear rational or equitable basis. Over time these could be reallocated on a clear, rational and equitable basis in line with the chosen social protection approach.

Finally, the Committee is strongly of the view that there is a cost to not acting. Indeed, it is not always economic to defer important interventions and preventative steps for primarily short term cost reasons. In this regard, the social

backlog and accumulating challenges present a barrier both to social and economic development, and intervention sooner rather than later may be economically and fiscally prudent. Indeed it could be argued that via the negative social externalities generated by lack of state action, the society, or the affected communities bear the cost.

3.5.2 Social protection and institutional arrangements

It has been a relatively short space of time since the advent of democracy. Therefore much of the institutional framework necessary to reverse the consequences of the previous system and address poverty, unemployment and inequality is weak or absent. There is thus a difficult task ahead to rapidly resolve many institutional challenges within a relatively short frame. These challenges include, for example, the design of new policy and legislation; new administrative structures at various levels of Government; attempts to put into place measures that ensure the inclusion of the previously excluded; the establishment of mechanisms to deliver social goods efficiently and equitably; and the establishment of monitoring and evaluation.

Since 1994 national Government policy initiatives have attempted to finely-target poor and vulnerable groups within South Africa. However, the institutional mechanisms to implement such policies have been uneven, with crucial governance failures resulting.

Public spending cutbacks have often contributed to growing institutional crises. The current economic strategy has introduced a tighter fiscal approach from Government, with less fiscal support for expanding social protection. There is thus a resulting tension between increasing access to social protection (as required by the constitutional and democratic imperatives) and declining real per capita spending (driven by fiscal policies). Institutions have therefore struggled to both reduce costs and increase access.

This declining public spending, concurrent with increasing commercialisation of key services, has pushed many people into the regulated private market. In this regard, the problems related to the health sector are relevant. To address this tension, institutional efficiencies clearly need to be improved substantially and/or fiscal support needs to be increased. Regarding institutional efficiencies, efforts to devolve functions and create new responsibilities for provincial and local Government have run up against un-funded mandates and uneven institutional capacity.

Further, the means test has negatively affected the ability of the poor to access benefits. Means-tested schemes invariably have low take-up rates, that is, only a small proportion of those entitled to assistance actually applies for or receives them. Some may argue that if people do not apply for a benefit then they must really not need the benefit very much or do not qualify for it. However, these are often not the reasons for non-application. More likely fear, a lack of public awareness of the schemes, an inability to afford the transport to the welfare offices, stigma, or difficulty inherent to the administrative requirements are the key factors. In reality, it may be a combination of all of these.

Means testing also intensifies the problem of the "welfare-trap". At its simplest, this arises where you receive a benefit only if you are not earning anything else. As soon as you start earning, you lose the benefit. While in practice some means tests allow for some income to be earned, the welfare-trap remains, if somewhat reduced. In the South African context, and the tendency for incomes to fluctuate, applying the means test correctly becomes a very complicated and generally impossible task within the available institutional capacity. Crucially, it promotes corruption, where Government officials are in a position to waive or overlook certain requirements. In short, the Committee has sought, wherever possible, to find alternatives to or simpler forms of means tests.

3.5.3 Incorporating social mobilisation into social protection

Social mobilisation is important in embedding social protection in economic organisation and social relations. Social mobilisation is an important resource in developing countries that can create a positive forward energy and supplement the modest financial resources of the state. South Africa, particularly because of its history of effective social mobilisation against apartheid, may find that such mobilisation has much to offer in the post-1994 period, too.

In this regard, the Committee considered the notion of a Youth Corp engaged in comprehensive social protection activities. For instance, there is a need for approximately 54 000 community-based caregivers to assist communities by dealing with the HIV/AIDS outcomes. Such a necessary scheme could be given to specially trained youth, potentially as part of a learnership programme, supported by existing social programme funds, with contributions from relevant job creation/skills development funds.

Elements of social mobilisation are also important in terms of increasing the level of participatory governance, institutional accountability and, hence, contributing towards institutional effectiveness and efficiency.

Moreover, non-governmental organisations (NGOs) and community-based organisations (CBOs), with Government support, have an important role to play in creating and supporting an environment of social mobilisation. Such a role seems preferable to NGOs/CBOs as partner delivery agents; such organisations generally face funding and capacity constraints, and attempts to use them, as is the case with for-profit institutions, has exposed several weaknesses in Government administrative and management systems. Those Government departments using such organisations had the most prevalence of under spending (due to their inability to process the funding), and also limited delivery outcomes (due to their inability to ensure contract compliance).

3.6 Social protection and private social insurance

South Africa has a highly developed private social insurance market offering life, disability, health, property and casualty cover as well as a range of retirement benefits. There are however a number of issues that require action in these areas, which are covered in later chapters.

3.6.1 Mandatory cover

One question they have in common is that the insurance is either entirely voluntary or, at most, cover is a matter of the employment contract. Of countries at comparable levels of development, South Africa is unusual in not mandating cover.

It is frequently argued that people cannot be relied on to make adequate cover because they are myopic (short sighted). The state, the argument goes, should therefore intervene to protect people from themselves, and compel them to belong to insurance and retirement schemes. Such undemocratic contempt for other people should usually be rejected. Being compelled to contribute to a retirement scheme in one's 20s for instance, is likely to lead to a reduction in welfare as the costs of a home loan will probably exceed the rate earned by the retirement fund on the investment.

On the other hand, a major advantage of mandatory cover is that there is no need to underwrite members, nor discriminate against poor risks. This saves administrative costs and allows more people to obtain affordable cover. Costs can be further reduced if there is less need for marketing. It can also be argued that state-supervised funds offer greater financial security. The introduction of mandatory cover also prevents people from becoming a financial burden on other members of the community. The Committee is persuaded of the need for some mandatory insurance cover for all participants in the formal sector – and their dependants.

3.6.2 Lower earnings limits for mandatory social insurance

Mandatory social insurance requires mechanisms for insuring that contributions are collected. It is effectively only possible for those employed in the formal sector – if this is defined as those where formal records of income are kept and tax is paid. A clear division is required between those from whom contributions can be collected, and those who cannot effectively be included. If the mechanisms for collection are not likely to be efficient, regulations for the introduction of compulsory cover will not be effective, and should not be introduced.

Mandatory social insurance also involves administrative costs to the regulator, the service provider and the contributors. The costs rise as a proportion of contributions for lower contributions and smaller employers. These costs may have a negative impact on employment for smaller employers and low-income earners. The contributions themselves may be regarded as an

additional tax if the contributors believe that the benefits offer little value. This is particularly likely when benefits are small relative to the social assistance available to non-contributors.

The Committee recommends that an unambiguous and manageable dividing line be developed between those for whom cover should be compulsory and those who could voluntarily contribute to social insurance. Such a dividing line should take into account the relative size of administrative costs and the likelihood that it be enforceable.

3.6.3 Articulation and means tests

However this line is drawn, it is likely that many individuals will not contribute for their whole working lives.

The current articulation between social assistance and social insurance is ostensibly managed by the means tests mentioned in the previous section. They, however, are not managed in a consistent fashion, and the Committee has had difficulty envisaging how they might be. Even if they were consistently applied, it is held that in their current form, they are unfair and create perverse incentives to hide income, or avoid earning cash income.

Means tests are currently applied, in different ways, in the granting of the benefits provided by the Department of Social Development, but also to those applying for access to public hospitals, and for housing benefits. In addition, exemptions from municipal services and school fees are means tested. Taxes can also be regarded as effectively means tested.

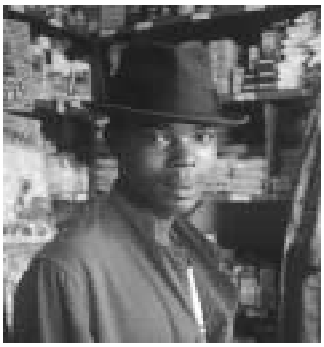
The Committee believes it helpful, from one perspective, to see social assistance and the system of taxation as a whole, rather than consider their parts individually. This perspective is illustrated in table 5 in chapter 2. One implication of this view is that there should be consistency between the phasing out of means tested benefits and of rates of taxation.

The current position is complex, inefficient and unfair. As monthly income increases from R100 per month, the following benefits may, for instance, be lost:

- Old age and disability grants reduce by 50% of additional income.
- Other grants may be removed in total.
- The costs of a visit to a state hospital may treble.
- The entitlement to a housing subsidy may halve.
- Exemption from municipal rates may be removed.
- School fees may be increased by 3,3% of the additional income for every child.
- Tax will become payable at a rate varying from 18% to 40% of additional income.

The Committee believes that the most efficient, developmentally most effective and fairest way forward is to abolish all means tests and to recover the costs through increases in tax.

If means tests are to be retained however, the need for efficiency and fairness would suggest that there be some rationalisation in administration. In particular, there is a need for a careful integration between the evaluation of means and the collection of taxes. If it is considered necessary to retain means testing in order to target benefits, then it is recommended that the Department of Social Development be responsible for making such evaluations. The information as to which elements of the social security package a person is entitled should ultimately be captured on their identity cards.



Chapter 4
Constitutional Framework for Social Security in South Africa

4.1 Introduction

Fundamental reform of South Africa's social security system that aims to redress past injustice is in accordance with the provisions of the Constitution of the Republic of South Africa 108 of 1996 (hereafter referred to as the constitution). For the first time in South Africa's history, the Constitution compels the state to ensure the "progressive realisation" of social security. Section 27 of the Constitution clearly and unambiguously commits the state to develop a comprehensive social security system. It affirms the universal right to social security, including appropriate social assistance for those unable to support themselves and their dependants, mandating the state to take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights.

The critical question is how these rights can be adjudicated. The Constitution imposed obligations on all spheres of the state to realise the right to social security, and the Constitutional Court has affirmed that many aspects of the socio-economic rights included in our Bill of Rights are justiciable.

4.2 Status and impact of the Constitution

Section 2 of the Constitution expresses the role the Constitution is meant to play with regard to social security regulation, policy-making and administrative practice. It states that the Constitution is the supreme law of the country; law or conduct inconsistent with it is invalid, and the obligations imposed by it must be fulfilled.

The state is obliged to conform to the rights contained in its Bill of Rights, as they are said to bind the legislature, the executive, the judiciary and all organs of state,[13] as well as, to the extent foreseen by the Constitution,[14] natural and juristic persons. In recent times, the courts have not hesitated to enforce the supremacy of the Constitution in the area of social security in circumstances where its prerequisites have not been adhered.

4.3 General principles

The overarching aims of the Constitution are closely related to social security goals: healing the injustices of the past, ensuring social justice, improving the quality of life for all South African citizens (*inter alia* by alleviating poverty and suffering), and freeing the potential of each citizen. The meaning of the constitutional fundamental rights has to be determined and understood against the background of past human rights abuses.

Certain constitutional values are key to the interpretation of fundamental rights pertaining to social security: human dignity, equality and freedom, as well as the advancement of race and gender equality.

4.4 A human rights approach

The Constitution favours a human rights approach by not differentiating between social, civil and political rights. By not differentiating between this apparent "categories" of rights,

emphasis is placed on the fact that these rights are interrelated, interdependent and indivisible. The Constitutional Court has made it clear that realising a particular socio-economic right, such as the right to access to housing, would require that other elements which do at times form the basis of particular socio-economic rights, such as access to land, must be in place as well. Together these rights are mutually supportive and have a significant impact on the dignity of people and their quality of life.

In the Constitution the human rights-based approach towards social security (fundamental) rights is strengthened by provisions which: (a) state that the duties imposed by the Constitution must be performed, and (b) require of the state to respect, protect, promote and fulfil the rights in the Bill of Rights.

The right to access to social security is backed by a host of other social security relevant fundamental rights. These include the right to have access to healthcare services, to sufficient food and water, to adequate housing, the right to education, as well as the right of children to basic nutrition, shelter, basic healthcare services and social services. Together these rights can be said to ensure, from a constitutional and human rights perspective, adequate social protection.

4.5 The meaning of social security from a constitutional perspective

The right to (access to) social security in South Africa, however, is not yet cast in concrete terms. It is incumbent on Government to set minimum standards for defining the right to access to social security and its realisation. This, it is suggested, has to be done within the framework of the overall goals of the social security system envisaged by Government. The definitional standards so adopted then have to be applied and implemented in programmatic fashion according to an appropriate time-frame, setting out the goals to be achieved, mapping the different programmes and systems, determining the priority order, and indicating the time targets.

In keeping with modern social security thinking and policy-making, social security is no longer seen as merely curative (in the sense of providing compensation), but also as preventative and remedial in nature. The focus should be on the causes of social insecurity (in the form of, amongst others, social exclusion or marginalisation), rather than on (merely dealing with) the effects.

Further, the social security concept does not merely cover measures of a public nature. Social, fiscal and occupational welfare measures, collectively and individually, whether public or private or of mixed public and private origin, must be taken into account when developing coherent social security policies. In a country such as South Africa such an approach may not only be advisable, but also necessary, in order to fully utilise limited resources. This implies that a functional definition of social security be adopted, which includes all instruments, schemes or institutions representing functional alternatives for the publicly recognised schemes – that is, all instruments available to society for guaranteeing social security.

While the right to access to social security is granted to "everyone", it is clear that the rights of children in this regard are exercised mainly via their parents and families. In these cases where family support is available, the role of the state is restricted to provide the legal and administrative infrastructure necessary to ensure that children are accorded the protected contemplated by the Constitution. In addition, according to the Constitutional Court in the *Grootboom* case, the state is required to fulfil its constitutional obligations to provide families with access to land, access to adequate housing, as well as access to healthcare, food, water and social security.

Important implications flow from the above perspective. For the right to access to social security (and the other social security-related rights) to fully mature and to be known and directly enforceable, the state should initiate legislation to provide for the substantive rights capable of being claimed (what actually should be claimed). The procedure and mechanism for claiming such rights (how the rights should be claimed); and where (venue) the rights should be claimed also needs to be specified. On the question of how and where the right should be claimed, the state also has to concern itself with the institutions that will hear and determine disputes arising from claims for social security benefits provided for under the relevant legislation.

The Constitution places a duty on the state to respect, protect, promote, and fulfil the rights in the Bill of Rights.[15] On a primary level the duty to respect requires negative state action and the courts will only expect the state not to unjustly interfere with a person's fundamental rights. On a secondary level, the duties to protect, promote, and fulfil places a positive duty on the state and it is argued that this duty also requires positive action from the courts.

This positive obligation does not, as such, require that the state distribute money or resources to individuals, but requires setting up a framework wherein individuals can realise these rights without undue influence from the state. It requires in particular of the state to protect especially vulnerable groups and encompasses protection against third (non-state) party violations of these rights. Practically this would, for example, mean that pensions, medical insurance and unemployment insurance legislation should be construed in such a manner that they sufficiently protect individuals against discrimination in acquiring benefits.

4.6 Limiting, interpreting and enforcing social security rights

The constitutional rights relating to social security are subject to two forms of limitations. First, the limitation must comply with the requirements contained in the (general) limitation clause of the Constitution (sometimes referred to as external limitations). Secondly, the limitation can also be justified on the basis of the specific qualifications contained in respect of a particular right (sometimes referred to as internal limitations).

As far as the general limitation clause is concerned, section 36 of the Constitution subjects a limitation of a fundamental right to a threefold test, in terms of which the limitation must be:

- Contained in a law of general application
- Reasonable
- Justifiable in an open and democratic society based on human dignity, equality and freedom.

An example of a non-justifiable limitation would occur where the classification or criteria adopted to indicate beneficiaries of a particular state project (such as a social relief programme) are not sufficiently determined, with the result that certain groups are, contrary to the intention of the programme, excluded.

The state's duty to respect, protect, promote, and fulfil the right to access to social security is further qualified by the phrasing of section 27(2). Section 27(2) states that the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights. The reasonableness of the measures will be evaluated against criteria such as:

- The social, economic and historical context of the deficiencies in the system the measures aim to address
- The institutional capacity to implement the programme adopted
- Whether the programme is balanced, flexible and open to review, and makes appropriate provision for attention to the deficiencies in the system and to short-, medium- and long-term needs
- Whether the programme is inclusive and does not exclude a significant segment of society
- Whether the measures ensure that basic human needs are met and takes into account the degree and extent of the denial of the right they endeavour to realise
- Whether the programme and measures ensure that a larger number of people and a wider range of people benefit from them as time progresses.

When interpreting social security-related fundamental rights, every court, tribunal and forum is required to promote particular constitutional values, and to consider international law (both binding and non-binding), while foreign law may be considered. The power to enforce and adjudicate these rights vests in the courts (in particular the Constitutional Court), while the Human Rights Commission is given the mandate to monitor compliance with and support the development of fundamental rights.

Where parliament or the provincial legislature failed to comply with a constitutional

obligation that requires positive state action the Constitutional or High Court may grant appropriate relief.

4.7 Concluding remarks

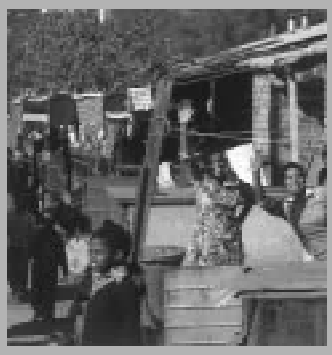
Committee analysis indicates that there are unequal, exclusionary and inequitable structure of the present social security system as a whole, and of particular elements of the system, which are therefore not in conformity with the constitutional prohibition of unfair discrimination.

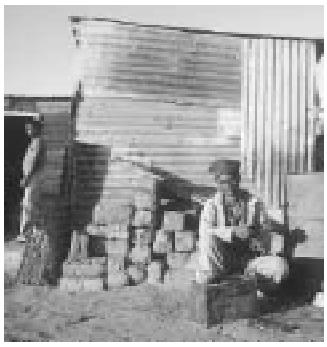
In view of the need to urgently address this challenge, the Committee recommends that social security policies and programmes must be reasonable both in their conception and their implementation. Showing that the measures are capable of achieving a statistical advance in the realisation of the right to access to social security may not be sufficient to meet the test of reasonableness. Rather, the needs that are the most urgent must be clearly addressed. Particularly vulnerable communities must be given priority by Government and their needs must be effectively addressed.

From the *Grootboom* and other constitutional case law it appears that:

- A reasonable programme must clearly allocate responsibilities and tasks and ensure appropriate financial and other resources
- It is not only the state that is responsible for the provision of social security, but that the responsibility and/or involvement of family structures, other (non-state) providers and private provision has to be factored in, acknowledged, supported/ protected, and, where necessary, regulated
- As a rule (but subject to the reasonableness criterion), the court will not consider whether other more desirable or favourable measures could have been adopted or whether public money could have been better spent
- The socio-economic/social security right at stake must be coherently and comprehensively addressed
- Guidelines drawn up in the wake of budget constraints have to be reasonable
- A minimum floor of benefits or provision has to be made for the most vulnerable in society.

The Committee recommends that given South Africa's commitment to relevant international obligations, social security laws be amended to comply with these.





Chapter 5
Poverty, Social Assistance Grants and the Basic Income Grant

5.1 Introduction

The Committee paid significant attention to the urgent problem of poverty and its impacts on South African society. Moreover, through the process of public hearings, consultations with representative groups, submissions and commissioned research, the Committee has considered existing and proposed measures to alleviate poverty.

The Committee was required by the terms of reference to examine the feasibility of a Basic Income Grant. This section of the report therefore evaluates the potential impact of a Basic Income Grant, assessing its role in reducing poverty.

The Committee's findings on the state of poverty have been drawn from a wide range of sources, including representations made by the poor themselves. The Committee based its analysis on more than just a quantitative analysis of indicators and statistical measures. Providing opportunities for poor people themselves to voice their experiences was a way of ensuring broad based participation in the Inquiry as well as verifying the extent to which existing policy and programme initiatives of Government are understood by and reach the poorest people. The realities of intense poverty and inequality were also evident in direct representation made to the Committee by poor people themselves. Moreover, hearings and visits to provinces indicated that the poorest communities are living in conditions that dangerously compromise their human security and well-being.

5.2 Government programmes addressing poverty: findings

During the past 7 years Government has launched new programmes and expanded and revised existing programmes to deal with asset and capability poverty. These measures are designed to provide people (especially those who have been excluded as a result of apartheid) with access to certain assets and capabilities needed to overcome their poverty. Through such measures it is expected that opportunities will open up for people to improve their income earning capacity and as a result to address levels of destitution and poverty.

5.2.1 Poverty programmes to address capability and asset poverty

The Committee finds that Government programmes to address deprivation in health, education, housing, land, basic services such as access to water and sanitation, electricity and access to credit are well conceived and potentially well targeted. The barriers to access, especially in regard to the poor, remain administrative and institutional.

A specific problem repeatedly raised is the use of communal land currently governed by customary law. Rights to use of communal land should be secure and protected from arbitrary

seizure. Concerns have been voiced that the current position does not lead to the optimal use of land, and tends to promote migrant labour. A way needs to be found to allow people to retain their rights to return to land in retirement, but for the land to be fruitfully used while they reside in the urban areas. The Committee recommends that such concerns be considered in reviews of customary law.

Evidence put to the Committee shows that the poor have particular difficulties in accessing healthcare and primary education because they do not have even the most basic income for transport, food and basic clothing. It is the Committee's considered view that these key Government programmes, put into place to address capability and asset poverty, are essential and will in the long term result in sustained human development and economic growth. However, in the immediate term their policy efficiency, especially with regard to those poorest people in the rural and informal areas, is being compromised because of unsustainable levels of income poverty.

Moreover the Committee finds that given apartheid and structural unemployment, the current range of poverty relief projects, while in many cases innovative and responsive, are unable to make any significant impact on mass based unemployment and levels of income poverty in the immediate term. Many of these projects, are also not cost efficient in terms of their outcomes.

It is therefore the Committee's view that for the long-term policy benefits of health, education and more generally, basic services to make a developmental impact on the poorest, Government needs to take urgent steps to provide the basic means to enable the poorest to access these benefits. The Committee also recognises that barriers to access are not only bureaucratic (administrative) or to do with capacity constraints within Government itself but, based on evidence put before it, also that many of the poorest are trapped in income poor households. Addressing income poverty is therefore fundamental to a social protection reform process.

5.2.2 Poverty measures: requirement to target social policy

The World Bank says:

> *The measurement and analysis of poverty, inequality and vulnerability are crucial for cognitive purposes (to know what the situation is); for analytical purposes (to understand the factors determining this situation); for policy making purposes (to design interventions best adapted to the issues); and for monitoring and evaluation purposes (to assess whether current policies are effective; and whether the situation is changing).*[16]

The Committee's review of human development and various poverty studies in South Africa indicate the need for nationally agreed poverty measures. Nationally agreed poverty measures must have a conceptual and empirical basis. Conceptually, the Committee's framework for comprehensive social protection acknowledges that poverty has many dimensions. Effective policy must focus on capability poverty (deprivation in health and education), income poverty (lack of earnings and other sources of income) and asset poverty (access to resources).

Social policy intervention also needs to consider how inequality, participation, social exclusion and vulnerability contribute to poverty and people's social capacity for self-reliant development. Such a broad view of poverty requires special attention to the measurement and analysis that informs specific policy options. For this reason a conceptually sound and an empirically based understanding of poverty indicators and measures of well-being is critical.

Statistics South Africa continues to build national capacity for collecting this important social and economic data. The 1996 census and national surveys of social indicators such as the South African Labour Development Research Unit (SALDRU)/ World Bank[17] survey in 1993 and the subsequent OHS have provided important evidence to help orient current policies as well as to inform many of the submissions to this Committee.

Much still needs to be done particularly in the area of longitudinal data. Income data is notoriously unreliable. A proper understanding of the nature of persistent and intermittent poverty requires studies that follow the same people through these fluctuations. This understanding might then allow for effective interventions.

5.2.3 Government service delivery programmes

It is evident that the democratic Government has made significant strides to ensure policy and budget reprioritisation to provide access to resources.

Reprioritisation of resources is directed at such basic ingredients as access to water, sanitation, electricity, housing, knowledge/education, healthcare, land and other productive resources.

Government aims to meet the basic needs of communities through the provision of basic education (pre-primary and primary), basic health (primary and district level services), housing, water and sanitation, and electricity. It records the following measures to meet basic needs:

- Forty six per cent of the total education budget is spent on basic education
- Twenty per cent of the total health budget is spent on basic healthcare
- There is free healthcare for pregnant women and children under six
- A nutrition programme reaches 12 000 primary schools
- Two million people have access to safe water
- Since 1994, 1 167 435 houses have been built or were in the process of being built by the end of 2000
- The Consolidated Municipal Infrastructure Fund subsidises the cost of capital investment in municipal infrastructure
- An "equitable share" of national revenue is provided for local Government; funds are transferred to municipalities on the basis of need to enable them to provide services to poor communities.
- Transport subsidies (such as for buses) and the rural transport strategy aim to alleviate poverty. The taxi recapitalisation process will contribute to better access to transport for the aged, the disabled and school children.

The Committee engaged in a systematic review of some major current Government measures to address poverty. Such a review was designed to provide a holistic picture of the potential impact of interventions related to asset and capability poverty as well as income poverty.

After the review the Committee concluded that while there has been considerable progress in some aspects, current measures do not adequately contribute to a minimum package of goods, services and benefits. Many programmes for alleviating poverty and meeting basic needs are not targeted effectively in rural areas and to beneficiaries. Gaps in coverage and inequalities exist in the provision of services.

For example, the Committee found that most rural women and disabled people still experience difficulties in gaining access to land. Research shows that about 80 per cent of the total land claims registered and settled to date by the Department of Land Affairs are urban, yet rural claims involve a far larger number of people.

A survey done on housing subsidy schemes also indicate that people in the rural areas are less likely to know about subsidy schemes. In terms of household income, most of those who knew about the subsidies were those earning between R2 000 and R3 500 (63 per cent), households in the lowest income category had less knowledge of the subsidy scheme (58 per cent).

The PIR (1998) indicated that national programmes for Small, Medium, and Micro Enterprises (SMME) development have focused primarily on the needs of urban SMME development. Results of an evaluation done by Community Agency for Social Enquiry (Case) and the International Labour Organisation (ILO) highlighted that there is a generally inequitable geographic spread of Public Works projects.

While the Government has implemented new initiatives with regard to sanitation and water schemes, there are still millions of South Africans without adequate access to services. Representation made to the Committee indicated that lack of access to running water forces many people, especially the rural poor, to walk long distances to fetch water. Most households in rural areas have no toilet facilities and have access to water from a river, a borehole or tank.

Several problems have also been encountered with regards to the provision of nutrition to school children. In 1998/99, the Primary School Nutrition Programme aimed to target 17 500 schools and serve a meal to 5 574 305 school children. Figures from the Department of Health indicate that the target number of beneficiary learner and schools has never been reached. This indicates that not all children are benefiting from the school feeding scheme.

5.3 South Africa's social assistance system

South Africa's social assistance system of grants is important in addressing income poverty.

Moreover, social assistance can address the fact that low or non-existent incomes contribute directly to poor access to healthcare, education, housing, and social infrastructure. This section evaluates the impact of Government's income grant programme on the state of poverty in South Africa. The evaluation is based on household level micro-simulation models commissioned by the Committee.

5.3.1 An overview of the social assistance system

In April 2001 an estimated 3,5 million South Africans received social assistance through some form of income grant.[18] The State Old Age Pension (SOAP) is the largest social assistance programme with about 1,9 million beneficiaries. The important redistributive impact of this programme has been recognised by Government, labour and academia.[19] The Disability Grant (DG) is the second largest programme in Rand terms, but smaller than the Child Support Grant (CSG) in terms of beneficiaries. DG beneficiaries numbered 643 107 in April 2001. Eligibility for the grant is determined based on a medical diagnosis assessing the degree of disability, along with a means test. Reform of the DG has been the subject of a recent task team report.[20]

The introduction of the CSG represents an important reform introduced by the Government since the transition to democracy. In April 2001, 800 476 caregivers received grants with an estimated value of R120 million. The distinctive feature of the programme is the concept of "follow the child", meaning that the benefit is independent of the child's family structure. This grant was introduced in April 1998 and provided R100 per month per child for children under the age of 7 within a means test. The declared goal at that time was to reach 3 million children within the next five years. At the same time, the phasing-out of the State Maintenance Grant (SMG) with about 350 000 beneficiaries started. The Department of Social Development had to phase out the SMG over a period of 3 years. In April 2001, the CSG benefit was raised to R110, with a commitment to adjusting it for inflation in subsequent years.[21]

The Committee, through research and submissions, has noted the following concerns regarding the CSG:

- The take-up rate has increased in the 2001/2 financial year to around 1,5 million out of, at the very least, 3 million eligible children who could receive the benefit. However, there is still a concern that children most in need are not targeted effectively.
- It is widely accepted that the level of the grant does not come close to meeting the basic costs of childcare.
- The age limit has no real rational basis and is not consistent with the Constitution's definition of a child, that is, those under 18 years of age.
- In stopping the grant at school-going age some children apparently are unable to attend school because their parents cannot afford the costs associated with schooling.
- The means test as currently applied represents a barrier to many applicants gaining access to the CSG.
- For many reasons, including those above, there is a widely held view among beneficiaries and potential beneficiaries that the grant is not operating effectively.

Other programmes include the Foster Care Grant (FCG), and the Care Dependency Grant (CDG). At the age of 18, the disabled individual can apply for a DG. In terms of numbers of beneficiaries, the SOAP, the DG and the CSG are the largest social assistance programmes within the Government funded social security system.

5.3.1.1 Household structure and social security reform

A number of household structural characteristics are important when considering social security reform. South Africa's household structure was analysed using the best available data. The results have to be interpreted with care, but showed the following:

- Most pensioners (84 per cent) live in households with non-pensioners, so it is likely that most old age pensions support living standards beyond their immediate beneficiaries.
- Nevertheless, most adults (81 per cent) and children (76 per cent) live in households with no pensioners, so they are less likely to benefit from any grants paid to pensioners. It becomes clear that while

pension money benefits many of the poor, pensions alone are wholly inadequate at targeting them as a group.

- Households with only of working age adults comprise 10 per cent of all households, or over 4,6 million people. The poor in these households are excluded from a social security system that protects children and pensioners.
- Most South Africans live in large households (more than six people). Since larger households tend to be poorer, a fixed grant to each household will not be efficient in targeting the poor – larger per capita benefits will accrue to wealthier households.

5.3.1.2 The impact of the current social assistance system

An assessment of the social implications of the current system indicates that:

- In the absence of social assistance transfers, 58 per cent of South African households would fall below the subsistence line of R401 per adult equivalent.
- Out of a projected 23 840 471 people in the bottom two quintiles, the study estimates that 11 840 597 individuals (50 per cent) live in households that receive no social assistance.
- Existing social security programmes reduce the average poverty gap by 23 per cent. The "poverty gap" gives an estimate of the extent of poverty, by adding, for each household, the amount by which income falls below the subsistence line.

5.3.1.3 Summary of findings

The existing social security programmes do not adequately address the problem of poverty. Half of the poor live in households that receive no social security benefits at all, and the rest remain poor in spite of the benefits they receive. Nevertheless, South Africa's social security grants make a significant impact, reducing the average poverty gap by approximately 23 per cent at the beginning of 2001.

This relatively low percentage belies important variances. The SOAP reduces the poverty gap for pensioners by 94 per cent. Poor households that include pensioners are on average significantly less poor than households without pensioners.

"Skip generation" households (comprising child and grandparent), on average, have their poverty gap closed by over 60 per cent. For three-generation households the poverty gap is closed by less than 50 per cent due to the burden of the working age members.

For the average poor household without a pension-eligible member, however, social security's impact is almost negligible. For households with no pensioners, the reduction is less than 10 per cent.

Clearly, South Africa's social safety net has a very loose weave.

Committee modelling indicates that the existing social security system, even if all benefits are distributed to everyone entitled (that is, achieve a full-take up rate), has the capacity to close only 37 per cent of the poverty gap.

Even that partial closing of the gap, however, is not evenly distributed across household types. Households containing only working-age adults have on average only 11 per cent of the poverty gap closed, while the entire poverty gap for households containing only adults in pensionable age would be closed. Households containing only children and working-age adults have an average of only 22 per cent of the poverty gap closed, while "skip generation" households have an average of 80 per cent of the poverty gap closed. Sixty point four per cent of the poverty gap for three-generation households is closed.

Most of the benefit of the existing social security system with full take-up still comes from the SOAP – but it falls to approximately 60 per cent of the per capita social assistance transfer, while the share attributable to the CSG rises to a third (from 10 per cent).

Figure 10 depicts the impact of the distribution of income if all potential beneficiaries of South Africa's social security programmes received the full grants for which they were eligible. The graph is constructed with population on the vertical axis and relative income categories on the horizontal axis. That is, an increment along the horizontal axis represents a 10 per cent increase in income. The dotted vertical line represents the subsistence line of R401 per adult equivalent.

Figure 10 documents that *even with full take-up of all social security programmes, 21 955 935 people (over half the population) fall below the poverty line,* while 20 768 683 are above. However, even these figures may be somewhat optimistic.

Simulations done for the Committee indicate that with full take-up of existing social security benefits an estimated 843 164 people move out of poverty. However, these benefits are unlikely to be realised with the current structure of the social security system. Means tests, rigid eligibility criteria, and the high relative cost of applying for social security all contribute to low take-up rates.

In terms of the fiscal impact of this "loose weave" social safety net, at full take-up, South Africa would spend R26,5 billion on the transfer payments – R14,8 billion for the SOAP, R7,2 billion for the CSG, and R4,5 billion on the DG. This is in addition to the administration costs.

As a result, the Committee finds that from a comprehensive social protection framework the existing programme of social assistance grants is considerably high cost relative to its level of social effectiveness.

The Committee is of the view that one of the most effective means of reducing destitution and poverty is to provide some minimum support in the form of a social assistance grant.

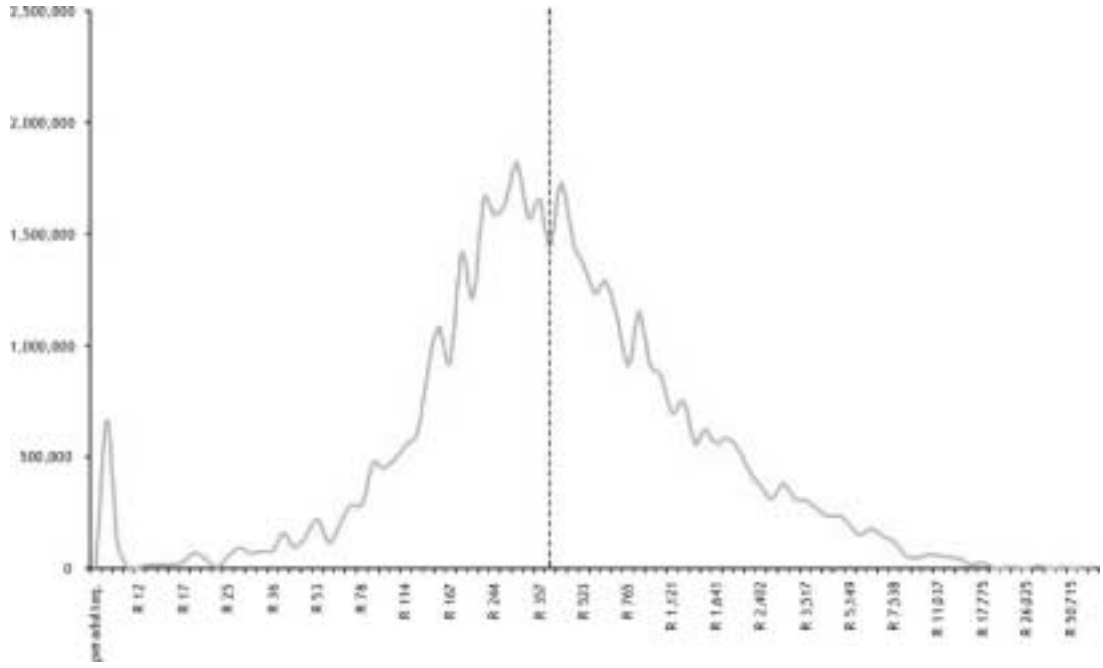
Furthermore, the Committee recommends that any income support grant be set at a level that would address destitution in the medium term and absolute poverty in the long term.

5.4 The feasibility of a Basic Income Grant for South Africa

The coverage gaps within South Africa's social security system combined with the structurally low rate of take-up of the CSG underscore the need for comprehensive reform. The nature of structural unemployment in the face of a changing global economy is such that it marginalises unskilled workers and results in the need to expand the scope of a social safety net. Not only do children, retirees and the disabled need social protection – millions of potential workers are vulnerable to unemployment and resulting impoverishment.

This section evaluates the potential of the Basic Income Grant to address the severe poverty characterising South African society. The nature of an income transfer has important implications for its socio-economic benefits and fiscal feasibility.

Figure 10
South Africa's distribution of income (assuming full take-up of existing social security programmes).



5.4.1 What is a Basic Income Grant?

A Basic Income Grant is provided as an entitlement and without a means test that will more readily reach the poorest population. By removing the stigma that labels the recipient as "poor", the grant is said to bolster economic support without draining psychological resources. The Committee understood the Basic Income Grant as a social policy option, to be defined as "a general social assistance grant for all South Africans." Further, the Committee had to determine what could be some of the concrete characteristics of this option.

In practice the grant could be calculated on a per person basis. For instance, a Basic Income Grant of R100 would mean that a single person living alone receives R100 per month. A household with six people (the average for the South African population) receives R600 a month. The working assumption in the model used to evaluate the feasibility of the Basic Income Grant is that there is no overlap between different grants. The grant is meant for people currently not receiving social assistance – those who fall through the social safety net.

A Basic Income Grant would serve as a social entitlement for all South Africans. Such an entitlement supports the right to appropriate social assistance as entrenched in the South African constitution 27(1)(c) while furthering the vision of a comprehensive social security system as identified in the White Paper for Social Welfare.

5.4.2 Will the Basic Income Grant create dependency?

The Basic Income Grant has no means test and therefore avoids many of the disincentives to work inherent in other social assistance systems. A Basic Income Grant stands in stark contrast to the targeted unemployment grant or what is known as a "dole system", which employs conventional means tests to target the unemployed, the unemployable or the very poor.

The level at which a Basic Income Grant is set will be crucial. At the very least it should address destitution. By providing such a minimum level of income support people will be empowered to take the risks needed to break out of the poverty cycle. Rather than serving as a disincentive to engage in higher return activities, such a minimum (and irrevocable) grant could encourage risk taking and self-reliance. Such an income grant could thus become a springboard for development.

5.4.3 Will the Basic Income Grant target the poorest?

The targeting of the poor within the context of a Basic Income Grant depends on the tax system. The SARS is one of the most capable arms of Government, reflecting a transformation process that has supported consistent over-achievement of revenue targets over the past five years. Appropriate tax reform linked to the Basic Income Grant can achieve very effective redistribution. Several financing mechanisms have been proposed. Cosatu has proposed recuperating the amount of the grant from all low to middle income earners while implementing a "solidarity tax" for higher income earners. Other proposals have focused on the Value Added Tax (VAT)[22] as well as progressive taxation.[23]

5.4.4 Can the Basic Income Grant be administered efficiently?

The Basic Income Grant would be paid to all South Africans. In the case of children, the grant will be paid to the primary care givers for the benefit of such children. To ensure that every South African has full access to this grant and to avoid any duplication of payment, a reliable identification and verification system will have to be established. There will thus be none of the costs associated with a benefit targeted through a means test.

One could, however, target the income grant by using the tax system, so that the net benefit is larger for the poorer recipients. If the costs of the Basic Income Grant are recuperated, for example, through the VAT system, research shows that the grants can be more effectively targeted. The lower the per capita expenditure of a household, the larger the benefit per person.

A Basic Income Grant, which is calculated on a per person basis, favours larger households that on average are poorer than smaller ones. Pooling of income leads to economic efficiencies and the more equitable intra-household distribution of income, could contribute to the empowerment of women and younger people in the family.

5.5 The impact of a Basic Income Grant

The analysis of the impact of a Basic Income Grant is based on an income grant of R100 per month for all South Africans. With full take-up of a Basic Income Grant, the number of poor South Africans excluded from the social security system is reduced to zero. The dispersion among household types in the closing of the poverty gap is substantially reduced. The household type currently with the least reduction in the poverty gap is the household with only working age adults; with a Basic Income Grant the poverty gap in these households is closed by over 56 per cent, compared to less than 8 per cent with the current system.

For households with children but no pensioners, the poverty gap is closed by two-thirds, and for households with children and pensioners, the gap is closed even more successfully. For "skip generation" households, 95 per cent of the poverty gap is closed, for "three-generation" households, 85 per cent of the poverty gap is closed.

The number of people covered by the social security system increases more than five-fold. The Basic Income Grant will account for 63 per cent of comprehensive social security coverage.

Most of the benefits (53 per cent) would be distributed to rural households, reflecting the spatial character of South African poverty. Two-thirds of the transfers to three-generation and "skip generation" households would be to rural recipients, reflecting the household structure's role in coping with rural poverty.

Figure 11 depicts the impact of the Basic Income Grant on the distribution of income. As in figure 10, the blue curve replicates the distribution depicted in the baseline simulation. The red line represents the distribution of income with the Basic Income Grant.

Figure 11 documents important impacts. The incidence of extreme poverty is nearly completely eliminated. The closing of the poverty gap improves to 74 per cent. On a headcount basis, approximately 6,3 million are moved out of poverty. The number of destitute individuals (measured using half the poverty line) falls by 10,2 million people. Most of the remaining poor individuals are clustered fairly close to the poverty line, so that broad-based growth would demonstrate substantial success in moving additional numbers of people out of poverty.

In sum, Table 8 compares the social impact of the BIG with the current situation and a situation where full take-up of all existing grants is achieved.

5.6 Recommendations

5.6.1 Poverty measures and indicators

It is necessary for the Government to decide on a minimum poverty line. It is recommended that this should be an absolute poverty line, e.g. R400 per person per month in 1999 prices, and not a relative poverty line, e.g. the income per person of the household in the 40th percentile. A destitution line should be set as a first realistic benchmark that could be used by Government to monitor progress in alleviating poverty. A destitution line could be set at half the poverty line.

Implementing concrete policy actions requires that Government develop mechanisms and procedures for gathering and evaluating data on poverty and human development. The Committee recommends that Government ensure that such data and research is gathered and developed on a regular and consistent basis to support measures aimed at alleviating and reducing poverty.

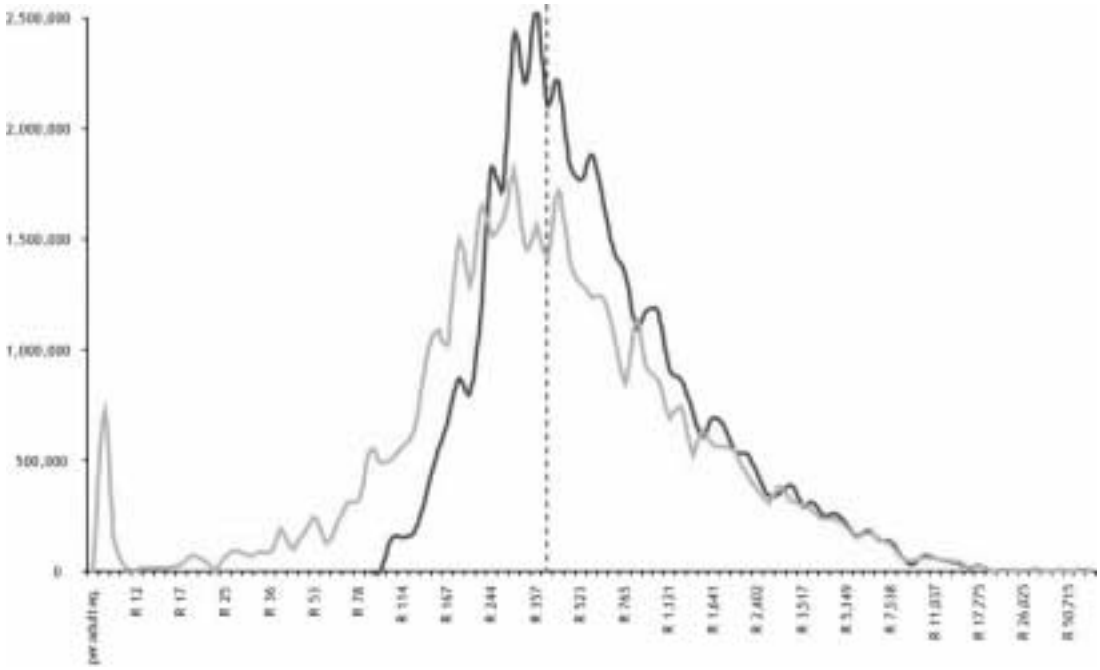
5.6.2 Basic Income Grant

Analysis indicates that the Basic Income Grant has the potential, more than any other possible social protection intervention, to reduce poverty and promote human development and sustainable livelihoods. A universal Basic Income Grant has the potential to fortify the ability of the poor to manage risk thus contributing to socio-economic multipliers effects related to improved household self-reliance, efficiency of social capital and societal cohesiveness.

Moreover, in the view of the Committee, income support of this nature would assist the poor to access Government services, thereby improving the effectiveness of many service delivery programmes and social policies.

The Committee notes, however, that the conditions for an immediate implementation of

Figure 11
Distribution of income with a Basic Income Grant.



a Basic Income Grant do not exist. In particular, there is a need to first put in place appropriate capacity and institutional arrangements to ensure effective implementation. Therefore the Committee recommends the gradual development of a comprehensive and integrated income support that can underpin South Africa's comprehensive social protection system.

5.6.3 A comprehensive and integrated medium- to long-term framework for income support

Allowing for a diversity of policy preferences, the Committee has identified three main options concerning income poverty.

5.6.3.1 Option 1: Maintain the status quo

This option could be based on the view that significant improvements, particularly income poverty interventions, cannot be accommodated due to inflexible fiscal constraints. Alternatively, some may feel that new interventions are perhaps unnecessary because the suggested end-state will be reached naturally over time with improvements to the administration of current programmes. There will probably be considerable support for this option, particularly from those mainly concerned about possible financial implications of any proposed interventions.

The Committee, however, is of the view that this would be an ultimately short-sighted position. The current programmes fail to satisfy the constitutional imperatives and thus make the state vulnerable to Constitutional Court challenges, and are clearly inadequate. Further, the current system fails to address the socio-economic imperatives, and the social costs of the absence of proper social protection will contribute

Table 8
Social impact of the Basic Income Grant

Policy	Poverty gap reduction	Additional people freed from poverty
Current situation	23%	—
Full take-up of existing grants	37%	0,8 million people
Basic Income Grant	74%	6,3 million people

towards a tendency of social instability. This would force the state to increasingly criminalise and judicialise essentially poverty-related social conditions, thereby creating conditions that could undermine the legitimacy of the democratic state.

In short, there is clearly a cost to not acting, which will sooner or later have to be borne by the country. Intervention sooner would be both socially and economically prudent.

5.6.3.2 Option 2: Immediate implementation of a comprehensive social protection system

The Committee has received many submissions and representations, from a wide range of social formations, which argued for immediate implementation of measures to address the tremendous socio-economic challenges facing South Africa. It was argued that there are increasingly large numbers of people in desperate need, and such people are not accessing any protective measures (such as emergency shelter). In particular, such arguments tended to motivate for a universal income grant that can, at the very least, alleviate persistent and pervasive levels of destitution.

Many proponents of this view argued that South Africa has considerable economic resources at its disposal, including low levels of debt and considerable space for increased taxation – and that such resources could be mobilised in the short term.

The Committee, after due consideration of this view, and appreciation of the need for additional social protection interventions, has concluded that the current institutional arrangements do not easily allow for new and expansive measures to be implemented immediately. A comprehensive social protection system requires the prior establishment of new institutional arrangements and measures. Such arrangements, even in the most optimistic scenarios, would require several years to fully plan, resource and implement.

Nonetheless, the Committee is of the view that, in the interim, there is a need to take immediate steps to expand certain poverty relief and *de facto* schemes to assist those individuals and groups that can access such benefits.

5.6.3.3 Option 3: A phased approach towards a comprehensive social protection system

This is the Committee's preferred option. This option seeks to progressively realise a comprehensive social protection "end-state". A two-phase approach is suggested, with the phased delivery balancing the need to allow time for the development of necessary institutional arrangements and ensuring that the state is able to meet important domestic and international commitments related to poverty reduction. In developing a long-term scenario which phases in the progressive expansion of the social assistance grant system the Committee has paid particular attention to issues of fiscal feasibility.

5.6.3.4 Phase 1: Comprehensive social protection system prioritising the most vulnerable

This phase would establish the preconditions for a comprehensive social protection system based on the constitutional imperatives and apartheid backlogs. It approaches the reform process in a way that prioritises the most vulnerable, namely children up to the age of 18.

The key components of phase 1 are identified below.

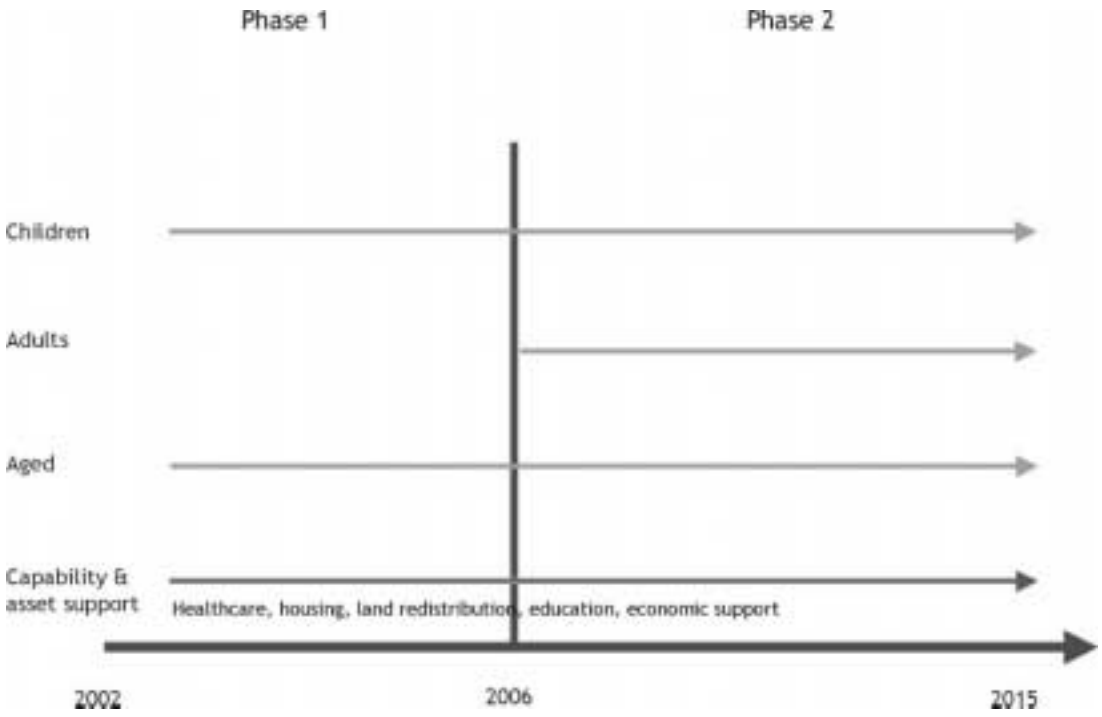
5.6.3.5 Phase 1: Period 2002 to 2004

- Set minimum income level to eliminate destitution
- Prioritise vulnerable and destitute groups (mainly children up to the age of 18)
- Put administrative systems in place
- Rationalise grants that are currently *de facto* poverty grants
- Ensure effective and efficient ways of targeting the most vulnerable
- Simplify and eliminate the means test where they obstruct equity, administrative justice and are costly to implement.

This phase uses the criteria of age as a parameter for the income support grant. Since children are among the most vulnerable and voiceless in society, and children born into extreme poverty almost never escape the poverty cycle the introduction of an income support grant for children should be introduced.

The downside to this phase is that an exclusive child-focused intervention does not address household poverty, and could create negative unintended consequences. An exclusive focus on child poverty, for example, would overlook the fact that the entire household will consume whatever grant one gives for the child. The addressing of *de facto* household poverty in this

Figure 12
Suggested phasing in of an income support grant system.



manner will exclude more than 1 million poor households without children, and may create perverse incentives regarding children. These problems will be addressed in phase 2, however.

5.7.3.6 Phase 2: Comprehensive social protection for all

This phase completes the building of the comprehensive social protection system initiated in phase 1, by extending an income support grant, preferably called a "solidarity grant", to all South Africans.

Although more costly in the short to medium terms than option 1, this alternative would have the biggest impact on poverty and social exclusion, thus providing various positive spin-offs for development and society in the medium to long term. By the conclusion of this phase, the state would have gone a long way in meeting its World Social Development Summit (1995) commitments to eradicate absolute poverty by 2015. The key components of phase 2 are identified below.

5.6.3.7 Phase 2: Period 2005 to 2015

- Set a level to address absolute poverty
- Level of the grant determined in relation to a comprehensive package.

The two broad phases of option 3 are shown in figure 12.

Finally, the means-tested and universal measures, recommended in option 3, have been costed (see chapter on Financial Framework for Comprehensive Social security) and can be seen to be financially feasible within the current fiscal framework.

5.7 Conclusions

It is the view of the Committee that a more comprehensive system of social assistance can play an important role in achieving medium- to long-term social and economic transformation in South Africa. First, it ensures the constitutional and democratic imperatives are met. Second, it indicates a commitment to addressing the legacy of apartheid socio economic backlogs. Third, it provides an opportunity to balance social and economic policy goals by prioritising the most vulnerable in the immediate term and ensuring in the long term an inclusive system of comprehensive social protection.

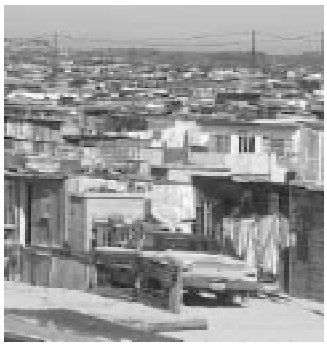
The Committee recommends that serious consideration needs to be given to fully utilising future improvements in fiscal capacity to build

up this system of transfers.

The Committee also finds that although a Basic Income Grant is most able to eliminate destitution and have a developmental impact on the poorest, its implementation is constrained in the short term due to fiscal and administrative obstacles. It is, however, the view of the Committee that fiscal and administrative capacity exists for a phased and measured introduction of a comprehensive system of income support through social assistance, as described in option 3. Within this context, households in clear distress should be given priority in the expanded framework.

An expansion of the social assistance grant system to adults living in destitution and poverty can have positive social and economic implications, and is fiscally feasible if seen as a long-term intervention.

Chapter 6
Employment and Unemployment



6.1 Introduction

The Committee has focused on unemployment and the poverty and social consequences of low-wage, precarious employment, like much of that found in the informal sector.

Detailed analysis of employment and unemployment trends was provided earlier in the Committee assessment of the socio-economic context. Key findings based on that assessment are discussed below.

6.1.1 Key issues

There is agreement that the number of unemployed in South Africa has grown substantially over the past few years. In addition, many of their characteristics, and of the households in which they are to be found, can be ascertained with some confidence:

- Formal sector employment levels are a matter of some disagreement. In recent years, they may have risen (or fallen) a little. The manner in which total formal employment estimates are obtained (from household surveys) is problematic. What the sector certainly has not done is to create jobs in the numbers so urgently required in South Africa.
- Informal employment appears to be growing rapidly. This cannot, however, be confirmed. Not only that, the (equally short) informal sector employment series is also extremely volatile. It probably can be said with some confidence that if employment in the sector is indeed growing, then most of the jobs created are of the very low income (survivalist) variety.
- The official unemployment rate may have stabilised (at about 26 per cent), but then again, it may not – differences between successive estimates in the most recent period are not statistically significant, so it is not possible to say what has happened. A discontinuity in the official statistics also gets in the way of our ability to interpret unemployment trends.
- Because economic activity rates appear to have risen quite substantially between 1999 and 2001, the numbers officially unemployed appear also to have risen (from about 3 million to 4 million).
- Unemployment rates according to the expanded definition seem to have stabilised at roughly their 1997 level (36-37 per cent). It is not clear what impact, if any, the 1999/2000 discontinuity has had on these results.
- The numbers of "expanded" unemployed appear to have increased substantially (by more than 1 million since 1999, and by more than 2 million since 1996). Once again, the explanation would seem to lie in rapidly rising economic activity rates. Why the rates of economic activity are rising is a matter of conjecture at the moment.
- In 1999, among 2,6 million officially unemployed for whom usable data on duration of unemployment could be extracted, some 40 per cent of the 1,17 million unemployed who had previously been employed, had been out of a job for

more than a year. Among the 1,47 million unemployed who had never previously been employed, 45 per cent had been unemployed for more than a year. There is widespread agreement that the long-term unemployed constitute a particularly difficult problem to resolve. The longer they are out of work, the greater the depreciation of human capital acquisitions. Among 4,58 million "expanded" unemployed Africans, only 1,24 million had previously been employed. Of the 3,34 million who had never previously had a job, considerably less than half (1,27 million) were younger than 25 years. This is cause for concern.

- The circumstances of many of the unemployed are so poor as to make it extremely difficult to insert them gainfully into the labour market, under existing economic conditions. Certain characteristics, among them that of being poorly-educated, long-term unemployed, located in a non-urban area and so on, are amongst the structural impediments to their obtaining jobs. Using these characteristics, and mindful of the extreme sensitivity of attempting to make such a calculation, the Committee has estimated that there may be as many as 1,5-2 million people who fall into the category of "difficult-to-place". Some commentators assert that these people are unemployable. While the Committee would not necessarily want to go that far, the fact is that these people are extremely difficult to reach with empowerment and skills programmes. Their ability to earn even a modest living in the informal sector is probably minimal. Clearly, their plight is clearly cause for grave concern. It is the view of the Committee that some form of social assistance grant, concurrent with other socially integrative programmes, must be implemented for such persons.
- Despite dozens of Government poverty alleviation programmes at high cost, the available evidence suggests that poverty is getting worse. The available evidence, though difficult to interpret, indicates that the number of "workerless" households had apparently risen dramatically between 1995 and 1999. This, it would seem, is one consequence of rising unemployment levels. In short, poverty alleviation programmes appear unable to keep pace with unemployment-induced poverty.

6.1.2 Implications for poverty

Poverty in South Africa is critically linked to the labour market. Research carried out for the Committee documents that in 1999 there were 4,6 million South Africans in the poorest households (households where gross monthly expenditure was less than R400 per month). A further 5,7 million people lived in households where expenditure was between R400-R800 per month. Average monthly per capita consumption expenditure in the poorest households was therefore, at best, in the region of about R100 per month. In the next expenditure class (R400-R800) per capita, expenditure could not have been much more than R170 per month. Even the most conservative poverty datum line in that period was set at between R300–R400 per month per capita. All 10,3 million people discussed above lived in households that contained no workers, either formal or informal. Labour market failure was thus a key determinant of their poverty.

In 1999 there were roughly 2,6 million unemployed in households in which there was no worker present and in which monthly total household expenditure was less than R800 per month. Of them, 1,4 million were women. Amongst them, 800 000 had given up searching for work, while a further 600 000 continued to search for jobs. Corresponding figures for the 1,2 million men consisted of 560 000 discouraged unemployed – the remaining 590 000 sought work. Almost 96 per cent of these people belonged to the African population group, i.e., extreme or chronic poverty has a disproportionate effect on them. All told, there were some 10,8 million people (of whom 10,2 million were African) living in workerless households where expenditure was less than R800 per month.

The cost of unemployment goes further than loss of income and even feelings of personal worth. South Africa's failure to socialise many young men, which is evident in the high rates of crime, alcohol abuse, violence against themselves and women, and even in the spread of HIV/AIDS, creates a vicious cycle of family breakdown.

6.2 Recommendations

6.2.1 The appropriate form of social security

The current social safety net is inadequate to deal with the immediate crisis of poverty and continuing alienation. The Committee therefore agrees with Government that policies to address poverty and social exclusion should not be limited to the creation of a conventional social safety net. For, even after a net to stop people from falling into destitution has been constructed, the negative effects of unemployment on social cohesion will continue to be felt. Instead, the notion of social protection has to be more comprehensive and must provide an effective framework to design a system appropriate to South African needs.

Further the Committee proposes that the principle of social insurance, based on entitlements through contributory schemes, should where feasible, be extended to include as many of the employed as possible. There are likely to be certain groups of workers who will remain excluded from social insurance schemes such as the UIF, because of their location in the workforce. For these workers other arrangements for providing social security are proposed.

Even if protection through social insurance could be made available to all workers, it would not solve the fundamental problems caused by unemployment. South Africa's unemployment problem is more structural than cyclical. Since UIF benefits are available for a maximum of six months they cannot deal with unemployment of this sort. The Committee's research has shown that because the majority of UIF claimants were poorly paid when they were employed, replacement income levels are correspondingly low. Benefit receipt durations are also very short (that is, benefit entitlements are quickly exhausted). The degressive benefit schedule in the new Act is an improvement, but it cannot solve the problem of benefit exhaustion (as benefits apply for a maximum of six months).

While unacceptably high levels of poverty and related problems require immediate Government intervention, the promotion of active labour market policies (and job creation policies, more broadly conceived) is essential in South Africa. However, given the structural barriers, educational levels and other features of the global economy, such policies on their own, are unlikely to address the immediate social crisis. The Committee's considered view, based on research, is that in the medium to long term, employment growth and job creation will not be significant enough to ensure income security or earnings replacement for low income workers in the survivalist sectors. In this context income support through social assistance (or massive public works programmes) is necessary.

In short, social protection must comprise the two "direct" forms, as well as the set of "indirect" measures designed to facilitate favourable labour market transitions:

- ***Social insurance*:** This must be extended wherever possible, with due consideration being given to the administrative feasibility of providing such protection and recognition of its limitations.
- ***Social grants*:** Coverage of these must be urgently widened to relieve the income poverty of the many who will not be rescued by policies designed to stimulate gainful labour market insertion.
- ***Indirect social protection*:** These approaches, through the facilitation of favourable labour market transitions, should be fostered by the deployment of every policy instrument that can help to do so.
- ***Monitoring and evaluation*:** Each and every policy instrument to address the problems of poverty and unemployment/ employment must be monitored and evaluated.

Although close linkage of the direct (conventional social security measures) to the indirect (active labour market-type policies) is not possible in the short to medium term in South African conditions, institutions to co-ordinate these policies so that their potential relationships are developed should be constructed.

6.2.2 Social insurance: The UIF

Due to the highly unequal distribution of earnings among those eligible to participate in South Africa's UIF, and because of the high propensity of poorly-paid workers to become unemployed, a contributor-funded scheme of this nature is vulnerable to fluctuations in the level of economic, activity, possibly to the point

where it is structurally non-viable. State support may be required to keep the scheme afloat during crises. It is also the case that business and labour have on occasion agreed that increases in the contribution rate (the pay-as-you-go rate [PAYG]) were desirable to secure the financial health of the scheme. The proposed increases have been blocked by Treasury. By comparison with similar schemes abroad, the PAYG rate in South Africa is low. The Committee recommends that when agreement on the need for an increase has been reached, that after due investigation, such increase should be permitted by National Treasury.

Maternity benefits proposed under the revised legislation are inadequate. It is proposed that the income replacement rate should be raised on the degressive scale. It is further suggested that mothers become eligible for the full benefit package (17 weeks paid maternity leave) after 13 weeks contributions. The possibility of introducing maternity-type benefits for those in casual, seasonal or insecure employment should be investigated. It is proposed that an attempt to co-ordinate the many research initiatives on reproductive health and child health be made.

Domestic workers could be incorporated into the UIF, on a similar basis to the IT-based solution proposed below. In return for bringing domestic workers into the "banked" sector of the economy (the only way to create reliable contributor records) it is proposed that employers be granted a modest tax rebate.

Regarding the inclusion of Government employees, the Committee is of the view that Government workers should be allowed to choose, through their representative organisations, whether or not to become contributors to the UIF.

The Committee has considered gaps in the new UIF Act. A significant omission is the absence of a clear principle for financing the UIF.

6.2.2.1 Financing principles for the UIF

The Committee has considered the complexities involved in the financing of the UIF and that the financing of the UIF has been a subject of negotiations in Nedlac and meetings between the Department of Labour and the National Treasury. The Committee's notes current arrangements in terms of which Government will effectively act as debt underwriter of the UIF. It is the Committee's view that although falling claim levels and improved financial controls have eased the financial crisis for the meanwhile, the UIF remains vulnerable. Until the special conditions in which the UIF is required to operate are acknowledged, and appropriate Government top up funds (in the form of a regular contribution to the UIF) are provided, this vulnerability will remain.

Noting that a start has been made in negotiations currently underway, the Committee suggests that Government will have to act as debt underwriter of the UIF, in the final instance, under conditions of (continuing) financial crisis. The Committee understands that Treasury support will be available for a period of some three years. During this period the UIF is required to take all steps necessary to ensure that all the systems required to control a financial institution disbursing several billion are in place. At the end of the period the Committee understands that the situation will be re-evaluated. The Committee recommends that those concerned engage in a principled discussion over the nature of the desired contribution and benefit regime.

Unemployment "insurance" funds the world over experience variations in their fortunes that relate in a complex way to movements in the business cycle. In some funds, an attempt is made to maintain a reserve from which to meet contingencies. From time to time, even wealthy economies experience difficulties in keeping a balance between income and expenditure of the funds. It is generally accepted that insurance against unemployment is (actuarially) difficult, if not actually impossible. The Committee is of the view that insurance against mass unemployment (on the scale experienced in South Africa) is out of the question.

The new Unemployment Insurance Act proposes the extension of coverage to those currently excluded by virtue of the fact that they earn more than the ceiling income. Claims of "high" income earners are likely to be so few as to make "value for money" for those new contributors extremely low. Any tendency to respond to the discontent that this will evoke by an appeal to notions of social solidarity, should be tempered by a realistic assessment of the extent to which such sentiments exist in South Africa.

The Committee has found that in South Africa the principles of social solidarity that underpin

or at least used to underpin systems in the United Kingdom (UK), the Scandinavian countries and Germany, are perhaps most remarkable by their absence. The proposed extension of coverage is likely to be seen by many of them for what it is – a tax, not an insurance premium. The Committee does not have a principled objection to the levying of such a tax. From projections that have been examined, it would appear however, that the additional funds so generated will still not be sufficient to keep the fund afloat in times of crisis.

6.2.3 Active labour market and job creation policies

In the absence of the preconditions for a tight integration of labour market and social security policy there is a need, in the medium term, for an inter-departmental body to co-ordinate the many active labour market policies and job-creation initiatives. Since the linking of social and economic policy goals are central to its work, representation of the Social Sector Cluster, and in particular the Department of Social Development on this body is essential.

The Committee supports initiatives presently being developed by the Department of Labour to address youth unemployment through the creation of several hundred thousand public sector "learnership" opportunities, especially in the provision of essential social services of a para-professional nature.

In the Committee, however, the argument was made that these are not enough. There is a growing number of young and relatively healthy adults who cannot find jobs. It is far from clear that the needs of these unemployed are met by cash grants or current active labour market/ job creation policies only. The unemployed need jobs that allow them to participate in society, to contribute financially to their families and to increase their self-worth.

The urgent social imperative is for more jobs, and the argument is clear: structural unemployment requires changes to structures, and structures will not change unless they are explicitly addressed at government level. For example, the Committee received a submission that more labour intensive methods could lead to over 300 000 additional jobs in the construction industry alone. This submission, from experienced civil engineers, argued that these labour intensive methods would not lead to additional costs or compromise of quality. but did require that government and industry undergo a change of mindset.

The change need apply not only to introducing more labour intensive methods, but also to extending formal sector employment in government, the private sector, and civil sector.

6.2.4 Public work programmes

The Committee endorses the proposal that as many jobs as possible be created through such programmes but cautions that public work programmes, by their very nature, do not offer long term viable employment opportunities for the unskilled structurally unemployed. Noting the high praise that South Africa's community-based public work programme has attracted, and the success of certain special projects such as "Working for Water"', the Committee devoted considerable energy to the investigation of public work programmes.

They have the widely recognised advantage of being self-targeting – attracting only those so desperate for work (income) that any wage above the opportunity cost of coming out to work would be accepted. It cannot be ascertained, however, how many people fall into this category.

Working out what wage would bring them out in the "appropriate" numbers (whatever one understands that to mean), is also tricky. Almost two-thirds of domestic workers, and slightly less than half of informal sector workers earned between R1-500 per month. What their mean earnings were is anybody's guess. Suppose that some significant proportion of workers in this income class received only R200 per month (and there is abundant evidence that such low wages are paid). A public work programme that offered R300 per month, especially if offered for the foreseeable future should attract all of those being paid less than R300, give or take whatever differences there were in opportunity costs. The public work programme would therefore begin to address the poverty problem as well. Given this complication (the intention of the programme is to address the problem of unemployment), it really becomes impossible to say how many jobs would have to be provided.

It is probable that most of the 2,6 million jobless people located in workerless households in 1999 where total household expenditure was less than R800 per month, would accept the low wages to be earned in public work programmes. It is not known how many such people there are in comparable households at present – since the numbers of unemployed have risen, their number could well have risen.

If R300 per month were offered to 2,6 million people, the wage cost of the public work programme would be R9,4 billion per annum. Raising the wage to R400 per month would push this to R12,5 billion. Such programmes are expensive to initiate and to run. Estimating the management and materials costs for a project as ambitious as that being discussed (it is one thing to design a scheme employing a few thousand - it another matter altogether to do the same with a few million) takes the estimates even further into the realm of speculation. If these costs were between 50 and 100 per cent of the wage cost, the total cost could lie between R14-25 billion annually.

Although large, it could be argued that this is not an outrageous price to pay for a well-targeted scheme. To counter the charge that each "benefit" is delivered at very high cost (guessed at above as possibly being between 50 and 100 per cent of the "benefit") one could point out that society benefits in two ways – useful work is done, and welfare dependency is not created.

It should be noted that the other 4 million unemployed are assumed by this approach to be able, one way or another, to take care of themselves. The 2,6 million catered for here will not diminish in number until such time as economic growth can rescue them. In other words, the public work programme will have to be sustained for many years. The sheer magnitude of such a task – finding projects to tackle and the necessary managers to run such projects – is daunting. The question of the efficiency of such expenditure relative, say, to a universal grant whose net cost would be roughly the same, must be asked.

Certainly, public work programmes are worth implementing. Although some of the projects that have been tackled have earned high praise, too little has been done to date. This, in itself, however, is probably an indication of how difficult it is to organise such things. An assessment of the potential of these programmes must find that while they can do quite a bit to relieve poverty, they cannot be introduced on a scale large enough to do much more than dent the surface of South Africa's unemployment problem.

6.2.5 Informal social security

Despite the important role played by the formal social security system (for example, social grants), it is clear that the formal social insurance system excludes and marginalises many of the poor who work informally or who have to rely on informal (that is, family-/kinship-/community-based) social security mechanisms. The reasons for this state of affairs relate to:

- the formal employment bias and categorical approach of the present social security system
- the urban bias of the present system
- the restricted family concept underlying much of the formal system
- the limited concept of work which, as a rule, does not encapsulate the productive and reproductive work in which women are involved, thereby marginalising women in poor and traditional communities.

It also has to be noted that the grant system available under social assistance, despite the important role that it plays on an individual and household level, is mainly restricted to old and disabled persons and in respect of children under the age of seven.

It is important not to impose a social security system that will be detrimental to traditional support mechanisms. Transformation of the present social security framework should, therefore, aim at supporting and strengthening existing informal social security with the view to enhancing solidarity.

In the first instance this requires considering ways to integrate currently excluded groups into formal schemes. This includes embarking on pilot schemes aimed at supporting informal social security mechanisms; removing unnecessary legal restrictions in relation to access to schemes; devising tailor-made schemes to cater for these excluded and marginalised categories and groups; introducing complusory membership of private or public social schemes; and campaigns to promote private insurance and savings.

Further, there is a need to consider broader interventions and programmes that bolster the overall ability of communities and informal systems to cope with and manage increased levels of risk and hardship.

6.2.6 Institutional arrangements

These recommendations must be seen within the broader recommendations made later in this report on Institutional Arrangements. An independent Poverty, Social Exclusion and Social Protection Studies Unit should form a component of the proposed Social Protection Commission (SPC) (See chapter 13). This unit would take a lead in seeing that all useful information (such as that generated by Statistics SA) is extracted from the raw data and their policy implications assessed for appropriate action.

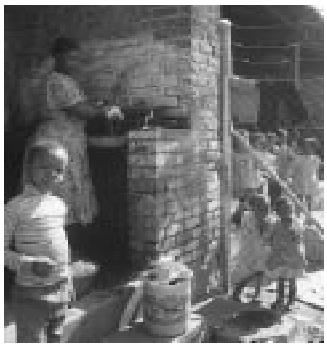
Consideration should also be given to the collection of data and information on the success or otherwise of all job creation policies of Government and of skills training. Without this information and policy tools to evaluate the impact of Government's job creation and human resource development strategy, it will be extremely difficult to determine efficiency and equity gains and impediments to social security.

There are numerous non-profit organisations (NPOs) and non-governmental organisations (NGOs) engaged in the skills training and "empowerment" field. It is far from clear that the benefits of their activities outweigh the costs. The role and place of these institutions must be clarified.

6.2.7 Policy evaluation

Institutional capacity to undertake policy evaluation on an ongoing basis has to be developed. In terms of available statistics, the OHS with appropriate modifications by Statistics South Africa is essential. The LFS does not provide all the data required to monitor, evaluate and make informed recommendations. It is not clear that the primary information required to evaluate policy can be obtained from the LFS. The five yearly population censuses are too far apart for evaluation purposes. These issues should be referred to the National Statistics Council.

Chapter 7
Protecting the Children



7.1 Introduction

Studies have shown that a strong link exists between adverse circumstances experienced early in life and future success. The nature of this link is of fundamental importance to overall social policy. Understanding and removing adversity for families with children must become the priority of any Government. Some of the main issues highlighted by these studies indicate the following:

- There is a significant relationship between adverse social and economic conditions in childhood and later success in life. Independent impacts are detectable from family structure and income.
- A life of poverty is statistically associated with higher rates of activities detrimental to individuals and society, such as crime, violence, underemployment, unemployment, and isolation from the larger community.
- The chances of unemployment later in life are higher for children who experience periods of poverty than for those that do not.
- Increased incomes for single mothers with children through social transfers have a significant impact on educational performance of children.
- The malnutrition and stunting of young children is unacceptable in a relatively wealthy South African society.

As a result, the Committee is of the view that strategies to address child poverty must be part of the overall strategy to alleviate and reduce poverty. Therefore measures to address child poverty (and the child support grant, in particular) are centrally embedded in the Committee's recommendations covering "comprehensive and integrated medium-to long-term framework for income support". This chapter, then, deals with important gaps and additional issues regarding child protection.

Finally, the Committee is aware that the South African Law Commission is developing a comprehensive framework for children, and is supportive of that process. As a result, the proposals and recommendations of the Committee within this chapter must be considered with that framework.

7.2 The Constitution

7.2.1 Constitutional obligations

Section 28(1) of the Constitution deals specifically with fundamental rights of children. Unlike other socio-economic fundamental rights that grant a *"right of access"* to the right, subject to progressive realisation by the state within its available resources, the rights pertaining to children (everyone under the age of 18 years) do not have any such limitations. The special vulnerability of children and their protection is in this way recognised. Section 28 grants children *inter alia* the right to the following core rights to:

- Family care or parental care, or to appropriate alternative care when removed from the family environments
- Basic nutrition, shelter, basic healthcare services and social services
- Be protected from maltreatment, neglect, abuse or degradation
- Be protected from exploitative labour practices.

In all matters concerning children, the child's best interests are of paramount importance. (Section 18(2)) In terms of section 27 of the Constitution everyone has the right to have access to social security, including, if they are unable to provide for themselves and their dependants, appropriate social assistance.

7.2.2 International instruments

Various international law instruments pertaining to the welfare of children also bind South Africa.

7.2.2.1 African Charter on the Rights and Welfare of the Child

South Africa signed this Charter on 10 October 1997 but is not yet under any obligations in terms of the Charter as it has not yet come into operation. State parties are required to take measures to eliminate harmful social and cultural practices. The responsibilities of the child towards his/her family is also stressed.

> *State parties must see to the provision of necessary medical assistance and healthcare for all children, with particular emphasis on the development of primary healthcare.*

7.2.2.2 United Nations Convention on the Rights of the Child

South Africa signed and ratified this Convention in 1995. A child, as defined in this Convention, is any human being under the age of 18, unless a particular nation's laws set an earlier age for the attaining of majority status. Article 6 of the Convention places state parties under an obligation to ensure the survival and development of the child to the maximum extent possible. This provision gives rise to numerous derivative social security rights, such as the right to healthcare necessary for survival and a standard of living that meets the needs for food, clothing, shelter and education. The fact that this Convention has been ratified by South Africa places South African courts and other adjudicating bodies under an international obligation to comply with the duties placed on member states. In terms of one of these duties the state is expected to report regularly to the supervising body under the Convention on the Rights of the Child on the compliance with the duties bestowed on South Africa as a member state.

Amongst the various rights of children listed in the Convention, the most important for the purposes of social protection are:

- Every child has the right to benefit from social security, including social insurance, and the state should take the necessary measures to achieve the full realisation of this right in accordance with national law. Social security benefits should be granted, taking into account the resources and the circumstances of the child and those responsible for the maintenance of the child (Art. 26).
- Linked to the above is the right of every child to a standard of living adequate for the child's physical, mental, spiritual, moral and social development. The state's duty is to (within the means available) assist the parents with this responsibility, by taking measures, which could include material assistance and support programmes, particularly with regard to nutrition, clothing and housing (Art. 27).
- The state must undertake all appropriate measures for the implementation of the rights contained in the Convention on the Rights of the Child. As most of the rights listed above are economic and social rights, the state is only required to undertake such measures to the maximum extent of available resources (Art. 4).

The UN Committee which monitors compliance with this Convention has been fairly critical about South Africa's non-compliance with many provisions of the Convention. Urgent attention needs to be paid to the recommendations of the UN Committee so as to ensure full compliance with the Convention.

7.3 Evaluation of current policies towards children

Based on numerous submissions and documents made available to the Committee of Inquiry, substantial problems exist with the present system of protection for children in South Africa. The inadequacy of the current policy framework appears a valid conclusion based on reviews of the socio-economic indicators above.

7.3.1 Social assistance

7.3.1.1 Foster care grant

The foster grant is payable to a foster parent in respect of a foster child who has been legally placed