Transforming the Present - Protecting the Future

   

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ISBN: 0-621-32392-6

First published March 2002

Number: RP/53/2002

Design & Typsetting by Crazy Cat Dseigns

Copy editing by Sheila Swan

Printed and bound by

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

V. Taylor

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.

Jozef van Langendonck: Institute of Social Law, Catholic University of Leuven, Leuven, Belgium

Mohammed A Maait: Researcher, City University London, London, UK

Valda Frederica Henry: Researcher, Warwick Business School, University of Warwick Coventry, Coventry, UK

AD Kiwara: Director of International Development Studies, Muhimbili University College of Health Sciences, University of Dar es Salaam, Dar es Salaam, Tanzania

Osvaldo Larrañaga: Director, Department of Economics, University of Chile, Santiago, Chile

Maria Cruz-Saco: Associate Professor of Economics, Universidad del Pacífico, Lima, Peru

S Mahendra Dev: Director, Centre for Economic and Social Studies, Nizamiah Observatory Campus, Begumpet, Hyderabad, India

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Nana Apt: Centre for Social Policy Studies, University of Ghana, Ghana

Edwell Kaseke: Principal, School of Social Work, Harare, Zimbabwe

Syed Mansoob Murshed: Research Fellow/Project Director, UNU/WIDER, Helsinki, Finland

Guy Standing: Director, InFocus Programme on Social Security, International Labour Organization, Geneva, Switzerland

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Metsi Makhetha: National Programmes Manager, United Nations Development Programme, Pretoria. South Africa

Sergei Zelenev: Chief: Social Analysis and Policy Unit, Division for Social Policy and Development, Department of Economic and Social Affairs, United Nations, New York, USA

Peter Lehmann Nielsen: Social Affairs Officer, Division for Social Policy and Development, Department of Economic and Social Affairs, United Nations, New York. USA

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

Prof. Bernd von Maydell: Director, Max Planck Institute for International and Comparative Social Security Law.

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

Ms Pauline Barret-Reid: International Labour Office, Team for Eastern European and Central Asia, Moscow, previously: Social Security Specialist, ILO Multi-disciplinary Team, Harare, Zimbabwe

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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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

- o Impacts on Government as an employer
- o Income distribution.

- ***Key recommendations on future directions***:
  - o Long-term or ultimate objectives and targets
  - o 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):

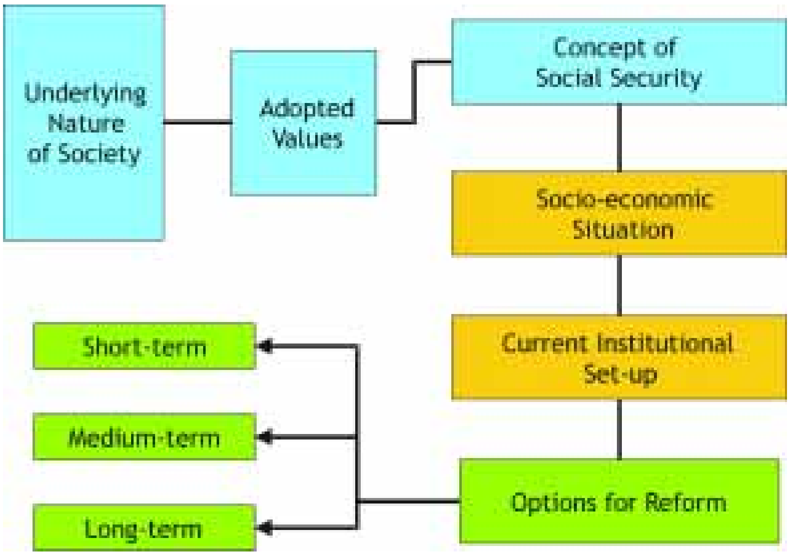
- The Committee will be required to consult with all relevant stakeholders linked to the core issues under examination. The nature and structure of this consultation will be at the discretion of the Committee.
- The Committee will be expected to take inputs from all relevant South African experts in 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.

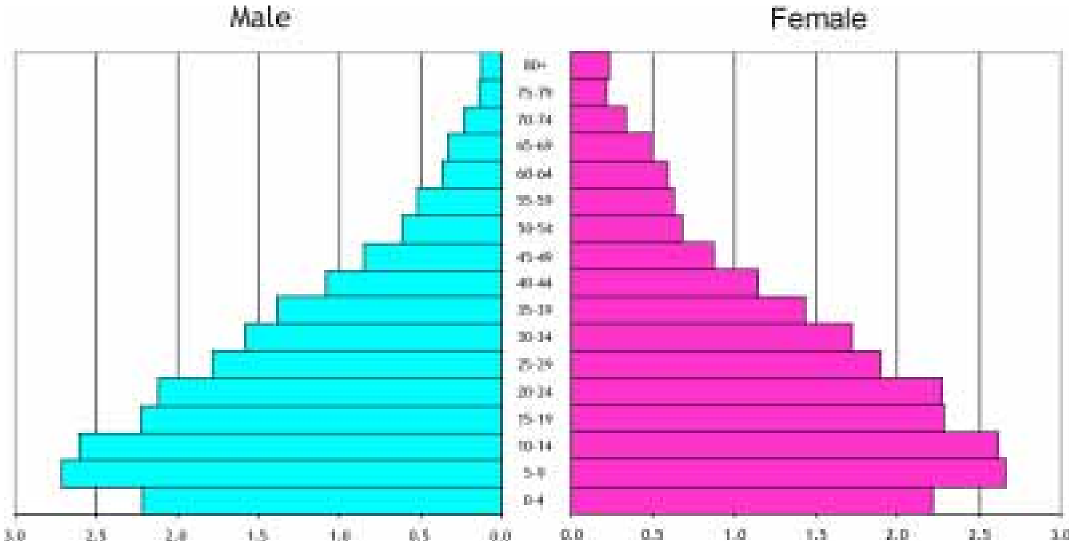
HIV/AIDS is having a profound impact on fertility and mortality rates in South Africa. Life expectancy at birth is also declining. Available information indicates that the average life expectancy at birth in South Africa has already declined from about 63 in 1996 to about 55 in 1999. It is expected to 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.

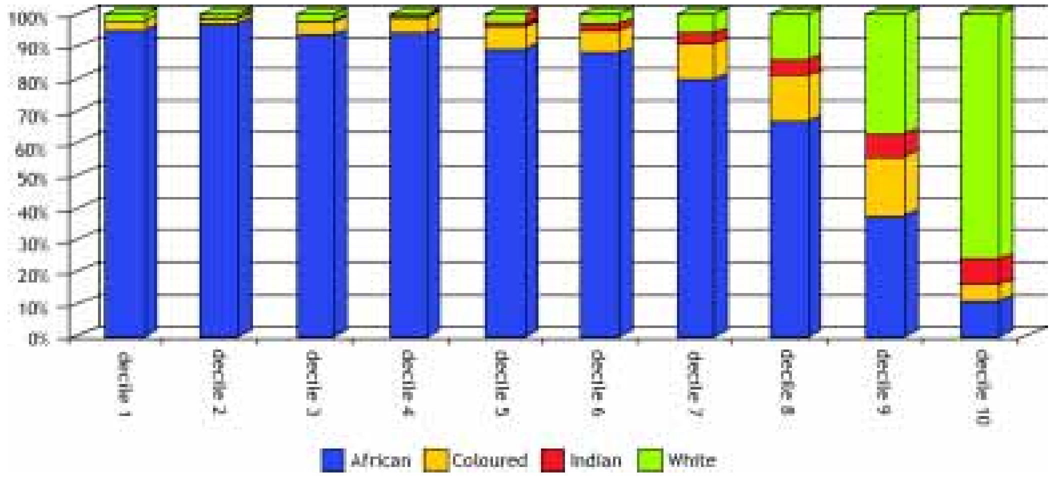
Figure 4 shows the composition of mean household income for each income decile – in other words, the sources from which the

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 (%).

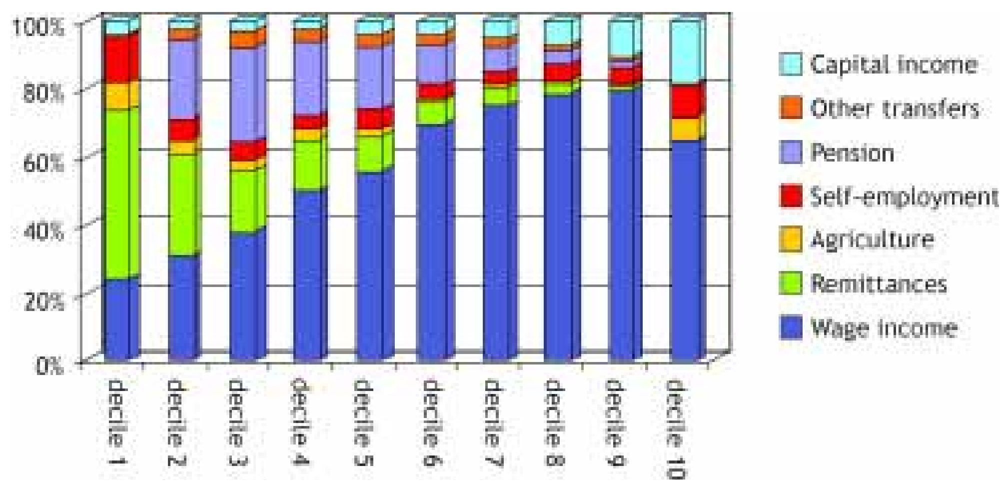
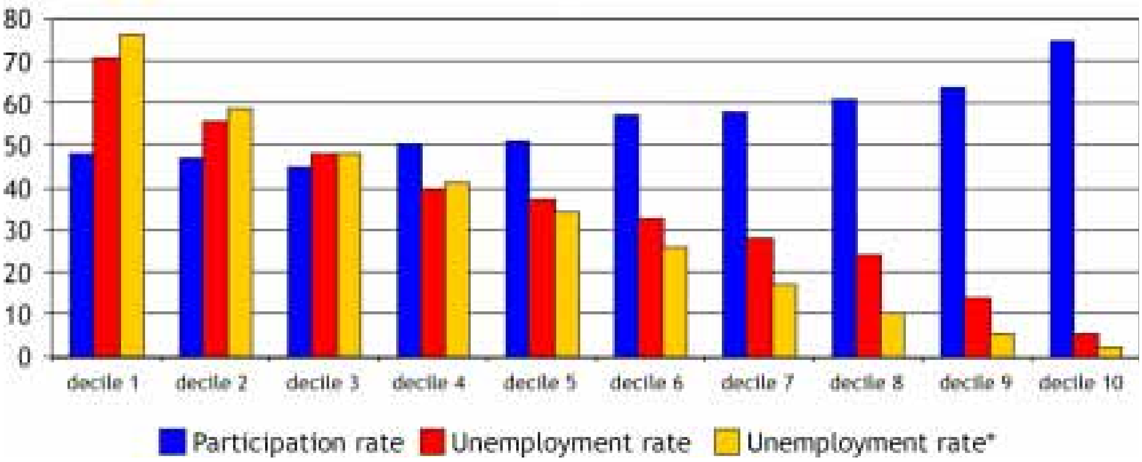


Figure 5
Participation rates and broad unemployment rates by income decile (1993).
(Lower income households have less access to the labour market.)



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).

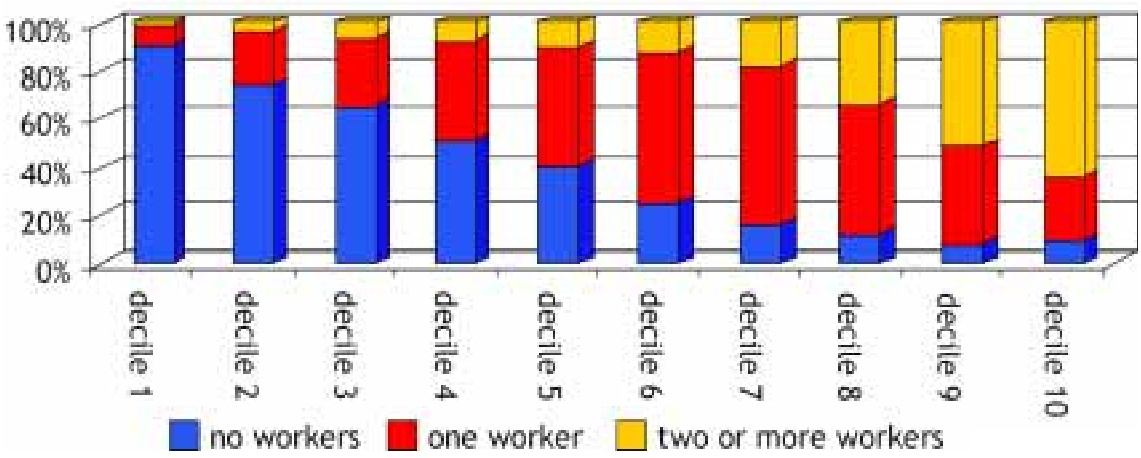
There is a clear and close correlation between unemployment rates and income. This can be seen in Figure 5. However, not only are poor households likely to have more unemployed adults than richer households, but they are also likely to have more adults who said they are not available for work (and hence 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.

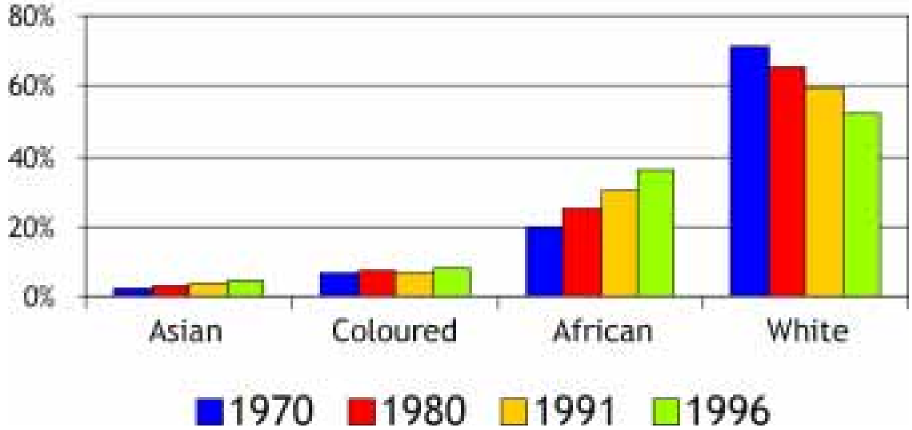
Union membership appears to benefit those at the bottom end of the wage distribution the most. By boosting the incomes of low-paid workers relative to higher-paid workers, the trade union movement would thus have acted to narrow the wage distribution in the unionised sector. But whether these efforts 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.

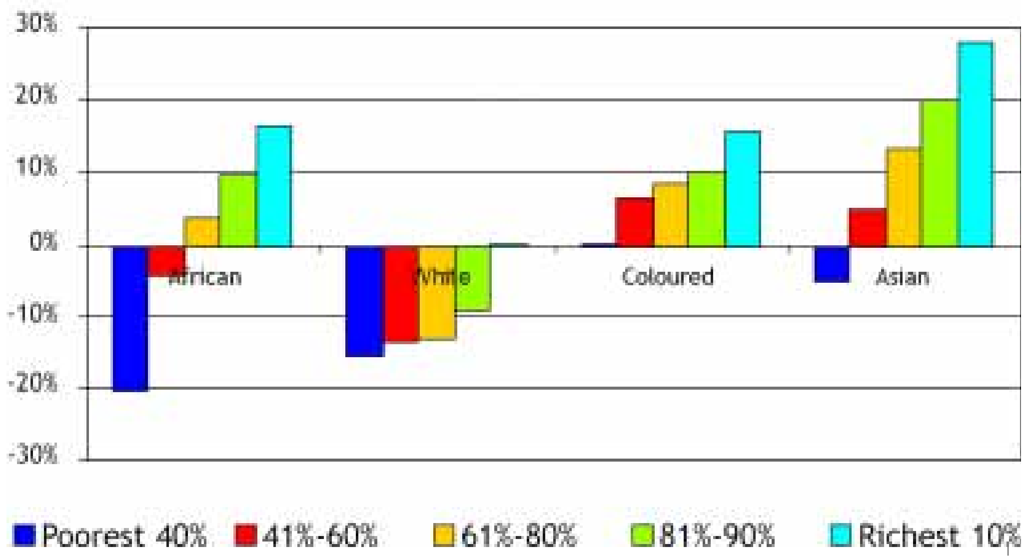
Average incomes *per capita* among African people rose by 4,1 per cent per year, whilst incomes *per capita* among white people fell by 0,7 per cent per year. Figure 8 depicts household income growth by economic group within race. In 1991 only 9 per cent of the top or richest income decile were African.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

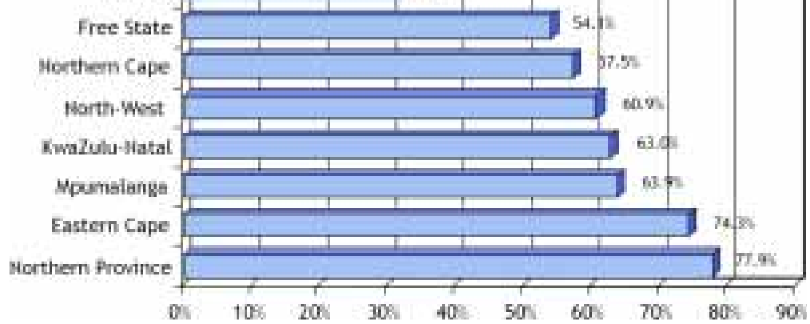
The distribution, extent and characteristics of social exclusion in South Africa have a definite material and structural basis. In short, the economic aspects of social exclusion are linked to the inability to command a sufficient flow of resources to avoid growing inequalities and to prevent deprivation – 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.

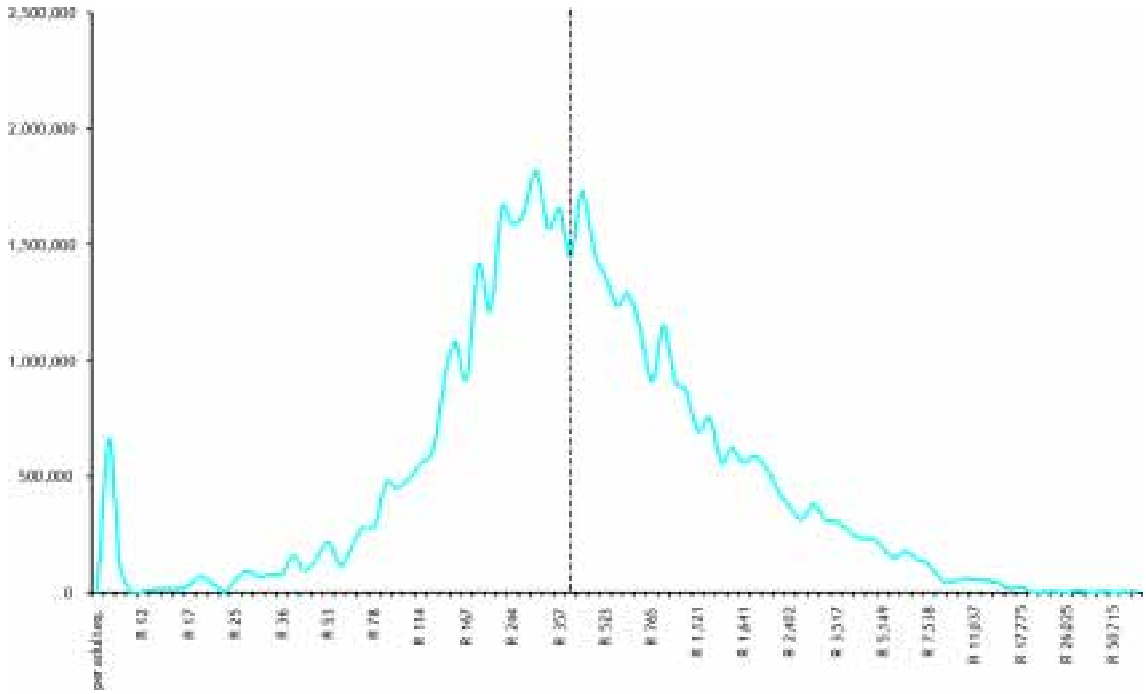
Furthermore, the Committee recommends that any income support grant be set at a level that would address destitution in the medium term and absolute poverty in the long term.

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.

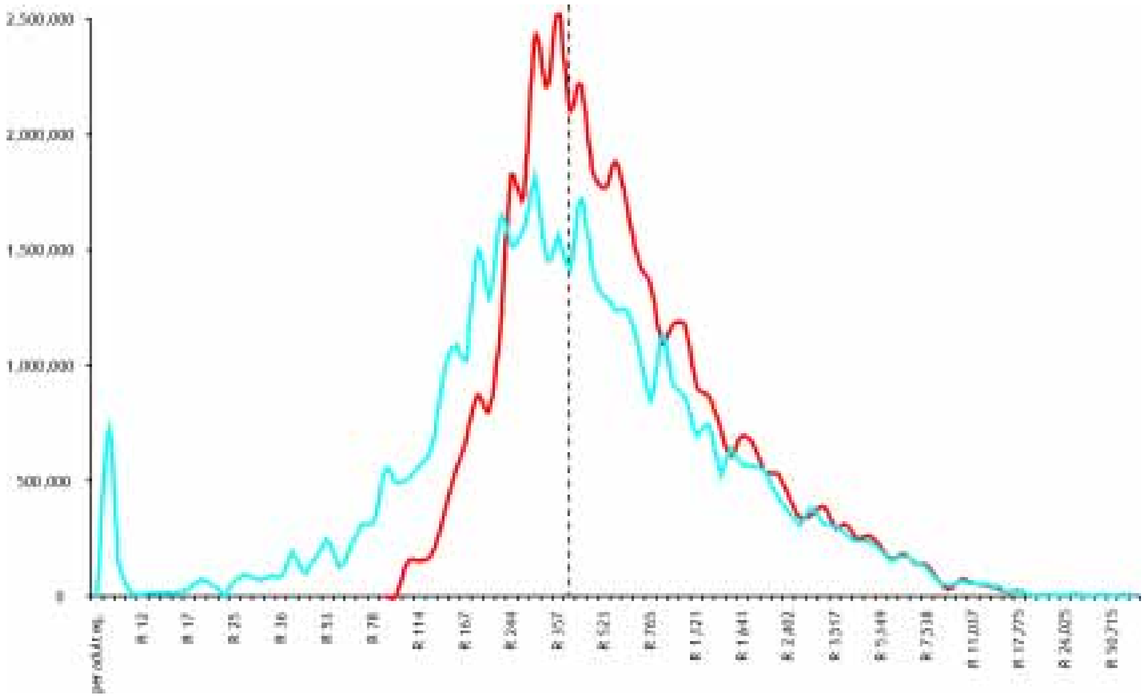
5.6.2 Basic Income Grant

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.

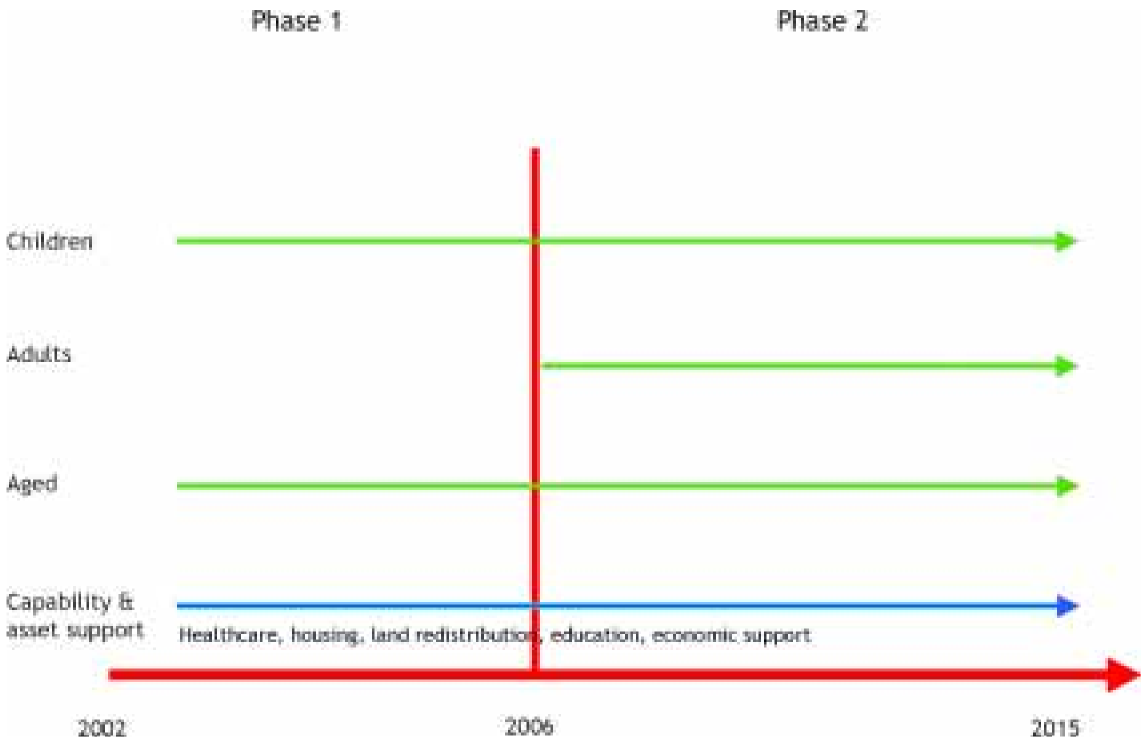
5.6.3.5 Phase 1: Period 2002 to 2004

- 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 <u>such</u> 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 in their custody in terms of the Child Care Act.

In order to qualify for a foster grant:

- The child must have been legally placed in the care of the foster parent(s)
- The income of the foster child must not exceed twice the annual amount of the foster child grant
- The applicant and foster child must be resident in South Africa at the time of application.

Submissions to the Committee report that accessing the grant is problematic for the following reasons:

- To qualify for a foster grant, the child has to be placed in the care of foster parents through the children's court. The court process is lengthy and inappropriate for many families who are content with caring for children who are not their own, but require some form of support.
- Problems exist with accessing foster grants for non-South African children because of the paperwork required.

Information was also provided to the Committee suggesting that there are abuses of the system. Many parents who would otherwise be able to care for their own children are abandoning their children with relatives so that these relatives can access the foster grant.

Foster care is intended as a specialised service for children who have been removed from their families with the intent of returning them after a period of no more than two years. However, one of the reasons why foster placements are renewed repeatedly is the lack of financial support for adoption.

7.3.1.2 Care Dependency Grant (CDG)

A care-dependent child is a child between the ages of one and 18 years who requires and receives permanent home care due to his or her severe mental or physical disability. The purpose behind this grant is to enable parents or foster parents to care for children with physical or mental disabilities in their homes.

The child must not be permanently cared for in a Government institution. The grants are awarded until the child is 18 years of age, or until the child is no longer cared for by his/her parents.

The following is a review of problems with the current grant:

- The current purpose of the CDG to enable permanent home care, only for permanently disabled children, is limiting and inadequate, and open to different interpretations.
- There is a lack of clear definitions (disability, severe/moderate, and permanent home care) in the current legislation. This has serious implications for inclusion/ exclusion criteria and makes targeting extremely difficult.
- Currently the CDG benefits only severely disabled children permanently at home, and does not cater for the many others with milder disabilities or those in daycare facilities.
- While means-testing enables targeting of the poorest quintiles, in practice it is rarely used correctly, is administratively demanding and has been reported as demeaning.
- The assessment test can be highly subjective and open to the personal interpretation of the medical officer.

The recommendations regarding the CDG are dealt with in the main disability section (see chapter 10).

7.3.1.3 Maintenance Act

The Maintenance Act No. 99 of 1998 makes provision for the payment of maintenance by any person who has the legal obligation to support a child or children. There is also the obligation on the part of employers to co-operate with the maintenance court orders in effecting deductions through salaries.

The parental maintenance system in South Africa appears to be in disarray. There is a widespread lack of responsibility shown by many liable parents in terms of their obligations to support their dependants, especially where children are brought up in single parent households. There is perception among some non-custodial parents that custodial parents "abuse" the money they receive and spend it on themselves rather than their children.

There is shortage of financial resources allocated to the maintenance system and lack of personnel to deal with the vast number of maintenance cases and the lengthy delays. Due to these restraints the Family Court Pilot Projects, which were established by the Department of Justice in 1998, are not able to do much.

Other problems relate to the actual amount of maintenance to be paid by non-custodial parents. There is low and inadequate level of awards in parental maintenance. Great variations exist between courts as to the monthly amount, which is awarded.

There is also lack of proper tracing agents to trace liable persons and obtain accurate information about their income and means. Furthermore, the Maintenance Act does not address the problem of those who are self-employed or in informal sector, and whose financial state is often difficult to ascertain.

Despite being plagued by problems, however, the private maintenance system, , is an important system and as a result it should not be discarded. There is a legal and moral duty on the part of both parents to provide for their child(ren). This duty operates irrespective of whether the relationship between the parents is still in existence or not. The state's duty to provide enters the picture only when parents are unable to provide – not because they do not want to.

7.3.1.4 Adoption

Section 28(1)(b) of the Constitution guarantees every child the right to family or parental care or to appropriate alternative care when removed from the family environment. This is supported by section 28(2), which states that the child's best interests are of paramount importance in every matter concerning children. Article 20 of the Convention on the Rights of the Child states that a child in need of care shall be entitled to special protection from the state. Such protection could include foster placement or adoption. Despite the recent adoption law reforms, introduced by the Child Care Amendment Act 96 of 1996 and the Adoption Matters Amendment Act 56 of 1998, certain key areas of adoption law still need reform.

Current South African adoption law is contained in Chapter 4 of the Child Care Act, 74 of 1983. The standard of adoption is still the best interest of the child. Some of the problem areas that can be highlighted in this regard are (this section is based on submissions made by the South African Law Commission "Project 110: Review of the Child Care Act – Adoption as Substitute Family Care"):

- Section 10 of the Child Care Act does not keep track of the child-rearing practices especially in black communities where informal fostering is prevalent. Section 10 prohibits anyone from receiving a child and caring for him/her for longer than 14 days. This section does not have a penalty for the contravention but it remains a good ground for removal of a child.
- Transracial adoptions are allowed in terms of the current Child Care Act. The right to equality is subject to reasonable limitations as can be justified in an open and democratic society. The best interests of the child would be considered a reasonable limit that might justify a race-sensitive custody decision. In South Africa, because of the tradition and socio-economic realities, relatively few black families adopt children. This results in "a-one-way-traffic-of-black-children-into-white-families". An important consideration is whether a child growing up in an adoptive family of persons who are different from them, in cultural background and physical appearance, will still be able to develop a positive self-identity.
- Inter-country adoptions are still a problematic issue in South Africa. South Africa has not yet signed the Hague Convention on Inter-country Adoption. Law reform measures promoting inter-country adoption should recognise adoption orders made in other countries and encourage open adoption, making it possible for a South African child adopted in another country to maintain links with the extended family members and with his/her cultural roots.
- Adoption is a private arrangement in customary law in terms whereof two families make an arrangement in order to ensure an heir for a family head who has no male progeny. Payment is sometimes made to compensate the natural parents for rearing the child. This raises the question if customary adoption infringes common law prohibition on trafficking in children and if it should take place under auspices of common law. This is arguable in light of the constitutional recognition of customary law as a system of law and there is no reason why recognition should not be given to an adoption under customary law.

7.4 Policy recommendations to address problems, gaps and inconsistencies of the current social security paradigm for children

7.4.1 Dealing with the special needs of children

7.4.1.1 Recommendations pertaining to foster care grants

The foster care grants provide an important support mechanism for children in compromised family environments. However the following issues need to be addressed:

- The process of foster care allocation should be simplified. This will entail that the present children's court procedure be amended in order to shorten the process. It must, however, be kept in mind that the procedure is extensive in order to allow for proper investigation by social workers to serve the best interests of the child. Provision should also be made for financial support (interim foster care payments while the court process is pending).
- Non-South African children should be allowed to access these grants. This means that the Department of Home Affairs should ensure that all resident children are speedily issued with appropriate documents.
- Provinces should have a uniform approach in granting this (and other) grant(s), especially as far as the eligibility of children in daycare centres or LSEN schools for the CDG are concerned.
- Programmes should be run and services be made available at schools and hospitals that have frequent contact with candidates eligible for these grants.

7.4.1.2 Recommendations pertaining to orphans and child-headed households

There is no social assistance specifically intended for orphans. In the past, orphans that have not benefited from social or private insurance payouts have been cared for by other members of their families, foster parents or orphanages normally run by NGOs. The enormous increase in the number of orphans as a result of adult AIDS deaths is going to place overwhelming pressure on these institutions.

Child-headed households are a rapidly emerging phenomenon in Africa (partly due to the HIV/AIDS pandemic). The extended family as social support mechanism is eroded by factors, such as poverty, HIV/AIDS, urbanisation and over-stretched resources. These eroded family structures are resulting in a shifted burden of care for children orphaned by AIDS. The burden falls on the elderly or on other children, both who are ill equipped to carry this responsibility, financially and emotionally.

If possible, child-headed households should be incorporated into other households, or even adult supervised institutions. The needs of the children, material and otherwise, should be paramount. Siblings should be allowed to live together. At the very least, the Department of Social Development must allocate responsibility for the households to some adult in the community.

The Department of Social Development must, as a matter of urgency, make provision to support the growing number of orphans, especially those left in child-headed households. Short-term measures include the following:

- Extension of the CSG to all children 0-18 years.
- Simplify access to this grant. In order to assist child-headed households, children should be assisted by community-based organisations (CBOs) and NGOs in order to allow for adult supervision in application and spending of the grant.
- Develop skills and vocational training for these children or participation in development projects, e.g. gardening project, small business management etc.

Long-term measures would include:

- Projects aimed at prevention and integration of these children into society
- Encourage of home- or community-based care
- Simplify foster and adoption process, where a mechanism is developed for "informal carers" of children to access foster child grants

- Involve CBOs and NGOs in the identification, assessment and care of vulnerable children.

Set up of childcare centres to increase these children's learning opportunities and psychological skills.

7.4.1.3 Recommendations pertaining to children living with HIV/AIDS

One of the tragic effects of HIV/AIDS is the vast number of children infected and affected by the disease

These children currently fall outside of the social safety net. They would seldom qualify for a CDG (unless in cases of terminal stages of the disease where they might require permanent home care), and if they are older than 7 years they would no longer be covered under the Child Support Grant. As HIV/AIDS orphans are often cared for by family on an informal basis, they do not apply for foster care and do not make use of the foster child grants.

Submissions to the Committee suggested that the situation be addressed in the following manner:[24]

- Extension of the CSG to all children 0-18 years
- Allow for free health services for all children
- Projects aimed at AIDS awareness and prevention should continue and be expanded
- Simplify foster process, where a mechanism is developed for "informal carers" of children to access foster child grants.

7.4.1.4 Recommendations pertaining to the Maintenance Act

Parents who shy away from their duty to maintain their children, as required by law, place a heavy burden on the state's social services. When parents take responsibility and provide maintenance for their children, the burden on the state is eased. It therefore follows that to ensure that state resources are directed to those children who are vulnerable, not because somebody is not taking responsibility, but who are in need (for example, because their father passed away), the private maintenance system is very crucial.

The following suggestions by Law, Race and Gender Research Unit (UCT) to the Committee of Inquiry are supported by the Committee:

- Increased personnel are indeed required to deal with the vast number of maintenance cases and lengthy delays. It is a known fact that many private maintenance claimants or would be claimants have lost faith in the system. In addition many elect to stop trying to claim maintenance due to lack of taxi fares to frequent the magistrate's courts.
- Specialised tracers be employed to trace liable persons. The suggestion of setting specialised tracers on liable persons has already been raised by the Lund Committee. Using tracers to track down those liable parents who are avoiding responsibility is to be welcomed.
- The maintenance division of the family court could be required to take direct action on arrears without waiting for charges to be filed by the complainant and make it mandatory, unless good reason is given, for arrears to be recovered with interest.
- Summons and subpoenas used to order respondents to come to court should be standarised. This is more than necessary in the light of the level of illiteracy in South Africa.
- A campaign modelled along the Masakhane Campaign lines to instil a culture of responsibility towards their children in the general population, proposed by the Lund Committee, should be supported.
- There is a need for clear policy guidelines for those involved in the handling of maintenance claims. One issue, which can benefit from the proposed policy guidelines, is the question of second families and multiple parenting. The issue of second families has raised a variety of questions of both legal and moral nature. Should, for example, courts take the non-custodial parent's new obligations to a newly established family into consideration when dealing with a maintenance claim?

7.4.1.5 Recommendations pertaining to adoption

A means test is applied in terms of s17 of the Child Care Act, in terms whereof adoption will be allowed if the adoptive parents possess adequate means to maintain and educate the child. This means test bears potential prejudice towards poorer applicants for adoption. It should be noted that this means test serves a different purpose than the normal means test. A means test is normally instituted to protect the interests of the state. In the case of adoptions, the means test is applied in order to serve the best interests of the child. Also of relevance here is the fact that foster parents who are financially needy can receive a state foster care grant, but adoptive parents who have the same financial difficulties are not eligible for any grants. This may prevent foster parents from adopting a child in their care and this impacts negatively on permanency planning for the child.

In order to overcome these problems, the Law Commission proposed that the possibility of an adoption subsidy should be made available. The purpose thereof is to enable poor people to adopt children. The relevance of such a subsidy becomes less apparent in the case of a universal child grant, (i.e. until the age of 18 years).

Subsidised adoption may have certain negative implications:

- Parents might tend to adopt children for the wrong reasons
- Adoptive parents would then be treated differently from biological parents
- One would have to bear in mind that disallowing poor parents to adopt children is in order to serve the best interests of the child.

7.4.1.6. Measures to enhance the CSG

There was argument in the Committee that the effectiveness of the CSG is undermined by a lack of nutrition information and inappropriate nutrition education. The Committee therefore recommends that the CSG be supplemented by an appropriate nutrition and child care support programme. In this regard, caregivers of HIV positive children will need particular help.

7.5 Conclusion

It is the constitutional and international obligation of the state to provide social security to children. Through providing social assistance, and with the concurrent development of services and development programmes, the state can and must attempt to improve the standard of living of children.

This chapter, however, does not purport to provide a comprehensive package of social security for children. It is envisaged that the SA Law Commission in its proposed Comprehensive Child Care Statute will make provision for that.

Chapter 8
Health

8.1 Introduction

Transformation of the health system in South Africa has been and remains an urgent priority for the democratic Government since 1994. South Africa has introduced significant policy shifts and institutional changes to deal with the underlying problems of an inequitable race based system. Through its primary healthcare approach, the Government prioritised the needs of women and children by extending free healthcare for children under the age of six and pregnant women. The free healthcare programme was thereafter extended to all South Africans using public primary healthcare facilities. At hospital level, payment for services is means tested, and indigent citizens are entitled to receive free services.

Health interventions are critical in determining how Governments address issues of capability poverty. In the design of social security reform, health indicators are used to identify the extent to which deprivation and exclusion from essential health services affect the life chances of people. This section of the report addresses the key problem areas in the current policy context, and sets out a long-term strategy to address the underlying challenges with particular emphasis on those aspects related to social protection.

Healthcare provision constitutes an essential component of a minimum package of goods and services for the development and advancement of people. Moreover, given the history of unequal allocation of resources, levels of poverty and unemployment, a central policy objective is to achieve equity in and access to the allocation of state resources to address health needs. The relationship between public and private health provision and the roles and responsibilities that are located in these environments are examined by the Committee to ensure the sustainable, equitable use of resources in the interests of all.

An overview of developments in South Africa's health system indicates that the reform direction and approach developed and proposed in the 1995 National Health Insurance (NHI) Paper remains a valid point of departure for ongoing reform. This requires that South Africa move ultimately toward a NHI system over time that integrates the public sector and private medical schemes within the context of a universal contributory system.

8.2 Findings

8.2.1 Problems identified with the existing strategic framework

The existing structure of the health system has certain endemic perverse cycles that need to be reversed through interventions at an institutional level. The central contributors to this negative cycle are identifiable in four areas:

- ***Cover***: The public sector is faced with an increasing population, both low-income and indigent, while the private sector population is not increasing. The public sector also has to provide cover for sicker and less healthy groups traditionally covered by the private sector. This latter shift is induced through risk-selection within and uncontrolled cost increases.

- ***Burden of disease***: The public sector is facing a worsening burden of disease as a result of HIV/AIDS as well as increasing levels of diseases of poverty. The private sector is attempting to shift HIV/AIDS patients and chronic patients onto the state system, as part of the risk selection process.
- ***Finance***: Despite an increasing population and disease burden, the public sector health system faces a constant or declining real budget allocation. The private sector, by contrast, increases its expenditure at roughly double the annual inflation rate on a per capita basis. As costs increase in the private sector, so does the effective tax subsidy.
- ***Providers***: In the face of an increased population to cover, an increased disease burden, and a declining budget, the public sector is losing clinical personnel to the private sector. As such, the private sector effectively drains resources from the state to provide cover to a relatively healthy and younger population. The private sector effectively receives a tax subsidy of approximately R7,8 billion to reinforce this trend.

Taking account of the above, Government needs to adopt a strategic approach to reforming the health system that engages fully with both the public and private sectors. The objective would be to achieve jointly what each cannot realise alone.

8.2.2 Role and scope of Government involvement

The ultimate responsibility for the overall performance of a country's health system lies with Government, which in turn should involve all sectors of society. Government has the responsibility for establishing the best and most equitable health system possible with available resources. The oversight and effective regulation of the private sector has to form part of the overall Government response and must be high on the policy agenda.

Central objectives

- ***Increased risk pooling***: Risk pooling needs to be encouraged through the use of a combination of instruments. These would include the tax system, the creation of risk equalisation mechanisms within both public and private sectors, Government mandates, and the reinforcement of community rating.
- ***Benefits***: Government policy needs to provide a framework that results in cover for a minimum level of essential benefits irrespective of whether it is provided in the public or the private sectors.
- ***Efficiency***: Given the existence of perverse incentives in unregulated markets for healthcare, any regulation must pay careful attention to the incentives generated. The use of mixed systems for covering and providing healthcare combined with the correct elements of choice is the best approach to balancing healthcare objectives with the need for operational efficiency.

Role of the public sector

The public sector system must remain the backbone of the overall health system and should be protected from chronic under-funding.

Role of the private sector

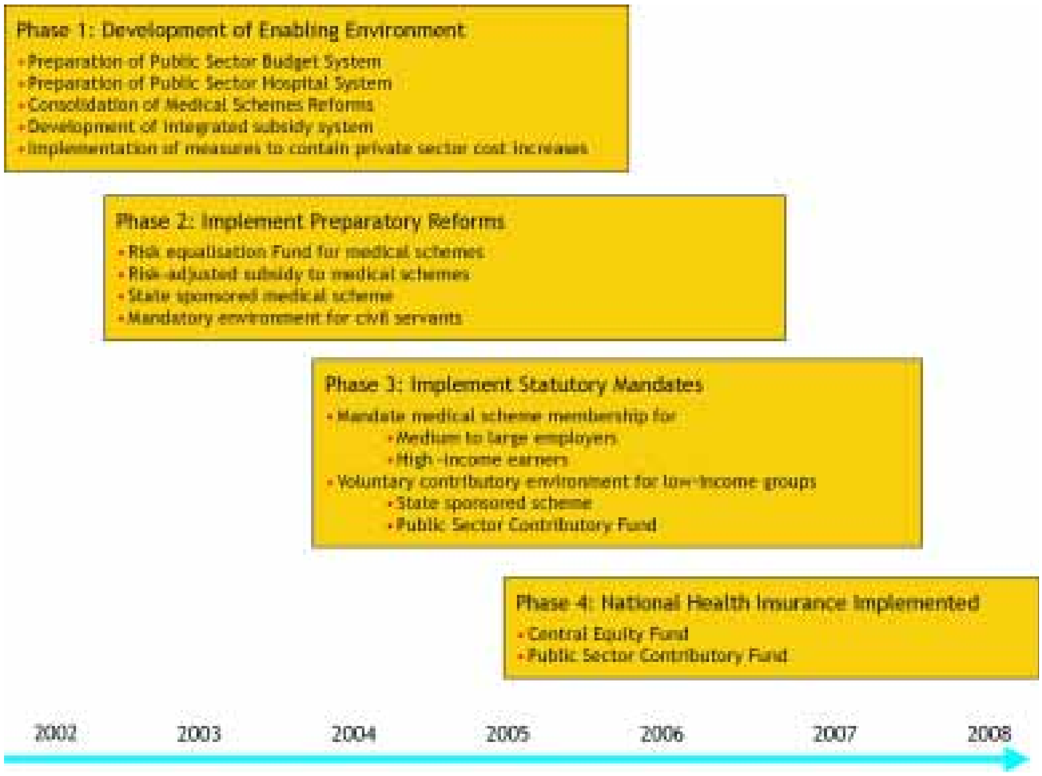
The private sector can provide an effective environment for achieving increased levels of funding over and above tax-based allocations. However, as the private market for healthcare suffers from chronic market imperfections, public sector involvement is required to ensure that funding levels are socially optimal and not merely what the market will bear.

8.3 Recommendations

8.3.1 Reform strategy

The Committee recommends that South Africa move toward a NHI system based on multiple funds and a public sector contributory environment as defined in the 1995 NHI Committee Paper. Initially the environment would remain differentiated between a private contributory environment and a general tax funded public sector environment. Over time this strict differentiation should diminish with a broader contributory environment emerging, replacing general taxes as a revenue source. The ultimate elimination of general taxes as a key revenue source is unlikely for a fairly long time (figure 13).

Figure 13
Reform strategy and approximate timeline.



The reform process has to take into account the need to develop a phased approach whereby key enabling measures are implemented and the base established for the longer-term reforms.

Four phases are envisaged defining important linked reform measures. The phases guide the evolution of health system toward the achievement of a universal contributory system (figure 13).

8.3.1.1 Phase 1: Development of the enabling environment

The current health system is incompatible with the introduction of, or integration with, contributory environments. The overall system of cross-subsidies is fragmented and not structured in accordance with strategic policy goals. Furthermore, the strict partitioning between the public and private sector spheres is resulting in substantial and unsustainable private sector cost escalations. This occurs because private medical schemes are technically barred from officially contracting for and using public sector services.

The priorities within phase 1 therefore focus on an enabling environment for more substantive future policy reforms. Central to this process is a focused improvement of public health facilities and their management.

(a) Preparation of the public hospital system:

i. Decentralise public hospital management

ii. Implement a coherent uniform policy with respect to enhanced amenities

iii. Investigate financial injection options to enhance public sector amenities

iv. Establish a process to develop and implement minimum service requirements for the public system

v. Revise the human resource environment as it relates to health personnel to improve management and incentives to perform.

(b) Consolidation of medical scheme reforms to remove any residual risk-selection and to increase coverage:

i. Expand prescribed minimum benefits to include chronic conditions and other essential services

ii. Phase out benefit options or, alternatively limit the degree to which they can be differentiated

iii. Phase out medical savings accounts

iv. Refine the late-joiner penalties

v. Significantly improve the regulatory framework dealing with intermediaries.

(c) Development of an effective policy process on defining and implementing basic essential services: Ultimately both the public and private sectors will need to ensure coverage for an equivalent minimum core set of services. Within medical schemes these would be regulated as prescribed minimum benefits. Within the public sector a similar process would occur and be framed as minimum norms and standards.

(d) Development of an integrated subsidy system:

i. A process needs to focus on rectifying structural deficiencies within and between the existing risk-pooling mechanisms. These include:

1. Inequity in the allocation of public health services
2. The tax subsidy to medical schemes
3. Risk-equalisation between medical schemes
4. Unfair penalties applied within the medical schemes environment.

ii. The public sector budget system needs to be revised to ensure that the regional allocation of health services is equitable. Furthermore, the subsidy provided to the private sector must at no time exceed that provided to people covered through the public sector.

iii. The tax subsidy currently runs counter to the achievement of health policy objectives and must be reformed. It is recommended that it be converted into an explicit income- and risk-adjusted subsidy. This subsidy could ultimately be funded from an earmarked tax, although initially it should be funded from general tax revenue.

iv. It is essential that a system of risk-equalisation between medical schemes be introduced. This fund would also serve the function of allocating any appropriately structured risk-adjusted subsidy to medical schemes provided by Government.

(e) Measures to contain private sector cost increases need to be more explicitly targeted by Government policy. These should include the use of:

i. Direct controls on the supply of services

ii. Various market-related measures

iii. Improved regulation of competition.

8.3.1.2 Phase 2: Implement preparatory reforms

These need to focus on the creation of regulated risk pools, and changes to the regulation and subsidisation of the medical schemes environment. The objective is to improve the quality and cost-effectiveness of cover within the voluntary contributory environment (medical schemes).

The phase 2 reforms serve to enhance the voluntary contributory environment in order to facilitate the establishment of a mandatory environment emphasised in phases 3 and 4. The greater the degree of cover, and the acceptability of the contributory environment, the less the disruption involved in establishing any future mandatory environment.

Key reform elements would include the final implementation of:

- The risk-equalisation fund (begun in phase 1)
- The risk-adjusted subsidy to medical schemes (begun in phase 1)
- The state-sponsored medical scheme
- A mandatory environment for civil servants.

8.3.1.3 Phase 3: Implementation of the initial mandates

Once the preparatory reforms of phase 2 are substantially in place, the groundwork would have been established for the implementation of the first statutory mandates. Given the income distribution in South Africa, the mandates should begin with higher income groups. Where lower income groups are concerned, this phase should focus on further active encouragement and development of the voluntary contributory environment.

Phase 2 would have seen the initiation of a state-sponsored medical scheme. Phase 3 should focus on the development of a contributory scheme for *non-medical scheme members* in addition to the state-sponsored medical scheme. This will help to establish the institutions in Government that would ultimately manage a public sector contributory scheme within a NHI framework. Thus two contributory mechanisms will exist: the first based on medical schemes (including the state-sponsored medical scheme); and the second a dedicated Public Sector Contributory Fund (PSCF). The non-contributory portion of the health system would continue to be funded from general taxes.

8.3.1.4 Phase 4: Implementation of an NHI

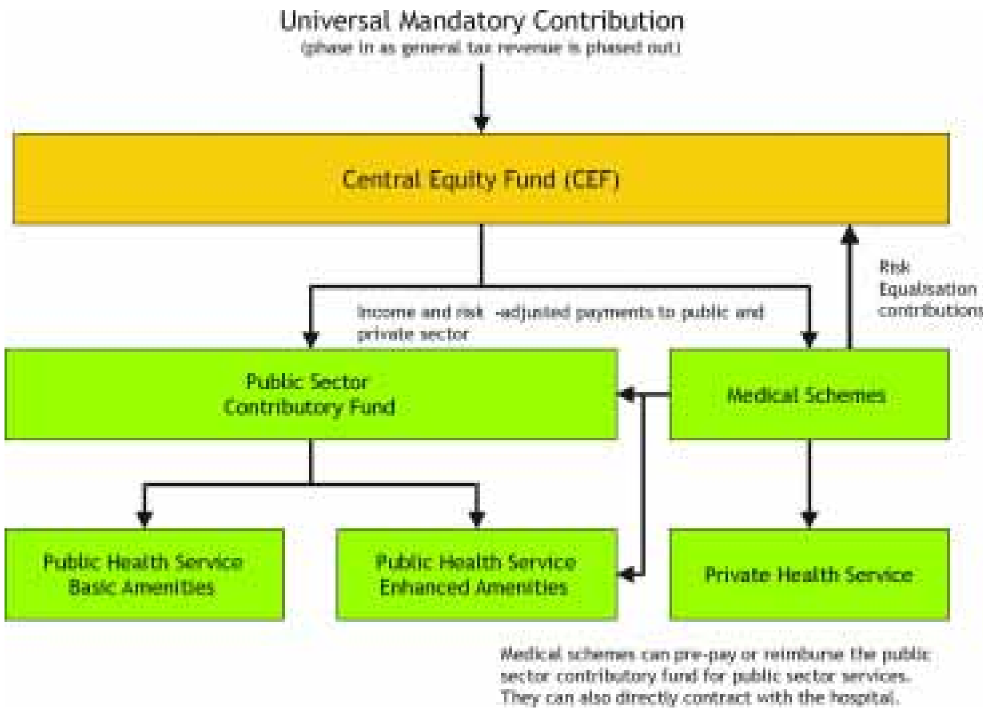
The last phase envisages the implementation of a universal contributory system that would, to a substantial degree, replace general tax funding as a source of revenue (figure 14). General tax as a supplementary source of revenue may nevertheless prove desirable.

The final phase essentially envisages the establishment of a contributory environment for all groups and individuals assessed to be in a position to contribute toward the health system. These contributions would not replace medical scheme contributions, but rather fund the subsidy provided to medical schemes. In other words, medical scheme contributions would be regarded as a top-up contribution to the subsidy.

All contributions and general tax allocations would be made directly to a Central Equity Fund (CEF) which would in turn allocate them to the public sector and medical schemes based on a risk-adjusted equity formula.

A PSCF would become the national funding authority for the public health system. This would either operate as a dedicated unit within the national Department of Health, or exist as a separate parastatal reporting to the Minister of Health. Phases 1 through 3 would have seen the centralisation of the health budget, and the establishment of capacity to fund provinces via substantial improvements in the capacity to manage and apply the conditional grant system.

Figure 14
Institutional framework for a universal contributory system.



The end phase of these enhancements would see the creation of the PSCF that would take responsibility for, and manage, the allocation of funds from general tax revenues and contributions allocated through the CEF.

All residents of South Africa should become entitled to a subsidy equivalent to the risk-adjusted per capita average of all contributions and revenue received into the CEF. This subsidy system should evolve from the reforms in phases 1 through 3.

8.4 Strategic financial framework

Unlike retirement provision and other forms of insurance and social assistance, the health system comprises both a financial framework as well as a provider system. The proposed strategic framework involves the development of three risk-pooling systems.

The first is the universal per capita subsidy, funded from general taxes and enhanced through a redirection of the existing employer tax-subsidy. This system begins as entirely non-contributory (funded from general taxes – phases 1-3) and converts to a contributory fund in phase 4. Contributors toward the universal per capita subsidy can choose to utilise this subsidy through the PSCF and obtain an enhanced public sector amenity, or to subsidise their contributions to a medical scheme. This system becomes the basis for entrenching income cross-subsidies within both the non-contributory and contributory financial systems.

The second major system is the medical schemes environment. This remains voluntary for high income groups for phases 1 and 2, after which it becomes mandatory. The third major risk pooling system involves the establishment of a state-sponsored medical scheme targeted at low-income groups, the informal sector, and middle-income groups who wish to obtain more cost-effective cover (figure 15).

8.5 Coverage

Coverage changes over the four general phases with the gradual expansion of the contributory system (table 9). The public sector basic amenity is the non-contributory environment offered free

Figure 15
Strategic financial framework for the South African health system.

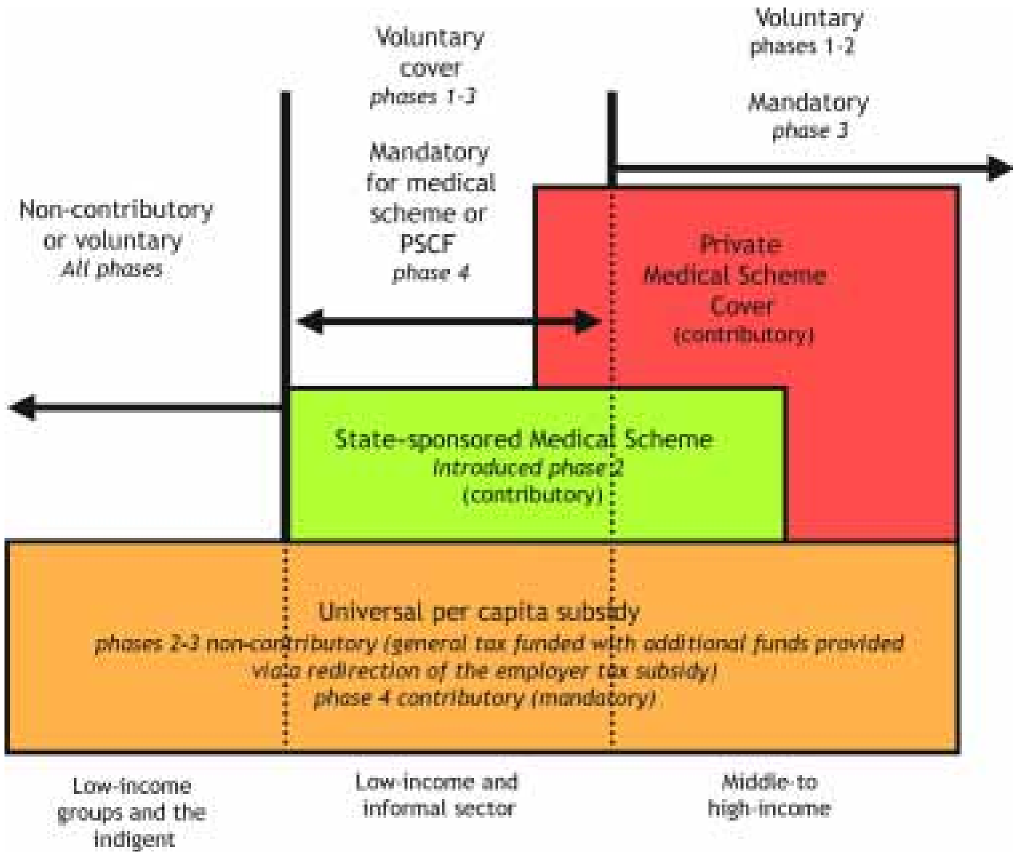


Table 9
Summary of coverage by broad income category

	Phase 1	Phase 2	Phase 3	Phase 4
Poor	o Public sector: basic amenity (free)	o Public sector: basic amenity (free)	o Public sector: basic amenity (free)	o Public sector: basic amenity (free)
Low-income	o Public sector: basic amenity (user fee)	o Public sector: basic amenity (user fee) o Medical Scheme (voluntary)	o Public sector: basic amenity (free) o Public sector contributory fund (voluntary) o Medical Scheme (voluntary)	o Public sector: basic amenity (free) o Public sector contributory fund via NHI contribution (mandatory) o Medical Scheme (voluntary)
Middle-income	o Public sector: basic amenity (user fee) o Medical Scheme (voluntary)	o Public sector: basic amenity (user fee) o Medical Scheme (voluntary)	o Medical Scheme (mandatory)	o NHI contribution (mandatory) o Medical Scheme (mandatory)
High-income	o Public sector: basic amenity (user fee) o Medical Scheme (voluntary)	o Public sector: basic amenity (user fee) o Medical Scheme (voluntary)	o Medical Scheme (mandatory)	o NHI contribution (mandatory) o Medical Scheme (mandatory)

to all below a certain income level. Higher income groups move from a voluntary contributory environment into mandatory options for both medical scheme membership and a final NHI contribution.

By phase 3 the user fee system for public hospitals is eliminated and replaced by a combination of mandatory medical scheme membership and a voluntary contributory system for an enhanced differential amenity. Middle- and upper-income groups will be compelled to join a medical scheme during this phase. Public sector schemes will be able to contract for the differential (enhanced) amenity. Phase 4 creates a mandatory contributory environment that includes low-income groups. From that stage on, low-income contributors will access enhanced amenity services.

8.6 Concluding remarks

The various phases outlined in this framework reflect the need for careful planning and prioritisation of interventions. The reform process is complex and multi-dimensional. Significant technical work and consultation will be required in virtually every phase and step of the process. This complexity should be recognised as inherent to health systems' reform and a degree of openness and flexibility permitted to fully develop the reforms for implementation.

It is recommended that the Department of Health engage in a consultation process to fully refine and develop this framework.

Chapter 9
Retirement and Insurance

9.1 Introduction

The main social policy objective relating to the provision of retirement and insurance benefits is to ensure that people have adequate provision for their old age and other risks and contingencies that may befall them during their financial life cycle. The institutional policy objective is an integrated benefit system that ensures that people are able to survive hardship and risk irrespective of their circumstances or life chances.

South Africa's private pension and insurance sectors are estimated to be the largest in the world relative to gross national product (GNP). Major achievements have been noted:

- The State Old Age Pension (SOAP) has reached racial parity.
- The Government Employee Pension Fund (GEPF) is fully funded and managed in accordance with sound accounting and actuarial practice.
- Trustee legislation has been passed to ensure democratic and effective management.

Given the size of the sector, it is not surprising that there is significant diversity within it. The diversity in itself is to be welcomed, but questions arise as to the effectiveness of legislation (both supervisory and tax related), the interface between private and public institutions and between the benefits they pay.

9.1.1 Coverage

Pension funds account for R600 billion of institutional investor assets, being the major provider of capital for the equity listed on the Johannesburg Stock Exchange. The Financial Services Board (FSB) 1998 annual report shows that formal group retirement funds for which they were able to provide statistics, have almost 11 million members (but 1,7 million are retired and there are a number of duplications).

Pension fund contributions are recorded as amounting to R54,3 billion a year – 14 per cent of total personal remuneration in South Africa. Another R8 billion in contributions to retirement annuity funds, administered by insurers can be added. A large proportion of the R27 billion of regular premium life assurance is written as endowment policies that are also intended to mature at retirement.

The total accounts for almost 20 per cent of personal remuneration. This is considerably higher than necessary if no withdrawals were ever made. The figures do, however, tend to corroborate the Smith Committee estimates that some 80 per cent of formally employed workers are covered by retirement funds.

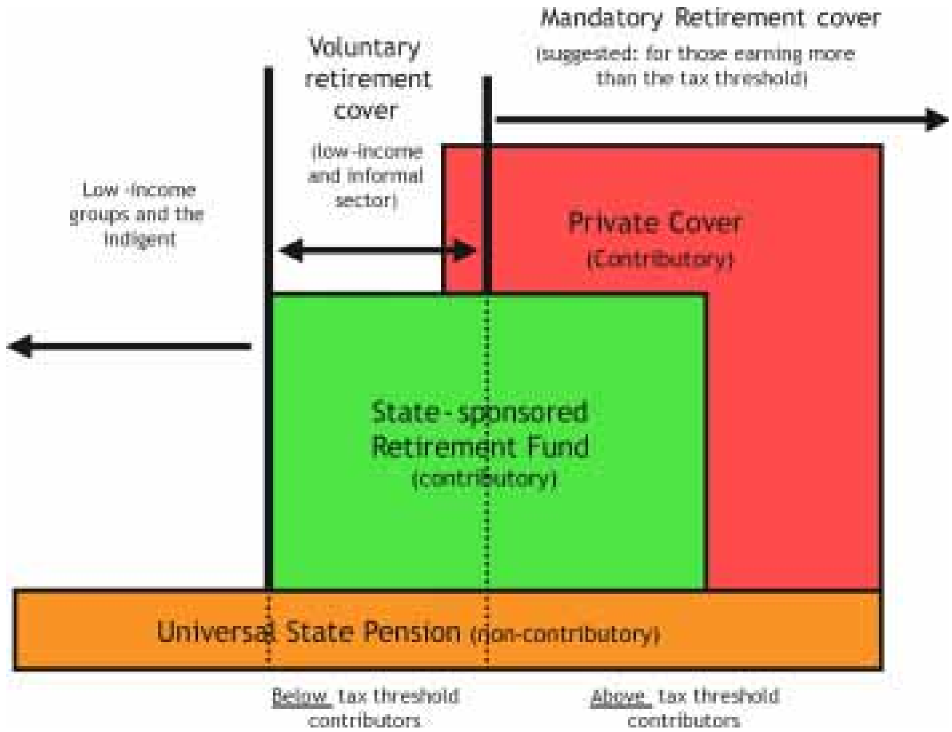
9.1.2 Proposed strategic framework

Reforming retirement provision within South Africa requires consideration of a holistic approach that integrates social assistance, social insurance options and private cover (figure 16).

9.2 Findings and recommendations

The Committee is of the view that the current distinction, in the Income Tax Act, between pension, provident, and retirement annuity

Figure 16
Proposed strategic framework for retirement provision in South Africa.



funds should be eliminated. All retirement funds should have the characteristics set out below.

9.2.1 Compulsion and preservation

9.2.1.1 Minimum mandatory contributions

In line with the discussion in section 3.6, the Committee recommends that all people employed in the formal sector (including all casual and part-time workers) be required to contribute a prescribed minimum percentage of their income for retirement saving. (In line with life cycle needs, this could be redirected to repay a housing bond if they are under the age of 40.) An exemption could also be given where the monthly contributions are so low that administrative costs exceed say 25 per cent of the contributions.

The Committee believes that the South African Revenue Service (SARS) should be able to identify non-contributors, and recommends that an appropriate enforcement mechanism be instituted to ensure that all employers contribute to an approved retirement fund. Provision should be made to take action against employers who fail to comply.

9.2.1.2 Compulsory preservation and unemployment

Compulsory contributions will not have the desired effect if members continue to withdraw their benefits when changing jobs. There is however, a need to make the funds available if the member becomes unemployed.

The Committee recommends that retirement funds' rules be amended so that benefits may be transferred on a member's withdrawal to their new employer's fund, or a retirement fund of the member's choice, if the member remains in employment in the formal sector. If no longer employed in the formal sector monthly payments a monthly amount, no greater than 60 per cent of income before becoming unemployed, should be payable – once the member is no longer entitled to further UIF benefits.

9.2.1.3 Annuitisation and inflation

The Committee recommends that all approved retirement funds be required, in their rules, to provide pensions that are intended to compensate for future inflation, and able to adapt to future changes in the rate. The rules must provide a specific mechanism for deciding on pension increases: either a formula or the use of a disinterested arbitrator. Up to one third of the value of the pension could be commuted for a lump sum.

9.2.1.4 Compulsory survivors' and disability cover

The Committee recommends that survivor's and disability cover be mandated as one of the benefits from a retirement fund. The level could be of the order of pensions of 20% of income for orphans, and 50% of income in the event of disability.

If such compulsory benefits are introduced, a strong argument could be made for the abolishment of the Road Accident Fund and the various forms of compulsory coverage for employment accidents – as they would be redundant. The Committee was divided over whether such a recommendation could be made, with some members being convinced a public system should remain to provide benefits over and above the minimums suggested.

9.2.2 Administration

9.2.2.1 Boards of management

Most boards are now equally divided between employer and employee appointed trustees, whose primary fiduciary duties are to members. Not many trustees are financial or legal experts, and they are largely reliant on expert help for the administration of their funds and the investment of assets. This has led to proposals that funds appoint professional trustees to ensure their boards have adequate expertise. This has apparent advantages, but clearly weakens the position of the lay trustees in board meetings. If trustees want independent advice, they would be advised to contract others to provide it, rather than surrender some of their powers.

The Committee recommends that the principle of lay trustees, with democratic accountability to the members, be encouraged. All funds, including those umbrella funds and retirement annuity funds currently exempted, should be required to have elected trustees. Payment to trustees for services rendered should not be permitted.

9.2.2.2 Administration costs

Smaller retirement funds are considerably more expensive to administer, and less likely to be able to afford expert advice.

The Committee recommends that responsibility for rationalising the over 15 000 retirement schemes be left in the hands of trustees. It is further recommended that provincial Governments, together with unions and local business organisations and retirement fund administrators, investigate the possibilities of establishing regional funds, which will allow for both democratic election of trustees and greater efficiency.

9.2.2.3 Allocating benefits to dependants

The process of allocating benefits to dependants on death and divorce is problematic from the point of view of efficiency and equity.

The Committee recommends that the matter be given a high priority by the Financial Services Board (FSB). The rights of divorced spouses require particular attention.

9.2.2.4 Fiduciary duties

The fiduciary duties of trustees and directors of insurance corporations require ongoing monitoring. Conflicts of interest arise frequently in the choice of service providers, of investments and in the allocation of benefits. The Committee recommends that the FSB be required to include in its annual report the steps it has taken to ensure higher standards are met.

9.2.3 Retirement fund investment

The Committee recommends that Government explore wage-linked bonds as a measure that is possibly more appropriate to the needs of retirement funds, and to its own risk management strategies.

The Committee recommends that retirement funds initially be required to invest a proportion of their assets within a defined socially desirable investment universe. The initial yield on these investments should be in line with the return on marketable investments.

The Committee recommends that no further increases in international investments be permitted until a performance index divided into local and foreign exposure, for both foreign and locally listed equities, is created, and trustees are able to gauge the exposure of the funds to foreign currency risks.

Trustees' lack of expertise makes it difficult for them to judge the appropriateness of investment performance benchmarks. The Committee therefore recommends that the FSB develop appropriate investment benchmarks for use by retirement funds, and investment managers be required to measure their performance against these benchmarks.

The Committee recommends that trustees, or their delegated agents, be required to apply their minds to the major issues of corporate governance such as full accountability to shareholders, the appropriate structure and functioning of the board, and the control of management remuneration, and to use the vote attached to their shares.

The Committee also recommends that all companies be required to amend their articles of association in order to achieve representation of significant minority shareholders (including minorities indirectly held through pyramids and cross holdings) on their boards of directors. As both Government and union controlled funds are significant investors, they will be entitled to representation on a number of boards. This will therefore boost the representivity of boards of directors.

9.2.4 Taxation of retirement funds

The Committee is of the view that the current tax structure should be retained. It can however be significantly simplified.

9.2.4.1 Deductibility

The Committee recommends that total deductible contributions should be limited to 20 per cent of the employee's taxable income. The allowance for arrear contributions should be scrapped as representing an unnecessary complication.

9.2.4.2 Tax on investment income

The Committee recommends that the taxation of retirement funds be brought within the ambit of the Income Tax Act and that income could be taxed in the same manner as insurance funds. Generous deductions for administration expenses could reduce criticism that such a tax falls heavily on the poor, without opening opportunities for much tax planning.

The current basis of taxation allows for the tax paid to exceed real earnings. This can be the case with tax on interest-bearing instruments and with CGT. This significantly undermines the security of all saving, and views were expressed within the Committee that the basis should be amended to prevent this occurring. The opinion was expressed that government was obtaining inappropriate tax advice from low inflation OECD countries.

Some members of the Committee felt that abolishing STC and CGT on realised share profits, and increasing the corporate rate to compensate, could significantly simplify the taxation of investment income and increase the liquidity of the market. No agreement was reached on this matter.

9.2.4.3 Tax on benefits

The current tax position encourages lump sum withdrawals, lump sum death benefits and the commutation of pensions on retirement. It is inconsistent to prevent people from withdrawing most of their savings from retirement funds and then give them tax incentives to withdraw the maximum possible.

Consideration should be given to according lump sums with no special status and taxing them as income in the year in which they are received. This approach is simple and would mean that people would pay more tax when they chose lump sums over pensions, and is preferred by the Committee.

9.2.4.4 Tax on life assurance

The taxation of life assurance benefits also leads to a preference for lump sum rather than annuity benefits.

The Committee recommends that benefits paid out of the taxed life assurance fund be explicitly freed from taxation as annuities in the hands of beneficiaries.

9.2.5 Defined benefit vs defined contribution

The Committee did not wish to take a position on this issue. It was however concerned that

Table 10
Summary statistics on the retirement industry

	Funds	Members (000's)	Contributions (R'billion)	Assets
Self-administered	2 682	2 963	18 987	278
Under-written by Insurers	13 127	6 416	20 339	132
Government	7	1,438	14 888	194
Industrial	8	76	100	1
Total	15 824	10 893	54 314	605

greater attention be paid to finding appropriate investments for retirement funds. The investment recommendations set out on page 96 derive from this concern. It is also concerned that members are fully informed of the present value of their benefits.

It therefore recommends that all funds be required to inform their members annually of the present value of contributions made by employers on their individual behalf, and of the increase (or reduction) in value of their retirement benefits. It also recommends that an employer guarantee of the benefits payable from the fund or of its investment returns be the subject of a separate contract between the fund and the employer.

The Committee's brief also requires it to consider question of impact on government as employer. It is recommended that, if the GEPF were converted into a DC fund, the assets should primarily be inflation and wage linked bonds. It would be inappropriate for government to have too large an influence on private sector businesses should the GEPF become a major shareholder in local companies.

9.2.6 Consumer protection issues

Powerful vested interests control the insurance and related industries. There is limited regulatory capacity to monitor compliance with trustee laws across 15 000 funds. Consumer protection is sometimes inadequate, and there is little real competition. The following suggestions are made.

9.2.6.1 Excessive sales and lapses, but few complaints

The Committee has not been able to obtain definitive statistics, but it appears that about half the working population appear to have little personal insurance, while the other half appear over-insured. Thirty per cent of life policies result in a lapse, causing loss to the policyholder. The Committee's research suggests that most policyholders do not appreciate the losses they suffer, and believes that the problem lies with the current commission system.

The Committee recommends that commission could continue to be payable to agents of an insurer, who make it clear that they are selling policies, not giving advice. Such contracts should either offer a defined set of insurance benefits, or be investment products with restricted charges - as with stakeholder pensions in the UK.

9.2.6.2 Competition

The Committee was concerned at the apparently low level of competition in the financial services markets - with four or five groups dominating the insurance and banking industries. Evidence from the UK was that even their much larger and open markets were not regarded as sufficiently competitive. Responsibility for regulating these industries is divided between the FSB, the South African Reserve Bank (SARB) and the Competition Commission. It seems that there might be inadequate coordination and insufficient monitoring of possible abuses of market power.

The Committee recommends that the regulating bodies be required to perform a regular review of competition within these markets and investigate ways of increasing competition. Suggestions were made that life insurance companies be compelled to make comparable expense and performance statistics available. The publication of investment performance statistics also needs monitoring. In particular, all costs should be fully disclosed. Other possibilities are that more encouragement should be given to smaller mutual societies to develop into real competitors in the market.

9.2.6.3 Low-cost national savings scheme

Representations to the Committee have included suggestions for a low-cost national savings scheme that can cater specifically for the growing numbers of workers excluded from formal, regular employment retirement funds. Such a scheme, preferably administered through a non-profit public entity, would cater specifically for workers with unstable incomes and irregular contribution patterns. It is not clear, however, that such a scheme would be able to function at a lower cost level than existing savings arrangements offered by banks and insurers. It might well however compete with existing schemes and so promote much needed competition in the industry.

The Committee therefore recommends that such a national scheme be investigated. This investigation should be carried out jointly or in consultation with the state development finance institutions, the FSB, and SARB, Development Bank of South Africa, Department of Labour and other relevant stakeholders.

9.2.6.4 Guarantee fund

Many countries offer some guarantee to smaller investors in publicly supervised institutions such as banks, insurers and retirement funds. The Committee recommends that the SARB and the FSB investigate such a scheme.

9.2.6.5 Improved adjudication

Retirement fund members can currently complain to the Life Assurance Ombudsman, the Pensions Fund Adjudicator, the Labour Court, the FSB or the High Court – or to a range of bodies representing professional advisors. The Pensions Fund Adjudicator believes that South Africa requires a single, specialised, well funded, properly staffed Pension Complaints Tribunal with exclusive jurisdiction over all pension fund disputes arising from whatever quarter and in relation to all pension fund matters.

The Committee recommends this suggestion be investigated in line with the Committee's recommendations in 13.3.6.

9.2.6.6 Unfair contracts

Policyholders often fall prey to small print in their contracts, and are often deprived of the benefits or protection that they anticipated. This problem is particularly serious given the relatively constrained levels of education and awareness among consumers on such matters. The Committee believes that the introduction of an Unfair Clauses Act, similar to that introduced in the UK, would assist in protecting the interests of consumers. It is recommended that FSB explore the introduction of such legislation.

9.2.7 Missing beneficiaries

It appears that a large proportion of retirement and life assurance benefits are not claimed. The Committee recommends that the FSB coordinate a national initiative to find the missing beneficiaries. This should apply to all deferred pensioners, policyholders no longer paying premiums, and shareholders not receiving dividends. The campaign should include extensive advertising in all media, and a collation of the records of the different retirement funds and insurers. Where there is no address, and no record of the beneficiary in the records of the Departments of Home Affairs, Social Development or SARS, then the benefits could be legally forfeited to the state. Provision can be made for funds and insurers to have recourse in the event of a beneficiary subsequently claiming their benefits.

9.2.8 State Old Age Pension

The number of people qualifying for a pension is expected to increase by some 50% in the next 15 years and will increase the annual cost to almost R30 billion in 2002 terms in the current policy environment. This is because the means test is not effective in capturing lump sum proceeds from retirement funds.

The Committee's recommends recouping costs via the income tax system, rather than using means tests. If the recommendations above are accepted, then taxation revenue will rise both from the increased payment of annuities and the greater taxation of lump sums. Payments from retirement funds are easily monitored for tax purposes.

If the net costs are still too high, consideration will have to be given to increasing the retirement age in line with the longer life expectancy of pensioners. For constitutional reasons, this may have to involve increasing the retirement age of women to equal that of men.

Chapter 10
Disability

10.1 Introduction

The 1997 White Paper on an Integrated National Disability Strategy (INDS) noted that there is a lack of reliable information on disability in South Africa. However, although available data cannot provide a perfect portrait of disability in South Africa, it can provide a rough sense of the scope of disability[25]. Internationally, it has been suggested that as much as 10 per cent of the world's population live with disability. Estimates suggest that moderately to extensively disabled people constitute around 5 per cent of developing country populations.

A special disability survey of South Africa conducted in 1998 by the Department of Health and the Community Agency for Social Enquiry (Case) estimates that approximately 5,9 per cent of South Africa's population is comprised of disabled people. This compares with an estimate of 5,2 per cent from the 1995 October Household Survey (OHS), 12,8 per cent of the National Health & Population Development: South African national survey of 1996 and 6,6 per cent from the 1996 census, and 3,7 per cent from the 1999 OHS. The variance of these measurements illustrates the difficulty of making a reliable estimate of disability; since the underlying population characteristics are unlikely to have changed dramatically since 1995, differences in prevalence estimates mostly reflect differences in the survey instruments and techniques.

The broad scope and the many socio-economic repercussions of disability make it, by any measure, an important policy issue for South Africa. The impact of disability extends well beyond the disabled themselves. Disability touches the lives of friends, family, and fellow community members. Indeed, while individuals bear the brunt of illness and impairment, disability also creates hardships for those who care for and depend on disabled family members. At least 16 per cent of South Africans are themselves disabled or live in a household with a person who is disabled, according to the 1999 OHS – and this is possibly a conservative estimate.[26] A first step in formulating a national policy framework to address disability is to acknowledge the scope of the problem.

10.2 The demographics of disability

Disability tends to follow certain patterns with respect to age, income, and employment. Older people are more likely to have a disability. This is due in part to increased probability of serious health problems and in part to accumulated risk of suffering a disabling accident over the course of their lifetimes. While the elderly account for the largest share of the disabled population, children account for a disproportionately small portion of national disabilities. Disability among children is, however, a major concern. The impact of disability on the lifetime outcomes of children can be extraordinarily high. Children with disabilities tend to have lower school attendance rates, less education, and ultimately, additional barriers to independent living and engagement with society. According to the 1999 OHS, nearly 30 per cent of school-age children with disabilities were not attending school or not attending full time, compared with 10 per cent of children without disabilities.

Poor individuals make up a disproportionately large share of the disabled population. Disability tends to be more common among poor people for two reasons:

- First, poverty increases vulnerability to disability, chiefly through poor nutrition, difficulty accessing adequate basic healthcare, lack of knowledge about prevention, and the greater concentration of poor workers in dangerous jobs.
- Second, disability increases vulnerability to poverty: lower education, discrimination in the labour market (both active and institutional), special disability-related costs, and in some cases the need for other household members to spend time and resources supporting disabled family members increases the likelihood that disabled people will remain – or become – poor.

The 1999 OHS suggests that while less than 2 per cent of individuals living in households with monthly incomes above R10 000 are categorised as disabled, the disability rate was more than twice as high for individuals living in households with monthly incomes below R1 200.

Men are slightly more likely to live with disability after accounting for age effects, probably due to the dangerous jobs many men hold. Although men may be marginally more likely to experience disability, the qualitative experiences of women with disabilities may be much more difficult. The 1997 White Paper on INDS acknowledges that disabled women must endure the oppression of a patriarchal society, which can be magnified for those women who cannot perform even the traditional roles of motherhood and homemaking. Women who bear disabled children may even in some cases be subject to the scorn and rejection of the community.

10.2.1 The imperative to act

Not only is the impact of disability widespread but it is likely to increase for the foreseeable future. This trend has been noted at the international level, where violence and ageing populations are driving forces. In sub-Saharan Africa the situation is considerably worse, due in large part to the projected impact of HIV/AIDS on the health and well-being of the region. Therefore, not only must we recognise the scope of disability as it affects society, but so too must we recognise the urgent need to put in place measures to address the growing threat of disabling disease.

These imperatives to action are not new. Indeed, South Africa has for some time recognised the need to provide special protection to people living with disabilities. The foundation for this protection is established in section 9 of the Constitution, which prohibits discrimination on the basis of disability. These notions have found affirmation in the decisions of the Constitutional Court and in a series of international agreements to which South Africa is committed[27].

The 1997 White Paper on an INDS provides the basis for national disability policy:

- Disability affects a significant share of the country and places a significant drain on the human resources of people with impairments as well as their families.
- The incidence of disability in South Africa is set to rise, in line with international trends.
- South Africa has a clear legal commitment to address disability. This commitment is enshrined in the Constitution, affirmed by the Constitutional Court and reaffirmed by international agreements to which South Africa is a signatory.

10.3 Findings

10.3.1 Conceptualisation and definition of disability and implications for national policy

The present disability definitions that underpin current social security provisioning are for various reasons problematic. They are (a) based entirely on the medical model; (b) are constructed in such a way as to undermine the policy objective of maximising full participation in the world of work by creating a disincentive to work; and (c) do not take into account social and labour market barriers, as well as broader social and environmental factors which inhibit labour market participation.

10.3.2 Consequences of disability

Disability bears certain economic consequences and is closely related to poverty because it makes households more vulnerable to poverty and poverty-creating shocks and disabled people themselves face additional barriers to education, employment, and access to basic services (like transport) that conspire to keep them poor. The opposite is also true, namely that poverty increases the risk of disability.

It also has social consequences in the awareness and attitudes of the public. Sometimes overtly, sometimes unintentionally, society discriminates against people with disabilities. Legal measures, and even fundamental constitutional rights, cannot alone redress the prejudices of the public.

10.3.3 Progress and gaps in the current framework

Progress in the present system is mixed. According to the INDS the present social security legislative framework, its administration and allocation systems tend to be discriminatory, punitive, insensitive to the specific needs of people with disabilities, uncoordinated, inadequate and riddled with high levels of fraud. In defence of the state it must be said that the State has, however, managed to create and maintain a system of reasonable coverage for a relatively large group of adults with disabilities. The provisioning for children with disabilities is far less successful.

Of most immediate concern to Government is the need to improve access to official support, basic services, and also effective means of adjudication when disabled people are deprived of these rights. Among the most consistent complaints in the social security system are those concerned with the poor administration of public support for disability.

10.4 Integrating disability measures into social security

10.4.1 Fundamental principles and legislative framework

It must be recognised that people with disabilities are not a homogenous group, but have a wide range of needs and circumstances that contribute to their well-being and opportunities in life. Even persons with similar disability types have completely different social, financial and physical environments that directly impinge on their capacity to function at their maximum potential. This must be recognised when designing a sensitive and holistic social security system that attempts to meet the needs of this group.

10.4.1.1 Currently the different pieces of legislation regarding the various schemes of social security are fragmented, sometimes contradictory, and make for gaps in provisioning. Hence the attempt to arrive at a comprehensive system might necessitate one overriding piece of legislation, such as a Social Security Act, which would incorporate the concept of social security for disabled people, its aims and objectives, as well as highlighting the purposes and eligibility criteria of each scheme, including the social assistance programmes.

10.4.1.2 There may still be need for separate legislation and regulations to guide each of these schemes, but these must be consistent with the fundamental principles embodied in the Act. There needs to be some “linking” and cohesiveness between the different social insurances and the legislation. For example, at present the Employment Equity Act calls for the employment of persons with disabilities, while reintegration into the labour market is not a goal of COIDA. This mix of policy and legislation should ensure that the guidelines set out in the various policies are achieved and enforced through the necessary legislation and regulations.

10.4.1.3 Particular attention should be paid to clear definitions in the Act(s) that can be operationalised in the regulations, with accompanying guidelines for their implementation.

10.4.1.4 With regard to legislation for children, both the Child Care Act and the Social Assistance Act should provide for social security for children with disabilities. A combined approach, with the Child Care Act determining the rights and the package of benefits, while the Social Assistance Act incorporates the finer practical details and regulations, might be useful and ensure a comprehensive approach, but may be cumbersome for implementation.

10.4.2 Concept of social security for disabled people

10.4.2.1 Social security systems should be seen not merely as safety nets and poverty alleviating measures, but also as measures to promote self-sufficiency and independence.

10.4.2.2 Social security should protect societal members from and compensate for, the financial consequences of a number of social contingencies or risks, including those preventative and rehabilitative measures. It should ultimately aim at societal solidarity, and at the full development, equality and participation of persons with disabilities (UN Committee on Economic and Social Rights - General Comment No. 3. Para 11)

10.4.3 Definition of disability

10.4.3.1 In light of the differing definitions and measurements of disability used in the various pieces of legislation regarding social security, it is suggested that a broad concept of disability be used. This could be adapted for more specific definitions in each scheme, dependent upon the purpose and coverage of each. Obviously the definitions must be 'operationalised' in the assessment tools, which must accurately translate the concepts within the purpose into simple and measurable criteria.

10.4.3.2 It must also be stressed that the system should not define beneficiaries according to the disability, but should rather determine provisioning in response to need.

10.4.4 Purposes and eligibility criteria

Within the broad concept of social security mentioned above, there could be specific purposes of each of the social security measures. For example, the purpose of COIDA could be to provide for the compensation of an injured person or his/her dependants for work-related incidents resulting in injury, death, or an occupation disease, in order to enable their full rehabilitation, retraining and re-integration into the labour market.

10.4.4.1 Persons with disabilities, physical, sensory, mental and intellectual, who cannot provide for their basic needs, should be eligible for the disability grant. In addition, it is suggested that persons with chronic illnesses, including HIV/AIDS, should also qualify for the grant.

10.4.4.2 Eligibility should not be based on the person's "incapacity" to work, as often their lack of work is due to the poor economic climate and prejudice in the work place, as opposed to their physical or mental inability to perform the job.

10.4.4.3 Eligibility should be determined by a Needs-based Assessment. This should replace the current means testing.

10.4.5 Assessment procedures

10.4.5.1 The assessment procedure should encompass a "needs-assessment" which considers not only the type and severity of disability or illness, but other social, economic, physical and environmental factors. Persons with the same disability can have very different needs, depending on all these factors and on the support structures and resources available to them.

10.4.5.2 The assessment should also focus on the applicant's capabilities, rather than only on the degree of disability, as well as their potential for re-training and re-employment. Relevant training and reintegration measures should also form part of the package of social security.

10.4.5.3 The International Classification of Impairment, Disability and Handicaps (ICIDH-2), which is currently being developed by the World Health Organisation, may be useful in indicating the main categories and indices for measurement.

10.4.5.4 The assessment form must include all the disability categories, i.e. physical, mental, sensory and intellectual (currently it only includes physical and mental).

10.4.5.5 An appeal mechanism (such as a Review Tribunal) is necessary for those rejected applications, and must consist of relevant intersectoral representatives.

10.4.6 Targeting

10.4.6.1 The issue of means testing versus universal provisioning is complex and represents the contradiction, or struggle, between the fundamental rights to social security and the available resources.

10.4.6.2 Obviously resources are not infinite and personal or company income tax systems are exhaustible as sources of financing for social security systems. Thus efficient allocation of resources to suit the presenting needs of the population is required. In the face of limited resources, some form of targeting measure, to identify the most in need, is essential. However, this must be viewed within the rights-based framework as stipulated by the South

African Constitution and the various international instruments, which stress the basic rights of persons with disabilities to social security and social assistance, with progressive realisation and within the constraints of available resources.

10.4.6.3 It is suggested that a thorough system of 'needs-assessment' as described above, would include analysis of a person's financial situation and their need. Some threshold level of income, in relation to need, would have to be determined. It is suggested that the Disability Sector and economists undertake this.

10.4.6.4 It is important that the tools of targeting be sensitive and accurate in determining "need" versus purely a medical diagnosis emphasising categories of disability.

10.4.6.5 This assessment should be undertaken at regular intervals, so as to re-assess the level of need and to adjust the benefits accordingly. Sudden termination of grants is strongly discouraged. There should be adequate warning of the gradual 'phasing' out of payments.

10.4.7 Benefits

10.4.7.1 A system making use of a needs-based assessment as described above, would then provide a sliding scale of benefits, to suit the range of presenting needs within available resources. This should incorporate cash transfers and other indirect forms of social security.

10.4.7.2 The provision of cash transfers is an essential means to alleviate poverty, to smooth the income cycle, to meet those special needs due to the disability, and to overcome barriers that many persons with disabilities face in maximising their development and potential. For these reasons the disability grant and the CDG must be maintained and kept at their current level, if not increased.

10.4.7.3 The Committee recommends persons with disabilities and in poverty receive basic income as a first step in the package of benefits. Thereafter, consideration should be given to their special needs and provision be made in the form of "topping up" in relation to cash benefits, in-kind benefits and other essential services.

10.4.7.4 It is recommended that the Grant-in-Aid be re-examined and its usefulness and relevance determined. In addition, a brief analysis of the Department of Social Development's provisioning of "personal assistants" should be undertaken. Some scope of choice in personnel by the beneficiary would be advised.

10.4.7.5 Changes in thinking over recent years have led to a lower emphasis on institutional care for those with disabilities. It is widely recognised that effectice de-institutionalisation requires adequate support at a community level. In the case of residential care, a major barrier to discharge is that many patients have no effective family links and, if discharged, would be without shelter. This process must therefore be properly resourced.

A submission to the Committee from the Department of Health expressed concern for those with mental disabilities particularly. In their instance, co-ordination is essential between the Department of Health, Labour (which runs protective and sheltered workshops) and Prisons (as many as 30% of prisoners may suffer from mental illnesses).

10.5 Short-term measures

- Suggested immediate amendments to the Social Assistance Act and regulations and to the Department of Social Development's administrative structures.
- Remove the clause of "permanent home care" for eligibility of the CDG.
- Extend the CDG to children with moderate disabilities and those in special schools or day centres.
- Revamp the current medical and assessment forms. Include sensory and intellectual disabilities. The disability sector could assist with this process.
- Utilise a multi-disciplinary panel for assessments.
- A disability representative should be present on all the boards examining claims for insurances.
- Develop clear eligibility criteria and guidelines for assessors.
- Remove the criteria of spouse's income in the means test. Only the income of the person with the disability should be measured, not the "household" income.
- Provide free health services to persons with disabilities.
- Establish a review process for cases at regular intervals.
- Establish an appeal mechanism.

- Increase the back-pay to 6 months.
- Speed up the time of processing claims for grants and insurances.
- Educate the public on the social security available to them.

10.6 Recommendations

In general, policy should stay focused on improving the preconditions for equal participation, even as more general efforts at bolstering the capacity for governance and administration in the system of social protection move forward. The emphasis should be on promoting independent living, not institutional care. Specific and *achievable* policy recommendations are needed to promote action and not just further deliberation.

- Retain existing social assistance disability benefits until such time as income support measures are universally implemented, with the real value of the current disability grant being taken into account as well as other government measures.
- In-kind benefits should be de-linked from cash benefits. If people with disabilities take jobs and become disqualified from receiving public income support, they should not be required to give up access to non-cash support. De-linking cash and non-cash benefits may help to reduce the strength of the welfare trap around the means test.
- The present disability definitions are for various reasons unacceptable, as they are constructed in such a way (a) as to serve as a disincentive to work; and (b) that they overemphasise capacity for labour market participation, and do not take into account social and labour market barriers, as well as broader social and environmental factors. It is, therefore, proposed as a short-term measure that the said definitions be amended so as to reflect an interactive approach, which takes into account both medical condition and social and environmental factors.
- It is further proposed that the definitions be widened in order to include four main categories of disability, namely physical, mental, sensory and intellectual disability.
- It is also suggested that the ICIDH-2 approach to the definition of disability could be helpful, as it stresses three main elements, namely: (i) anatomical malfunctioning; (ii) the impairment of normal human functions as a result of the condition; and (iii) the question whether the condition hamper or impair the ability to socially integrate.
- An amended definition should serve two main purposes, namely, firstly, to identify whether the person concerned is indeed covered according to the revamped (wider) definition and, secondly, to identify the appropriate range and level of transfers (cash or in-kind benefits, goods and/or services) required to address the needs of the particular person according to the particular kind of disability suffered by the individual.
- Provision should be made for the purchasing of *essential* assistive devices. Procedures for acquiring simple assistive devices should be simple and costs should be subsidised.
- Simplify administrative procedures. Although administration needs greater resources and capacity building, it should also be an aim of government to reduce bureaucratic complexities that further complicate applications for social assistance and impede access to entitlements.
- Establish a series of quantitative indicators and benchmarks in consultation with civil society. These benchmarks can provide measurable targets for policy as well as standards by which civil society can monitor the progress of reforms.
- It is recommended that the regulatory environment and enforcement of the Social Assistance Act and its concomitant regulations be adapted in order to comply with the tenets of administrative justice as required by the Constitution, the statutory law, and well-founded common law principles. It is further recommended that officials responsible for dealing with matters pertaining to grants, for example, when approving, turning down or reviewing applications, be made aware of the obligations on the state and the rights of applicants in this regard.

- The discriminatory elements in the provisioning of grants and insurance coverage should be removed. In particular is it recommended that the citizenship restriction for purposes of entitlement to social assistance grants be removed. All that should be required is lawful residence in South Africa.

In order to avoid further unnecessary fragmentation, it is recommended that administrative and institutional arrangements concerning people with disabilities be included in a new national framework developed for social security delivery.

Chapter 11
Road Accident Fund (RAF)

11.1 Background

The RAF's purpose is to compensate victims for loss or damage wrongfully caused by driving of motor vehicles. In turn, the driver of the motor vehicle is indemnified against liability incurred for loss or damage wrongfully caused. The RAF has unlimited liability and therefore all damages proven must be paid by the Fund. However, claims of certain categories of passengers are limited against their own driver (to R25 000). The principles regarding apportionment of fault do apply. The RAF is therefore a public compensation/insurance system based on fault.

The RAF is financed through a levy on fuel sold. This type of financing is unique internationally. The current system of compensation can be described as social benefits with elements of insurance.

The Committee has considered the following difficulties relating to the RAF:

- Some attorneys are said to unnecessarily delay claims, running up high costs and grossly overstating claims. Similarly, medical specialists are often said to prepare medico-legal reports exclusively for claimants. Some assessors are said to assist in lodging fraudulent claims and are rendering inflated and false accounts.
- The legislation is found to be very complex, with the result that the whole system has become extremely legalistic and virtually incomprehensible to the average member of public.
- The many confusing and antiquated provisions result in real or perceived unfairness, encouraging expensive litigation.
- The delictual basis of a claim requires extensive investigations and these are also costly.
- The claims procedure is said to be cumbersome, time consuming and very expensive to administer. A claimant has three years in which to institute a claim against the RAF. In the case of a hit-and-run claim, the period is two years. The RAF then has to conduct an investigation and more often than not it is difficult to obtain documents and evidence.
- The settlement of claims is held to be the most painstaking procedure of it all.
- The high accident rate seems to be one of the major causes of the RAF's desperate financial position.
- One of the main reasons for the depletion of available funds is the payment of huge medical expenses. This benefits in particular those who make use of the private hospital system.

11.2 Conclusions

The Committee is not in a position to make final recommendations concerning future directions for the RAF. After consultations with the Satchwell Commission, and a review of some of the processes underway, the Committee has chosen to make certain observations that can serve as inputs into more substantive processes.

In some countries there is only one accident compensation system, covering both employment-related and road accidents, and often also other accidents outside the employment and road spheres. Where separate schemes exist for occupational injuries and diseases and road injuries, certain problems can arise:

- The possibility of double compensation
- Victims shopping around for the best possible compensation
- Different definitions of quantum of damage creates uncertainty
- Double administration costs.

However, in South Africa the long history of two separate schemes probably prevents the likelihood at this stage of one integrated scheme for all instances of compensation as a result of injury.

It is, however, clear that some ambiguities could be eliminated by, for example, adopting one model of assessing damages, eliminating fault as requirement for liability in both schemes, and creating an integrated computer data basis as to eliminate double claims. As suggested in Chapter 9, a case can be made for the introduction of an integrated system that offers life, disability and health insurance cover for all accidents and diseases.

Chapter 12
Coverage Against Employment Injuries and Diseases

12.1 Background

Compensation for occupational injuries and diseases is covered by the Compensation for Occupational Injuries and Diseases Act (COIDA). COIDA provides a system of no-fault compensation for employees who are injured in accidents that arise out of and in the course of their employment or who contract occupational diseases. Fault continues to play a role, however, since an employee is entitled to additional compensation if he/she can establish that negligence of the employer (or certain categories of managers and fellow employees) caused the injury or disease.

The main problems that currently exist as far as health and safety measures are concerned are:

- Large numbers of persons are excluded from the operation of COIDA, mainly domestic workers, and those involved in non-standard forms of work - such as the informally employed, the self-employed, and so-called dependant contractors.
- Labour market (re)integration is not a priority, as little general provision exists in this regard. Similarly, prevention in these cases does not seem to receive any particular attention from policy-makers.
- Finally, a lack of linkage with other social insurance and social assistance schemes leads to duplication of payments (double-dipping), thereby seriously eroding the financial soundness of the respective public insurance funds and the source from which social grants are paid. It does, of course, also serve as a disincentive to access or return to the labour market.

12.2 Fragmented statutory framework

There are several significant pieces of legislation in South Africa that provide for preventive safety measures. Apart from COIDA, these are the Occupational Health and Safety Act (OHSA), the Mines Health and Safety Act, and the Occupational Diseases in Mines and Works Act (ODMWA).

In addition, while COIDA requires employers to contribute to a centralised state fund (contra compulsory insurance policies with private insurers), there are two important exceptions. The Rand Mutual Assurance Company Limited that operates in the mining industry and the Federated Employer's Mutual Association, that operates in the building industry, are allowed to perform the same functions as COIDA.

There are major differences between COIDA and ODMWA as far as benefit structure and entitlements and other matters are concerned. Health and safety standards in mines are also dealt with differently from the same standards in other workplaces. The Mine Health and Safety (MHSA) Act, which is enforced by the Department of Minerals and Energy, requires of the owner of every worked mine to ensure, as far as reasonably practicable, that the mine is designed, constructed, equipped and operated in such a way that employees can perform their work without endangering the health and safety of employees or of any other person. The Occupational Health and Safety Act spells out the duties of employers and employees respectively in other workplaces and makes provision for a number of offences if the Act is contravened. Major differences exist as far as these two laws are concerned.

There is a clear need for some degree of alignment of the different laws, and their integration within the broader occupational health and safety, and social security framework.

12.3 Employee protection and interests

It is recommended that appropriate departmental measures be adopted to ensure that COIDA and the officials employed there sufficiently appreciate the fact that employer and employee interests are to be respected alike. Furthermore, the protection of employee interests requires that significant steps be taken to enforce compliance by employers of their statutory duties, and that claims processing be streamlined in order to deal speedily and efficiently with claims by employees and their dependants.

12.4 International standards

A set of general principles can be deduced from the ILO Conventions passed on this subject:

- Financing of employment injury benefits must be by employers
- Periodic payments should be made available rather than lump-sum benefits
- Coverage: The appropriate scheme's scope must extend to at least half of the national workforce or 20 per cent of residents
- Minimum compensation levels must be provided for
- Migrant workers must receive equal treatment.

South Africa has not ratified Convention 121 of 1964 (the Employment Injury Benefits Convention) yet, but is in a position to do so. It is recommended that steps be taken to effect the ratification of this Convention, and that the ratification of the other Conventions in this field be seriously considered. By doing so, South Africa will be seen to adhere to basic international standards informing policy-making in an area fraught with problems.

12.5 Prevention

It is the view of the Committee that, unlike overwhelming precedent in this regard, no comprehensive strategy has yet been developed to incorporate prevention as part of the overall system of employment injury and disease protection. The recommendation made by the Report of the Committee of Inquiry into a National Health and Safety Council, namely that prevention policy must be developed as part of a national strategy, is supported. All compensation agencies, including the mutual associations, should participate in developing this policy.

12.6 Reintegration

COIDA is not strong on reintegration measures. In contrast with the position elsewhere, there is no provision in COIDA, which specifically attempts to enforce reintegration measures – such as compulsory rehabilitation or vocational training programmes.

It is, therefore, especially in the area of reintegration measures that the system is extremely deficient. One would have to suggest that policy-makers should, as a matter of priority, consider the introduction of measures which would give effect to the principle of labour market integration. Rehabilitation, vocational training and, where appropriate, linking entitlement to benefits payment to participation in such programmes, should serve as minimal mechanisms to attain this goal.

12.7 Benefits

The recommendation made by the Report of the Committee of Inquiry into a National Health and Safety Council is endorsed. In particular there is an urgent need for a thorough investigation of benefits provided by the compensation system. This includes concerns related to the type of benefit, the basis for awarding compensation, and access to benefits.

12.8 Exclusion

The exclusion of domestic workers, the self-employed, and dependent contractors may be found to constitute a violation of section 9(1) of the Constitution (equal protection and benefits of the law) and section 9(3) (indirect discrimination against, for example black women (as domestic workers) as a particularly vulnerable group). An employee would also have a claim in terms of the Employment Equity Act of 1998 if the employer does not provide all employees with adequate protection in the event of employment injuries or diseases, especially bearing the definition of "employee" in the EEA in mind. Its definition of "employment practices and policies" in terms of which no unfair discrimination may take place and in terms of which barriers must be removed, includes literally all phases, stages and elements of the employment relationship.

As far as benefits to dependants are concerned, preference is given to a civil law wife at the expense of an indigenous law wife, a wife according to custom, and a cohabitant (if the spouse was married to more than one). This is constitutionally challengeable – also in view of the fact that no distinction is made between children born out of these relationships.

It is suggested that the possibility of voluntary registration in terms of COIDA should be considered, if compulsory coverage is not found to be feasible.

12.9 Commuting injuries

It is recommended that urgent attention be paid to enlarging the scope of accidents covered under COIDA so as to include commuting injuries on a wider basis than presently foreseen.

12.10 Defining accidents and diseases

Employees need to be made aware of their rights under COIDA, in particular as far as claiming in respect of occupational diseases is concerned. The Compensation Fund should be actively involved in broad public awareness campaigns.

12.11 Administration

The critical gaps and concerns mainly relate to:

- Responsibility for compensation being divided between different bodies with different administrative criteria for assessing claims and making awards, resulting in an inequitable system.
- The administrative backlogs of compensation systems in resolving compensation claims submitted by and on behalf of workers have resulted in inefficient compensation service provided by the state, which is prejudicial to workers affected by an occupational injury or disease.

It is suggested that these problems should be addressed within the framework of developing a comprehensive national occupational health and safety policy.

In the interim a more efficient administration of the current compensation system needs to be established, while indicators for the assessment of progress in this regard have to be determined.

12.12 Civil suits against employers

In *Jooste v Score Supermarket Trading (Pty) Ltd* the Constitutional Court found that section 35 of COIDA does not violate the right to equal protection and benefit of the law in section 9 of the Constitution. The question whether or not an employee ought to have retained the common law right to claim damages, either over and above or as an alternative to the advantages conferred by the Act, represents a highly debatable, controversial and complex matter of policy, according to the Court. The Court stated that such a contention represents an invitation to the court to make a policy choice under the guise of rationality review, an invitation that the court firmly declined.

Another alternative would be to allow tort-based civil claims to be brought in respect of the damages not covered in terms of the present compensation systems. The current dispensation operating on a no fault basis would then provide limited benefits, as is the case presently. In fact, workmen's compensation schemes by their nature do not provide full coverage. In addition thereto, and only if fault can be established, employees and their dependants are allowed to sue employers directly (also for general damages, such as for pain and suffering). This combination of workmen's compensation and employer (tort) liability is most common in Europe. Of course, if the employer is sued directly, any amount paid out by the compensation system should be deducted from the damages award, as the principle should remain that the employee/ dependant should not receive more than his/ her actual damages.

12.13 Financial issues

An actuarial assessment of the entire compensation system should be undertaken to assess the feasibility of increasing (and/or individualising) employer premiums, abolishing the rebate system in order to improve benefits awarded to employees and fully cover all costs related to administration of COIDA.

The staff component of COIDA should be strengthened in order to be able to target non-complying firms sufficiently.

12.14 Conclusion

The Committee recommends that the issues discussed above be dealt with within the framework of a comprehensive national occupation health and safety policy. As with the earlier discussion of the Road Accident Fund, this should include consideration of the costs and benefits of amalgamating the different systems in a single comprehensive system that offers life, disability and health insurance cover to all employees for all accidents and diseases.

Chapter 13 Institutional Framework

13.1 Introduction

The term "institution" refers to more than an organisation. Institutions also refer to regularised patterns of behaviour or systems of legitimate enforceable rules embedded in social relations. The development of both institutions and organisational structures is primarily determined by the existing social, political and economic context.

Major shifts become possible, as in the case of South Africa, with changes from undemocratic to democratic forms of Government and through the introduction of a Constitution. Such shifts may preface the development of new policy, organisations and legislation that previously could not evolve due to imbalances in political and economic power. Nevertheless, the degree to which institutions and organisations change, and the manner in which they change, depends on the influence different stakeholders exercise on policy-making.

Examples occur when programmes ostensibly for the poor are starved of adequate funds or their budget are consumed by administrators. Even apparently well-intentioned efforts to support the poor can be so clouded by ignorance of the real position of the poor that they create greater obstacles:

- Means tested grants create poverty traps that penalise formal job efforts
- It is possible that support for informal sector and marginally viable production mean that effort is directed into risky and low income jobs that never lift people out of poverty

There is no simple solution. The Committee recommends that a number of mechanisms be utilised:

- The views of vulnerable and marginal groups should be sought whenever programmes are being evaluated. They can also be encouraged to participate in decision making, but it must be recognised that their representatives will be open to co-option as a result of their vulnerability.
- Formal performance evaluation (from within departments and by external auditors) should be made publicly available.
- Periodic reviews should be held that seek to incorporate the widest possible range of local and international views.

Regarding the substance of institutional transformation, there are three important considerations. First, due to the many domestic structural and capacity imbalances, one cannot reasonably expect markets to lead this transformation process. Indeed, with poverty being as persistent and pervasive as it is, building the capacity of the state and its public sector institutions is an essential starting point for institutional transformation. Second, the desired institutional structure must follow the chosen strategic functions and priorities set by the South African developmental state. Third, socially and economically sustainable social security arrangements need to seek to increase the integrity of households and communities to cope with socio-economic challenges, reduce dependency on grants, and effectively rationalise existing grants.

Table 11
Summary of key issues affecting the operational and policy effectiveness of different organisational options within the social security system

Public sector	Social insurance	Regulated private markets
o Fragmentation in policy making o Linkages between policy making and resource allocation o Efficiency of the budget allocation mechanism o Decentralisation of operational decision-making o Targeting of services and grants	o Statutory authority o Independent board with fiduciary responsibility o Chief executive officer (accounting officer) o Independence from civil service HR and procurement requirements	o Strong and independent regulatory authorities o Efficient enforcement mechanisms o Appropriate corporate governance o Consumer protection o Unfair discrimination

13.2 Challenges

13.2.1 Overview

Social security systems typically embody a range of organisational and institutional arrangements, each with different operational and regulatory challenges. The three key arrangements are public sector provision, social insurance organisations, and regulated private markets (table 11).

13.2.2 Public sector

A central challenge affecting service delivery within the public sector is operational inflexibility. Its impact can be felt on everything from human resource management to procurement. Poorly structured hierarchies, over-centralised decision making – particularly with respect to basic operational matters – and the lack of appropriate performance evaluation and remuneration leads to poor morale and ultimately poor service delivery.

In addition, organisational capacity needs to be addressedby in the im plementation of effective and disciplinedmanagement process.

13.2.2.1 Budget allocation mechanism

Large complex functions within Government require careful attention to policy determination and financing. The processes required to formulate policy may not do so in a manner that links effectively to the budget determination and allocation process. There is therefore a need to better link strategic prioritisation, planning and budgeting processes.

13.2.2.2 Decentralisation of operational decision-making

The public sector operates with a large array of institutions directly responsible for service delivery. Many suffer from chronic under-performance, amongst other things, due to the lack of a clear model for decentralising the management of these facilities or institutions. One solution may lie in moving away from the standard hierarchical civil service model of reporting and management toward more decentralised approaches. This involves introducing revised governance models, emphasising the role of Boards with comprehensive responsibilities and chief executive officers with appropriate accountability requirements. Decentralised responsibility for procurement, human resource management, and financial management is important. Such approaches do not involve the decentralisation of policy, merely the carrying out of policy.

There is also a need to create optimum opportunities and processes for interaction with, and feedback from, beneficiaries and potential beneficiaries. This will promote better accountability and hence greater operational efficiency.

Where these powers have been delegated to independent Boards, great care must be taken that they are independent and representative, and that members have the necessary expertise and time to fulfil their responsibilities. They must themselves be subject to stringent auditing standards particularly, and be monitored by the central department.

13.2.2.3 Targeted services

Services that are targeted at selected vulnerable groups suffer from the standard problem of having to find and make allocations to those eligible for the support. If managed badly, many eligible people could be excluded from access to goods, services, or grants to which they are entitled. Attention therefore has to be paid to streamlining targeting criteria or the provision of certain goods and services on a universal basis if the inefficiency of a targeting system is so great as to prove dysfunctional.

13.2.3 Social insurance

Social insurance is typically offered via a statutory institution lying outside of the conventional civil service structure. In many countries this results in a significant improvement in operational efficiency so essential for direct service delivery to the public. In South Africa certain of the social insurance institutions (RAF, COIDA, UIF) are operated as if they were part of the civil service structure, despite the fact that these institutions are engaged in specialised functions with a need for a high degree of operational flexibility.

13.2.4 Regulated private markets

Social security provision in South Africa has, in many instances, placed significant responsibility for financing and delivery onto a regulated private market. This has created a number of challenges. These include the requirement for strong regulatory authorities, streamlined enforcement mechanisms, regulated governance requirements, regulation protecting consumers from abuse, protections against unfair discrimination and requirements for protecting social solidarity principles when these are important, e.g. healthcare and retirement. Without ensuring that these issues are adequately addressed it is likely that policy objectives will be undermined.

13.2.4.1 Regulatory authorities

Regulatory authorities need to be fully independent statutory authorities. It is important to protect such authorities both from inappropriate Government interference and regulatory capture by private stakeholders. Such authorities need good capacity and sufficient scope to offer attractive career opportunities to high quality staff.

13.2.4.2 Enforcement

Regulated markets require efficient methods of enforcement and arbitration by public regulatory authorities. Without this the process of ensuring compliance with legislation or contracts (in the case of functions outsourced by the public sector), or protecting people from abuse, may become a very slow and arduous process, undermining the effectiveness of whatever legislation has been put in place. Having to revert to the High Court for litigation may substantially diminish the speed of enforcement. In this regard, more efficient options need to be considered, particularly the establishment of dedicated social security adjudication structures and possibly courts.

13.2.4.3 Corporate governance

Poor corporate governance will result in fraud and poor organisational decision making. Each policy area that relies on the private sector requires a coherent approach to corporate governance. In the case of pension funds, for example, elected boards of trustee and the elimination of conflicts of interest are essential to protect against fraud and corruption. This goes together with a strong regulatory authority and streamlined enforcement.

13.2.4.4 Consumer protection

Consumers need a fair degree of protection in areas ranging from defective products to corrupt agents and intermediaries. Relying on consumer watchdogs or following up complaints will be insufficient where consumers are placed at a structural disadvantage relative to private agents. The whole area of consumer protection needs to have a clear policy focus where any aspect of the social security system relies on the private market for delivery.

13.2.4.5 Unfair discrimination

Where an aspect of the social security system relies on the private market for delivery, legislation typically has to be introduced enforcing minimum solidarity and cross-subsidisation requirements. Without these protections, reliance on the private market will be undermined through unilateral decisions made by the market to exclude certain groups from cover.

13.2.5 Policy co-ordination

Since 1994 the government has made significant strides in policy co-ordination through institutions such as the cluster of cabinet ministers. There are, however, still a number of policy areas in which policy co-ordination is lacking. For instance, with regard to retirement and old age, the Department of Social Development develops policy for old age grants, whereas the National Treasury develops the policy for private old age provision. These two environments are not viewed holistically.

The specific areas of social security identified by the Committee as having no clear over-riding policy responsibility or lead Ministry are:

- Old age and retirement
- Disability
- Maternity benefits and support

13.3 Recommendations

13.3.1 Integrated institutional and organisational framework

The Committee recommends that consideration be given to a significant revision of the organisational framework and institutions governing social security (figure 17). This revision should focus on a clarification of roles and responsibilities within the following areas:

- Policy determination
- Organisational framework for social security and protection
- Governance structures for social insurance funds
- Private sector regulation
- Enforcement.

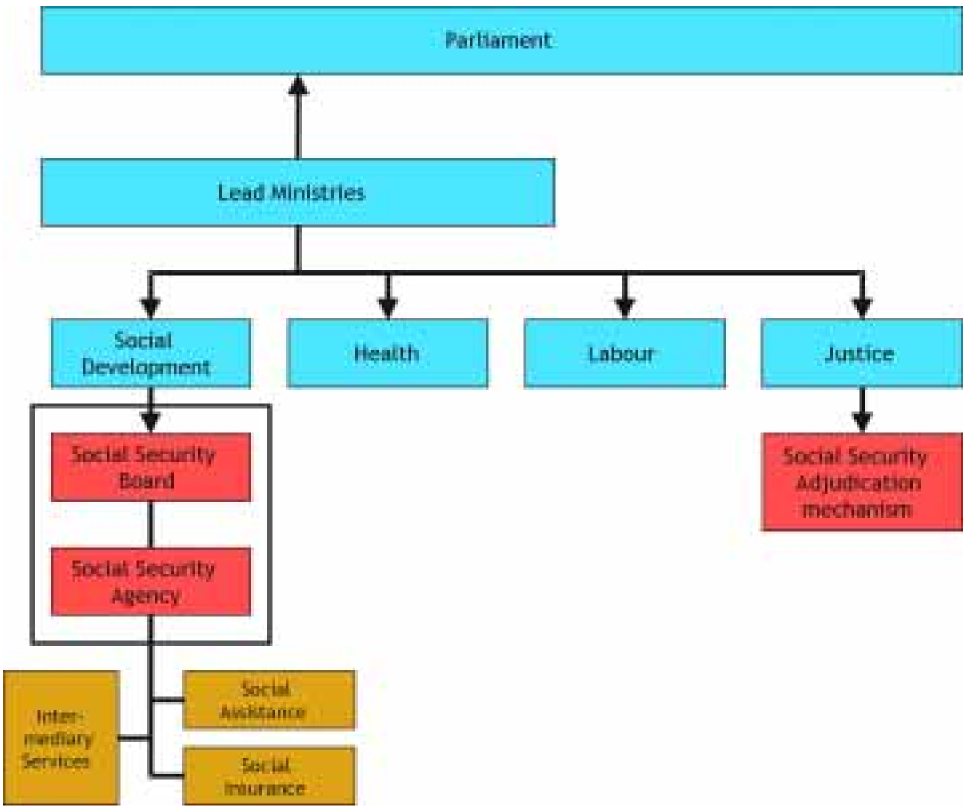
13.3.2 Social security board and agency

A revised operational framework is required to ensure effective service delivery in both social assistance and social insurance. The key recommendation here is for the implementation of a social security board (reporting to the Minister of Social Development) and agency (reporting to the social security board) to operationalise various social security functions outside of the civil service. Policy development and determination will remain with the Department of Social Development.

The Committee proposes that consideration be given to the following functions of the social security agency (figure 18):

- ***Social assistance***: The agency will have the function of managing the non-contributory social assistance fund,

Figure 17
Recommended integrated organisational framework.



including budget determination and grant administration.

- ***Social insurance***: The agency will become the oversight authority for all social insurance funds operating in South Africa. This will not extend to policy control, as this function will rest with the lead ministers responsible for particular policy areas.
- ***Intermediary services***: The important interface between the general public and all areas of the social security system, whether contributory or non-contributory, would become the responsibility of the social security agency. The agency may be developed eventually into an intermediary between the general public and relevant Government departments (e.g. Home Affairs) or social assistance and social insurance institutions (e.g. UIF, COIDA).

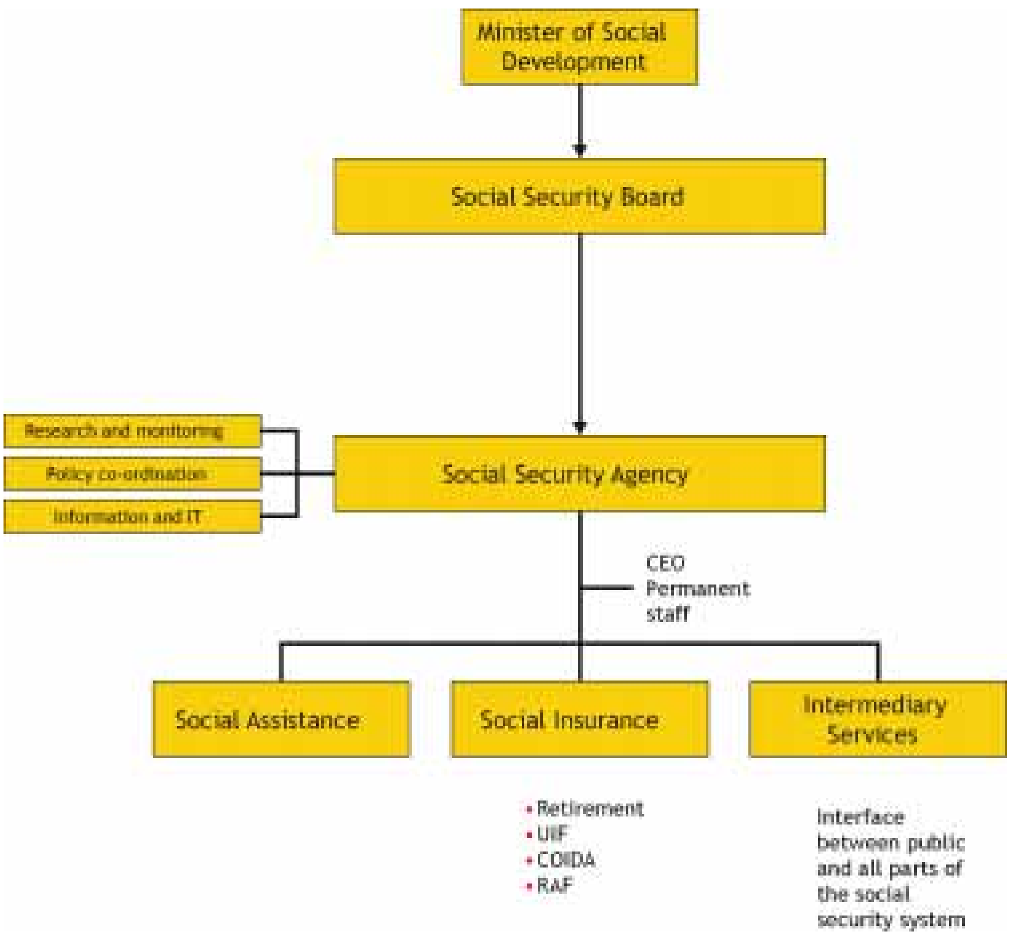
13.3.3 Governance structures for social insurance and related organisations

The existing social insurance funds require a reconsideration of their governance structure to ensure their operational efficiency. It is recommended that new decentralised governance structures be introduced for existing and future social insurance structures. They should ultimately report to the social security board (although policy responsibility for particular funds will remain with designated ministers, e.g. the policy environment for the UIF will be determined by the Minister of Labour).

13.3.4 Social Protection Commission

It is recommended that a standing Social Protection Commission (SPC), representing key stakeholders, be established. The SPC should relate to NEDLAC. The SPC would have a mandate to review all issues relevant to social protection.

Figure 18
Proposed structure of a social security board and agency.



This reporting structure is required to preserve its independence in any research, monitoring and investigation it carried out.

In addition to its broad mandate, it is recommended that the SPC be given specific terms of reference to monitor and review public and private sector social security institutions and regulatory structures. The specific requirement would be to monitor the extent to which social security objectives are either achieved or undermined. Another key area is to develop and monitor employment policy.

13.3.5 Private sector regulation

Apart from the regulation of medical schemes, there is very little recognition within Government at present of the need to achieve key social objective through the regulation of private markets as exist in other nations. There is also the constant risk of regulatory capture, which requires that Government introduce measures to guarantee the ongoing independence of regulatory authorities. It is therefore recommended that the SPC develop specialised capability and have funding to monitor and evaluate the performance of regulatory authorities. To preserve the independence of the regulatory authorities, it is important that this monitoring and evaluation process focus specifically on the achievement of social protection policy and consumer protection.

13.3.6 Social security adjudication mechanism

The present system providing for complaints and appeals against decisions taken by social security providers has many shortcomings:

- There is little consistency as different bodies or officials are called upon to hear complaints and appeals in respect of different parts of the social security system
- Undue delays are the order of the day
- The powers of the courts to deal with these matters are unsatisfactory
- The normal courts of the country are apparently not specialised enough to deal effectively with social security matters
- Access to the courts is limited, in particular as far as the indigent are concerned
- Cases are often dealt with on a purely technical and legalistic basis, with little regard to broader fairness considerations
- Court proceedings tend to be prohibitively expensive.

One of the guiding principles in devising an appropriate social security adjudication system is the need to ensure that an institutional separation exists between administrative accountability, review and revision, and a wholly independent, substantive system of adjudication.

The Committee recommends that a uniform adjudication system be established to deal conclusively with all social security claims. It should, in the first instance, involve an independent internal review or appeal institution.

It should, in the second place, involve a court (which could be a specialised court) which has the power to finally adjudicate all social security matters, and that this court has the power to determine cases on the basis of law and fairness.

The jurisdiction of this court should cover all social security claims, whether under the new UIA, the RAFA, the COIDA and all the other benefits (including the Social Assistance Act) emanating from the social security system(including claims falling under the jurisdiction of the Pension Funds Adjudicator).

Chapter 14
Financial Framework for Comprehensive Social Protection

14.1 Introduction

There is no single approach to financing or delivering social security. A range of approaches including user charges, earmarked taxation of one form or another, Government regulation or general tax financing exists. In some instances, non-contributory social assistance is combined with contributory social insurance to achieve greater institutional integration.

Mixed financing options for public and semi-public goods and services are not the exclusive domain of social security. Establishing these principles generically for Government is, however, essential quite aside from its applicability to social security. In this chapter of the Report consideration is given to:

- The Constitution, particularly where it refers to aspects of Government finance
- An overview of South Africa's social security system and the key issues in social security financing
- The principles underlying the use or selection of particular forms of taxation, levy or user fee for the social security system as a whole, or individual programmes
- Accounting for alternative revenue sources in the national accounts, and their relationship to the National Revenue Fund
- Financial management issues where mixed financing options are considered.

14.2 Constitutional provisions affecting social security financing

An important issue for the Committee to consider was whether any "prohibition" to the use of earmarked taxes or contributory financing existed in terms of the Constitution. These forms of funding social security are well established internationally and will need to be introduced more extensively in South Africa over the medium-to long-term.

Section 185 of the Constitution prescribes that a National Revenue Fund be established, "into which shall be paid all revenues, as may be defined by an Act of parliament, raised or received by the national Government, and from which appropriations shall be made by an Act of parliament, raised or received by the national Government, and from which appropriations shall be made by parliament …"

Section 186 stipulates that an annual budget reflecting the estimates of revenue and expenditure shall be laid before the National Assembly for each financial year. Provision is similarly made in section 159 as amended, for provincial revenue funds in each province:

> *… into which shall be paid all revenue accruing to the provincial government, and all financial allocations … made by the national government to such a provincial government and to local governments within the province of such a provincial government.*

The Constitution stipulates, in effect, that the national Government and provincial Governments should receive revenue into, and make appropriations from, single general purpose funds. The Constitution lays the basis for consolidated national and provincial revenue and expenditure accounts, thereby contributing to the transparency and the effective accountability to the legislative authorities of the public finances.

According to the Katz Commission, although the notion of "revenues" in section 185 is not defined and the sections of the Constitution dealing with financial matters are open to various possible interpretations, these provisions appear to bar the extra-budgetary assignment of national or provincial Government revenues to special purpose funds.

The Katz Commission also notes that although the constitutional provisions:

> *… do not altogether preclude the earmarking of nationally collected taxes for the (conditional) financing of specific schedule 6 services within the budgetary process, it is clear that such arrangements could only be considered as an integral part of the broader inter-governmental financial framework. (Katz Commission, par.3.5.4).*

The Constitution also provides for the imposition by provincial legislatures of user charges, taxes, levies and duties other than income tax, value added tax or other sales taxes, and surcharges on taxes. These may not discriminate against citizens who are not residents of the provinces concerned.

The Committee finds that the Constitution in no way prohibits the creation of dedicated taxes, earmarked funding or for tax and non-tax forms of revenue for public or quasi-public institutions. Choices about revenue or spending mechanisms fall into the realm of policy determination and their merits have to be evaluated on a case-by-case basis.

14.3 An overview of South African social security financing

This section provides a review of specific issues and concerns brought to the attention of the Committee. These came by way of written and oral submissions, and reports made available.

14.3.1 Determination of the allocation to the social sector functions

The determination of the social sector allocation is said to be based largely on available funds rather than an objective relationship between priorities and available resources. The issue in question is not whether or not financial constraints actually exists, but rather whether the constraint is related to objective criteria that takes into account social impact and relative priorities.

The constitutional obligations imply that a proper budgetary assessment must be carried out which takes into consideration *all* the available resources of the state, not simply those in the relevant department's budget. If resource constraints prevent the state from discharging all of its obligations then it must give priority to the most vulnerable sections of the community. Further, it must demonstrate that every effort has been made to use all of the resources that are its disposition.

14.3.2 Budget prioritisation

The process of prioritising the allocation of the Government's budget is a complex political and institutional exercise. From 1994 a substantial change in the process and the policy direction of Government occurred. These changes included a number of attempts to improve budget prioritisation and planning. Substantial improvements have occurred in areas such as transparency and explicit links between intentions and fiscal resources.

However, residual problems appear to remain. A key concern relates to the fact that three social policy areas of major national significance, social security, health and education, are budgeted for at a provincial level. The link between national policy determination and provincial decision-making is consequently weak. This affects the degree to which provinces adhere to national policy, and the extent to which financial resources are allocated according to national priorities.

The process by which the largest and most important social allocations are determined is both indirect and fragmented. As a consequence, changes in global and inter-provincial allocations are not explicitly determined.

The loss of explicit budgeting control over national priorities appears to result in particular problems in the following areas:

- Poverty alleviation
- Social transfers
- Inter-provincial co-ordination and planning of healthcare services
- The achievement of equity in the physical allocation of health resources.

14.3.3 Mixed financing principles

No clear framework, consistent with generally accepted public finance principles, exists in relation to non-general tax revenue sources of finance. Alternative financing will always exist for goods and services that are quasi public or quasi private in nature. Sources will derive from levies, user charges and earmarked taxes of one form or another. The approach used to price and operate public entities that are fully or partially funded on such a basis needs to be consistent and uniformly applied.

14.3.4 Allocation of the horizontal division

The formula used to divide up the allocation between provinces was cited as a problem. Mismatches can occur between the funds made available through the formula and actual needs resulting from mandates established at the national level. A key example is the social assistance system, whereby national legislation establishes the entitlement but the provincial allocation system does not guarantee that funds will be available.

14.3.5 Medium-term Expenditure Framework

The Medium-term Expenditure Framework (MTEF) is intended to improve budget planning. The MTEF process is clearly in its infancy in terms of achieving more advanced and complex budget planning and prioritisation objectives. To date it has assisted in collating budgets within fiscal envelopes. These were largely devoid of relative prioritisation.

14.3.6 Conditional grants and special projects

Conditional grants are allocations voted for transfer to a lower level of Government subject to certain conditions being met. South Africa has used this fiscal mechanism since the introduction of the fiscal federal system in 1997 for a number of special programmes and spillover problems. The largest system of conditional grants occurs within the health sector, with around R6 billion voted to the national Department of Health for allocation to provinces with supra-regional services and teaching and research activities.

A number of the smaller grants linked to poverty alleviation, HIV/AIDS, hospital rehabilitation, primary school nutrition, all faced difficulties at various stages in fully utilising the available funds. Problems appear to have been related to the following:

- Onerous application requirements are placed on accessing the funds.
- Treasury, in advance of adequate planning in departments, often determines the availability of funds. This results in significant delays in complying with planning and tendering requirements and has an impact on the utilisation and disbursement of the allocations.

14.3.7 Allocation of the vertical division

According to the 2001 Budget Review the national provincial and local spheres of Government provide different services, so that the allocation of resources between the spheres also reflect the prioritisation of different services.

The Budget Review explains that the Constitution establishes three distinct spheres of Government. It identifies the responsibilities of each sphere and requires an inter-Governmental fiscal system that meets these requirements. According to Treasury, local and provincial Governments are responsible for delivering social and municipal services as well as a range of services that contribute to the economic and social well-being of South Africans:

A system of concurrent or joint responsibilities applies between national and provincial governments for functions like school education, health, welfare, housing, agriculture and urban and rural development. This in practice means that national government determines policy and regulates compliance, while provincial governments are responsible for implementation. Exclusive functions for provinces include provincial roads and traffic, ambulance services, planning responsibilities, abattoirs, liquor licences etc.

This leaves national government largely responsible for policy and regulatory functions over school education, health, welfare, housing and agriculture, resulting in small budgets for these departments. Only education has a large budget, but this is for transfers to institutions of higher education.

Treasury currently sees a division of responsibility between national and provincial Government whereby national focuses on policy while provinces deal with delivery. This strict division of responsibility is a policy construct and does not derive from the Constitution. As such the rationality of the relationship between the determination of national policy and its ultimate achievement in provincial allocations needs to be assessed.

14.4 Key issues in social security financing

In the design of a social security system four key issues around financing need to be confronted.

Firstly, there is the issue of *how much society wants to or should spend on social security*. Answers in this regard depend on the values of the society and the nature of its economic system. This also relates to issues of affordability and sustainability. Clearly the question of how much should be spent on a social security system cannot be approached only from a narrow financial or fiscal perspective. Such a perspective does, however, enable us to highlight certain key questions. These relate to the implications of reprioritising in favour of social security spending within the current fiscal framework, the macro-economic implications of a less constrained fiscal stance and the micro-economic implications of larger fiscal transfers based on larger tax revenues.

A second set of issues has to do with choosing between the *variety of different mechanisms for financing social security*. A first choice is between public and private financing, but each route holds a number of alternatives. Public financing, for example, can be from general revenues or through earmarked taxes. A range of options are possible and indeed in operation internationally. The issue is clearly related to questions about the appropriate balance between public and private provision but also relates to the particular role of the state in ensuring availability of social security. Tax expenditures (including tax deductibility of contributions) provide a mixture of public and private financing with Government providing "subsidies" in the event of private procurement of social security cover (such as medical and retirement insurance). Indeed the whole tax framework with regard to social security benefits becomes an important issue.

The possible use of earmarked taxes also raises the third issue of how social security benefits and its financing should fit into the *budgeting process and the inter-governmental system in the context of fiscal federalism*. At what level should the function lie and how is budgeting done given the centralisation of the major revenue sources at the national level.

A prominent issue surrounding state financing of social security benefits, and retirement provision in particular, is the advisability or not of *pre-funding benefits in contrast to a pay-as-you-go system*. While ageing populations and projected actuarial deficits in state retirement schemes have led, in many countries, to arguments for pre-funding as a corrective pre-measure, there are questions about whether pre-funding necessarily provides the appropriate response in South Africa.

14.5 The existing framework for financing social security in South Africa

An important consideration for mandating this investigation into the South African social security system is the fragmented nature of the current system. This fragmentation is mirrored on the financing side.

A recent ILO estimate puts the total social security expenditure in South Africa in the 1998/99 financial year at R147,8 billion. This comprised 22,6 per cent of Gross Domestic Product (GDP). Social security expenditure included in this "social budget" comprises:

- Retirement and disability benefits – a total of R72,7 billion, or just less than 50 per cent of social security expenditure. Nearly 69 per cent of these benefits were from private, mostly occupational benefits financed from employer and employee contributions, either voluntary or in terms of conditions of employment or union agreements. About 8 per cent relate to occupational pensions for civil servants and 17 per cent to means tested old age and disability grants funded from general revenues.
- Unemployment benefits, employment injury benefits and road accident benefits – a total of R5,9 billion or 3 per cent of social security. Work injury is financed through contributions levied on employers (industry-specific and risk-rated) and unemployment insurance through employee and employer contributions – these are essentially earmarked payroll taxes. The Road Accident Fund (RAF) is financed through a dedicated proportion of the fuel levy.
- Healthcare spending – R51,2 billion or 35 per cent of social security expenditure. Forty-five per cent of this expenditure is in the public health sector, financed from general Government revenues. "Private" expenditure is financed through private or employer based medical schemes and some out-of-pocket expenditure.
- Family benefits – R2,3 billion (1,6 per cent of social security expenditure), all means tested and financed from general Government revenue.
- Other benefits, primarily social assistance and housing benefits (R12,7 billion), also funded from general Government revenue.

Of the above social security expenditure R58,4 billion (about 9 per cent of GDP) can be seen as publicly funded, the bulk from general revenues (R52,5 billion) in contrast to dedicated levies or charges. Private and occupational funding then comprises nearly R90 billion.

To the above estimates must be added tax expenditure related to favourable treatment of contributions to retirement annuity funds (estimated at R11 billion per year by the Katz Commission). Employer contributions are made to medical schemes on behalf of employees (estimated to be approximately R7,8 billion). These tax expenditures imply large fiscal subsidies to individuals and are regressive in the sense that higher income earners benefit from them to a larger extent.

A key issue in the South African debate is the relatively large role, particularly in retirement provision, of private funding and the absence of a comprehensive, compulsory first tier retirement insurance mechanism.

The current fragmentation of funding sources also raises the possibility of generating greater efficiency through establishing a more integrated system financed to a greater extent through taxation, either general taxes or earmarked taxes.

14.6 Overall allocations to social security

For a number of reasons it is difficult to judge the appropriateness of current levels of social security expenditure. Not only are international comparisons fraught with difficulties because of institutional differences and gaps in the data but it is also difficult to decide which appropriate countries to use for comparisons.

With regard to social service expenditure as a whole (education, health and welfare) it has often been argued that relative to GDP, South Africa compares relatively well, particularly among developing countries. Social outcomes are, however, not in line with such high levels of expenditure because of spending on inappropriate services, insufficient targeting towards the poor and inefficiency in service delivery. Other factors that must also be taken into account are the apartheid backlogs, the lack of waged work and overall levels of income poverty.

A similar conclusion may be justified with regard to social security. While 23 per cent of GDP towards social security expenditure is towards the lower end among OECD countries it is fairly respectable among developing countries. Because of the dominance of private provision and substantial tax expenditure in South Africa, however, benefits are substantially skewed towards the wealthy and less subject to cost containment. This calls for careful scrutiny of the current system and the identification of options that will be more redistributive, cost-effective and pro-poor.

Given this diagnosis three avenues for reforming social security can be identified:

1. Restructure within the current social security spending envelope;
2. Reprioritise towards social security within the current spending framework; and
3. Allocating more resources towards social security and fund it through increasing tax to GDP ratios or relaxing deficit targets.

In many quarters the distribution of public expenditure is not seen as the key problem with regard to social security reform. It is often argued that self-imposed fiscal constraints (particularly tax to GDP ratios and deficit targets) translate into sub-optimal levels of public spending. Not only, it is argued, will substantially increased spending on social security directly alleviate poverty and improve income distribution (and so satisfy constitutional mandates), it will also have dynamic benefits leading to higher growth and increased socio-economic stability. Widening inequality and poverty is seen as fuelling socio-economic instability and development prospects and must therefore be turned around urgently.

On the other hand, proponents of fiscal constraint maintain that conservative fiscal targets are indicated by:

- International norms in a globalising economy, in order to ensure positive expectations, business confidence and international competitiveness.
- The need to reduce indebtedness in order to avoid a debt trap, to release resources for increased social and economic investment and contribute to declining real interest rates.
- The fact that given public sector capacity, increased levels of expenditure will not necessarily translate into improved levels of service delivery.
- The possibility that increased spending will not enhance growth but more likely translate into macro-economic imbalance and inflationary pressures.

Indeed, fiscal restraint is argued not to be an end in itself but motivated by the desire to enhance economic growth and make more resources available for human and social development. While recent South African growth experience has been disappointing, current 3-year projections indicate an improvement in the fiscal situation with debt reduction and stronger revenue projections creating the fiscal space for possible significant real growth in service expenditures.

Progress in reconciling these different perspectives will depend to some extent on more detailed analysis of the macro- and micro-economic implications of alternative fiscal stances and different tax regimes.

14.6.1 The budget framework and inter-governmental system

The category "welfare services" is a concurrent function of national and provincial Government. Currently national Government is mainly responsible for setting overall policy and monitoring implementation while provincial Governments deliver the actual services (primarily grant payments). Provinces also budget for grant expenditure from their equitable share of national revenue. This equitable share is based on a formula, using weighted demographic structure, reflecting primarily the relative demand for social services between the provinces. The current arrangement has been criticised on a number of points:

- Separation between responsibility for policy and for budgeting leads to inappropriate incentives. On the one hand, policy could be made without sufficient consideration of cost implications while, on the other hand, budget gaming may ensue because welfare expenditure is seen as a national mandate.
- The current formula is seen as not redistributive enough, particularly in the light of substantial backlogs in some provinces.
- The financing mechanism (based on the relative demand for social services and not a set of costed norms) results in unfunded mandates on provincial Governments.
- Given uncertainty about likely take-up of grants and the absence of substantial provincial own revenues, individual provinces cannot absorb the risk associated with different possible scenarios.

In addition to the above, provincial budget processes has been criticised in the past for not establishing sufficient certainty about allocations and for not accepting the legislative force of entitlements to social grants. These institutional and process issues must clearly be addressed in a reformed social security system.

14.6.2 Sources of financing

As indicated above, current social security benefits in South Africa are financed from a range of different sources. Key characteristics are the large proportion coming from private finance and, of public funding, the dominance of funding from general revenues.

The current balance between public and private funding is chiefly due to the large extent of private/occupational provision for retirement and medical cover subsidised via the tax system. This balance would be altered through the introduction of mandatory first-tier retirement insurance and/or the introduction of social health insurance in one or other format.

The bulk of state-provided income support is currently funded from general revenues. General tax-financed benefits (social grants) dwarf the insurance type benefits (unemployment and work accident insurance and RAF) which are funded from earmarked (payroll) taxes and dedicated taxes.

This situation, coupled to the extensive use of earmarked social security taxes in many countries, raises the issue about the appropriate balance between earmarked and general revenue funding in South Africa.

A large number of earmarked taxes, levies and user charges are currently in place in South Africa. Most of these were instituted prior to 1994 and serve a number of functions. Some are used to fund regulatory bodies (e.g. the National Electricity Regulator, Independent Communications Authority of South Africa, etc) and industry ombudspersons. Others fund Government service delivery and programmes. Examples of the latter are the unemployment insurance fund (through an earmarked payroll tax), provision for workplace accidents and the RAF (through an earmarked portion of the fuel levy).

The period post-1994 saw the introduction of some new earmarked taxes as well as levies. The most important example is the skills development strategy which is funded through a levy grant system on all private sector employers, introduced in 1999. There has also been a consistent trend towards setting up public entities at arms length from Government, mainly to regulate a variety of industries. In many cases these regulatory bodies are funded through levies on the industry/consumers. Examples are the Council for Medical Schemes and regulators in the aviation industry. There has also been an increase in the use of user charges, particularly through more extensive use of toll roads and creating an enabling environment for the charging of fees by schools.

In recent years there has been increasing efforts from Government departments and agencies to secure dedicated sources of funding outside the normal Government budgetary allocations from general revenues.

The merits and demerits of allowing dedicated or earmarked funding sources are again being raised in the context of the Committee. Specifically, the funding of healthcare through a social health insurance tax and funding a Basic Income Grant to address poverty through some dedicated tax have been raised. The solvency problems of the UIF also raise the issue of how and when earmarked taxes should be adjusted. An additional aspect of social security reform that has been considered is the gains to be had from consolidation of the current fragmented “social security taxes” and the extension of this financing mechanism to a broader set of social security benefits.

Arguments against such taxes and levies are that they fragment and complicate the tax system and that they allow departments and agencies to escape the discipline of the budget process. In addition it could be argued that dedicated funding sources allow agencies to avoid prioritisation through the budget and political process. This aspect could be addressed with appropriate changes to the institutional framework and an integrated policy framework with clear political and financial oversight. Proponents of earmarked taxes point to greater funding certainty resulting from dedicated funding and a more direct relationship between payments and benefits that may enhance both equity and efficiency.

14.6.3. Net burden of financing an income grant

In evaluating the costs of a Basic Income Grant financed by increasing income taxes or increases in the value added tax, it was argued in the presentations to the Committee that one should take note of the difference between "gross burden" and the "net burden" of the income grant. For example, although the additional costs of a R100 monthly Basic Income Grant to all (given existing grant obligations) could be R46 billion, evidence was given that R22 billion of this could be clawed back through the tax system, this means that the net additional funds needed would amount to a much reduced R24 billion.

Similarly, the Committee was presented with the argument that, if universal income grants should be funded out of increases in the VAT rate, the net additional burden of a R100 grant would be about R13,5 billion.

The Committee took note of these arguments, but since it is not within its brief to consider potential tax increases, the calculations in the rest of the chapter are based on gross additional costs.

14.7 The tax system and social security benefits

Reference has previously been made to the tax treatment of contributions to retirement funding. The tax structure related to retirement provision can be characterised as "exempt-tax-tax", with contributions being tax exempt and investment incomes and benefits being taxed. This system of contribution deductibility provides a positive incentive to make private provision for retirement. Other issues related to taxation of retirement that need to be addressed are the taxation of investment and trading income of retirement funds and the current treatment of lump-sum benefits.

Current deductibility of a maximum of two-thirds of medical aid contributions in the hands of the employer provides an incentive for private provision as well as favouring those with higher incomes disproportionately. The appropriateness of this arrangement need to be reviewed along with issues related to the treatment of savings accounts.

14.8 Review of the current tax dispensation

User charges by Government and Government agencies currently amount to 2 per cent of GDP. Some fees contribute to general Government revenue, some are retained in trading accounts or extra-budgetary entities, and some fees are not reflected in public sector accounts at all. They include departmental sales, registration and inspection fees, hospital fees and charges, motor licence fees, payments for research and other sales of research councils, road tolls, university and technikon tuition and residence fees, public school fees, state water scheme tariffs and sales of various other Government enterprises.

Dedicated levies not reflected in national and provincial budget appropriations currently amount to about 1,5 per cent of GDP or about 6 per cent of total tax revenue. International accounting standards count statutory levies as Government revenue and their spending as public expenditure. The largest of these are social security taxes, i.e. unemployment insurance contributions and workmen's compensation levies (R4 billion), fuel levies for the RAF (R2 billion) and for the subsidisation of Sasol and Mossgas (R0,8 billion), and regional services councils levies on turnover and payroll for financing local infrastructure (R3 billion).

Levies also finance various industrial, research and regulatory bodies, such as the South African Tourism Board, Financial Services Board and South African Bureau of Standards. Television licence fees are assigned to the South African Broadcasting Corporation. Local property taxes and surpluses on municipal water and electricity trading accounts are earmarked for municipal services.

14.9 Review of principles underlying the classification and use of mixed financing options

This section reviews the current evaluation and principles underlying user-fees, earmarked taxes and levies and proposes a way of providing guidance on their use within public policy and the overall system of social security. This is done where appropriate with reference to views expressed by the Katz Commission and the Treasury Department. Extensive use has been made of the views of Herber (1975), Fisher (1996) and Gildenhuys (1993) as part of the review.

14.9.1 General taxation

Broad-based taxes such as the personal income taxes such as personal income tax, value-added tax, and corporate taxes are most appropriate for financing those public goods for which considerable difficulty arises in applying the exclusion principle.

Earmarked taxes, user fees, and administrative revenues are all capable, at least to some extent of utilising or approximating the exclusion principle when used as financing techniques.

According to Herber it should be emphasised that the "presence" or "absence" of strong traits of "publicness," whether deriving from some externality or from some other source, does provide a logical "tie-in" with the institutional sector, public or private, which is likely to be the more efficient in influencing the allocation of a particular economic good. None-the-less, a "case-by-case" approach is still; required.

If "Government" production and/or distribution of a quasi-public good is considered desirable, a variety of financing techniques are available to the unit of Government providing the good. Pure public goods, which are not subject to the exclusion principle, cannot be allocated by the commercial principle.

Quasi-public goods can be allocated according to at least a degree by utilising commercial principles as their benefits are often partially subject to the exclusion principle. Quasi-public goods can also be allocated and financed through general taxation. The choice between general taxation and the application of some commercial principle as financial allocative techniques is relevant for quasi-public goods but irrelevant for pure public goods.

The case for general taxation as a means of financing quasi-public goods rests upon several related points.

- General tax financing is preferred in those instances where the short-run marginal cost of an additional unit of output is very low or zero and the price elasticity of demand of the good is highly elastic. The low or zero marginal cost means that additional units of the good do not withdraw resources in any way from alternative uses. A very inelastic good would imply little purpose in using price as a rationing technique.
- General tax financing would also be preferred in the case of quasi-public goods where important joint consumption characteristics exist that may cause a serious supply shortage of these goods (e.g. tuition costs).
- General tax financing of a quasi-public good would also be preferred in instances where the collection costs of user fees are substantial (administration costs). Severe inconvenience to users from the collection system would also be important (consumption disutility).
- General tax finance may also be preferred where certain distributional objectives are being pursued. For instance, medical services or school lunches may not be available in adequate quantities to certain low-income people if they are available only on a direct pricing basis.

Under certain conditions, mixed financing using both user prices and general tax revenues would constitute the most rational alternative for financing quasi-public goods. Under other circumstances, it may provide negative allocational and distributional non-neutralities. The use of mixed financing may be rational if the good possesses both substantial joint consumption effects, which benefit the society as a whole and which remain outside the exclusion principle, and also private benefits. Tax funds would finance the community or social benefits while user prices would finance the individual or private benefits.

The use of general fund financing to cover the losses associated with Government pricing, e.g. the case of optimum social output under conditions of decreasing production costs, is rational if it is collectively determined by the community that fiscal means of this sort should be used to redistribute real income by increasing the allocation of the quasi-public good in question. The combined use of general fund financing and user pricing to finance public university education meets this rationale since the benefits of education are both social and private in nature and, in addition, improving the education of the poor is an effective means of improving their long-term real income position.

The absence of sufficient joint consumption benefits to justify tax (or debt) subsidisation of any loss, or the absence of a sufficient community-approved redistribution objective, would make the mixed financing technique irrational. This could be true because private users would derive most or all of the benefits from the consumption of the good and few, if any, social benefits would result. Yet, general tax funds collected from society as a whole would subsidise part of the cost of the private consumption. The results would be both a redistribution of income in favour of private consumers of the quasi public good as well as an allocational distortion.

Herber also raises the issue about what he terms the size of the "relevant interacting group. "The term "relevant" here suggests the connotation of "inter-dependent" consumption. Essentially, it asks the question: is the group small enough to reach a market-type agreement without encountering a serious "free-rider" problem?

14.9.2 User charges

User charges should operate as benefit taxes with an individual's charge depending both on benefit (use) and cost of provision. The principal rule for economic efficiency requires that marginal benefit equal marginal cost. For services that primarily benefit the direct consumer then, the price charged should equal marginal cost.

The arguments in favour of user charges are largely the converse of those used to motivate general taxes in the case of quasi-public goods. The argument for use of the commercial principle is found in those quasi-public goods whose *economic effects* are mostly subject to the exclusion principle. The following issues are important considerations:

- The absence of significant positive externalities may suggest that user pricing may be preferable. Significant negative externalities may, however, require high user prices to discourage consumption – to the extent that the exclusion principle can be applied to the good.
- Where the cost of collecting user fees is lower than general tax administration for the same revenue yield, user fees are preferred. (This was the case with primary care clinics in South Africa until 1996.)
- Distributional goals may be better met through user fees than tax financing. This is particularly important for goods such as electricity or water where an approximation of the benefit principle is important.

The pricing of user-charges face a number of alternatives depending upon the nature of the good and the goals to be pursued. These will include:

- Profit maximising pricing
- Average cost pricing
- Marginal cost pricing.

Negative and distributional non-neutralities tend to be reduced as output is expanded toward marginal cost equals average revenue equality (the social welfare optimal allocation point). However, "isolated" examples of marginal cost pricing in a society where imperfect markets prevail do not necessarily constitute an optimal allocation solution, though in many cases they would constitute an improvement in allocation.

The strongest case for *marginal cost pricing* would likely centre around an important economic good possessing significant joint consumption characteristics over a *large group* and/ or the presence of decreasing production costs at the relevant output scales. An administration problem of effectively applying the exclusion principle may nevertheless still occur. The implicit danger remains that pursuit of the marginal cost pricing rule for public-type goods, at a time when it is not being followed generally within the economy as a whole, will irrationally expand the supply of public versus private goods. Nevertheless, the use of the marginal cost pricing technique in the allocation of quasi-public goods may be considered, at times, as an acceptable "second-best" solution in a world inextricably associated with imperfect market structures, joint consumption, and externalities.

Use by Government of the *profit maximising price,* as determined by the intersection of marginal cost and marginal revenue, would best serve only the revenue goal unless society needs to reduce consumption of an undesirable good.

Average cost pricing is the preferred alternative to profit maximising pricing for governmental pricing of quasi-public goods as it helps to reduce negative allocational and distributional distortions.

Marginal cost pricing appears to be the most desirable apart from the problems already mentioned.

Gildenhuys draws attention to a common classification error in which user charges, levies and consumer tariffs are confused. In most of the literature a common term is used to describe all three, namely user charges. There are in fact fundamental differences.

User charges and consumer tariffs, however, have certain common characteristics, namely:

- The absence of compulsion – their payment is voluntary because the user or the consumer has a choice of buying the services.
- They are both based on the benefit-received principle, which means that the user charge or consumer tariff which has to be paid is based on the direct benefit of the service to the user or consumer; in other words there is a direct quid pro quo which means that the user or consumer receives actual value in services to the amount paid.
- The user charge or consumer tariff is established according to the costs for delivering the service. Consumer tariffs, therefore, are comparable to prices of goods traded in the private sector, while user charges are levied to recover additional operational (direct) costs incurred on behalf of a specific user of a service.

Gildenhuys proposes that consumer tariffs should be used in the case of quasi-collective services to pay for the extra operational costs incurred of quasi collective services. In this way there can be an efficient and effective allocation of the costs of public services. This also relieves the pressure on tax revenue because if consumer tariffs and user charges are not imposed, the cost of all particular and quasi-collective services has to be met from taxation.

User charges do not cover the full costs of quasi-collective services. If users were expected to pay the full cost of collective services they would in all probability be beyond the means of the larger part of the population.

User charges have the advantage of raising additional revenue. However, they also serve the important function of limiting the misuse of quasi-collective services and improved equity resulting from direct pricing (i.e. non-users do not subsidise users, e.g. toll roads, foreign users). Furthermore, user charges can register and record public demand for services. User charges can also serve to correct price signals in the market. This is particularly important in conserving a resource which otherwise would appear free.

Fisher points out several general principles of efficient user charges:

- User charge financing becomes more attractive as the share of marginal benefits that accrues to direct users increases.
- User-charge financing requires that direct users can be easily identified and excluded (at reasonable cost) from consuming the service unless the charge is paid, assuming that most of the benefits of a service or facility go to direct users.
- The efficiency case for user-charge financing is stronger when demand is more price elastic. In the special case of a perfectly inelastic (vertical) demand, price does not matter. No inefficiency would result if consumers underestimate cost. Obviously, the more price elastic demand is, the greater the potential for inefficiency if consumers do not face true costs.
- Marginal benefits, not total benefits, matter for the determination of user charges.
- The costs for construction of a public facility should be paid by those groups in society who will benefit directly from the existence of the facility, which may be different from those who benefit from using the facility directly. Two reasons are given for this:
- The existence of a facility provides individuals the option of use in the future, should their demands change.
- Individuals who are not direct users also might benefit if the facility generates spillovers in the form of additional economic activity.

If all residents as well as users should pay all or part of the long-run production costs of public facilities, these charges should be independent of the amount of actual use of the facility. Some charges could be applied to everyone to cover that part of the capital cost that benefits all, and different charges could be applied to everyone to cover their share of the capital costs.

In practice, however, standard recommendations on the pricing policy guidelines prove quite difficult to implement. For instance, in the United Kingdom (UK) the following guidelines were provided in various White Papers the instructions to public corporations were:

- To balance their accounts, taking one year with another over a period of five years, after providing for interest and depreciation at historic cost (1961 White Paper).
- To adopt pricing policies so that "revenues should normally cover their accounting costs in full" and take into account both short-run and long-run marginal costs, i.e. costs of producing an additional unit of output (1967 White Paper).
- To take the opportunity cost of capital into account in pricing their output (1978 White Paper).

The pricing policies of nationalised industries had been based on the following general principles:

- Consumers should pay the true cost of the provision of goods where it can be identified.
- Cross-subsidisation between profitable and unprofitable services within the industry might be permitted in some circumstances. For example, British Rail could use a surplus earned by commuter services to subsidise loss-making rural services.
- Below cost prices could be charged when there was a surplus capacity and a reduction in price would stimulate demand.
- Differential prices might be charged when demand fluctuated and was heavier at certain times, so that prices were higher at peak times and lower at the off-peak time.
- Multi-tariffs could be introduced, listing charges that were related to the volume of goods transported or purchased and customers could be offered reduced charges.

British corporations had found implementation of marginal cost pricing policies difficult. British Rail could not price some of its services on the basis of marginal costs. The Post Office estimated that marginal cost pricing would have added to its costs as it would have required the establishment and operation of computer models, and results would not have been substantially different from those of a pricing policy based on average costs.

14.9.3 Consumer tariffs

The primary and only objective of consumer tariffs is that they should yield enough income to pay the full costs of supplying such services to individual consumers. For this reason it is necessary to keep full operational accounts for each particular service. The purpose is for each consumer to pay the full cost of each unit of a particular service consumed. The full cost includes the fixed production cost as well as the variable operational cost for supplying each service unit.

As is the case with the prices of private consumer goods, consumer tariffs, therefore, fulfil the same function as prices of private consumer goods by allocating consumer spending to different factors of production. Consumer tariffs have no consumer regulation function, nor a redistribution of wealth function.

Governments are supposed to deliver particular public services at cost with no deliberate profit element built into the consumer tariff structure – the tariff is supposed to cover only the per unit of the services supplied. Casual surpluses or deficits on the operational accounts of particular services should be carried forward to the next financial year so that the surplus or deficit of the previous year can be taken into account when establishing the new tariff for the ensuing year.

Surpluses and deficits are inevitable as it is impossible to make absolutely correct budget forecasts. The proper way of dealing with casual surpluses and deficits is to establish a tariff stabilisation fund for each particular service and to credit or debit any casual surpluses or deficits against such a fund.

Where local Governments are allowed to compile their tariffs in such a way as to deliberately induce a surplus, this becomes an indirect tax on particular services with a redistribution of wealth effect which is unacceptable as the benefit-received principle is violated. There is no moral justification for consumers of particular services to be taxed in order to subsidise the users of collective services. It is unfair because not all users are tax payers. These arguments apply in all instances, also at the central government level where consumer tariffs for particular services are pooled with all other revenue in the State Revenue Fund.

To comply with the objective of a consumer tariff, an operational account should be established for each particular service, while the structure of the consumer tariff should be of such a nature that it covers the expenditure of such service without surpluses or deficits.

If certain consumers need to be subsidised for some acceptable reason, they should be openly and directly subsidised from the tax revenue. Governments should not hide their social policies behind indirect and invisible subsidies from consumer tariffs.

14.9.4 Nominal levies and sundry revenue

There are some sources of revenue, such as nominal levies and sundry charges, that are similar to user charges and sometimes based on the benefit-received principle. Nominal levies sometimes do not recover the full cost of the service rendered but, just as in the case of user charges, imposing nominal levies is an effort to relieve the burden on the ordinary taxpayer by trying to recover part of the cost from the beneficiaries of a special service.

Nominal levies partially compensate Governments for the costs of special services rendered on request to identifiable individuals, or for special paperwork, such as extracts from official records and the issue of various certificates and documents. The services related to nominal levies are not continuous services offered for sale on a regular basis but are delivered sporadically at the request of an individual or business enterprise.

Nominal levies are seldom charged for public goods or services in the normal sense of their meaning and cannot therefore be regarded consumer tariffs or user charges.

Sometimes a nominal levy is paid for a privilege or right granted by Government to an individual or business enterprise. The enjoyment of such a right may cause expenses for the Government and the purpose of a nominal levy is then to recover all or some of these expenses. Various form of licence fee fall into this category.

The fees for trading licences with a regulation function should be no more than a nominal amount to cover only the application and registration costs, because the regulation of businesses is a collective service for the protection of the public, which should be financed from taxation.

Fines, forfeitures and traffic fines are casual sources of revenue which should not be deliberately budgeted for in order to balance the operational account of some service.

Administrative revenues are collected by a unit of Government from individuals as part of the performance of general governmental functions. These governmental functions are primarily regulatory in nature. It must also provide a certain basic framework within which private economic activity will take place. In the performance of these and other general functions, Government frequently charges a fee, levies a fine, escheat, or otherwise collects revenue from individuals. The correlation between the payment of administrative revenue by the individual is usually broad and imprecise. Only in a general sense, therefore, may it be said that a quid pro quo relationship exists in the case of administrative revenues.

14.9.5 Earmarked taxes

There is some disagreement concerning the economic efficiency results of earmarked taxes. Some suggest that earmarking tends to reduce the willingness of taxpayers to approve expenditures on specific public services. Others argue that earmarking is important as a device to generate taxpayer support for the expansion of certain governmental services.

Earmarking may increase allocational efficiency by insuring more rational individual choice since, with earmarking, the individual can appraise more closely the relevant costs and benefits of a particular project. The individual is thus able to adjust the amount consumed of each public good in order to attain his or her most preferred consumption position. This is not true in general fund financing which is similar to a "joint-product sale" in the sense that to get one commodity the consumer must also purchase another. The individual consumer of quasi-public goods, in the latter case, is subject to an allocational distortion since his or her independence of choice is reduced.

General fund financing will tend to attract a greater supply of publicly-supplied economic goods with elastic demands than will earmarked financing. Thus, when "general fund financing" is used, society receives a greater proportion of those economic goods with highly elastic demands since they are tied in with the acquisition of other goods, and it receives a smaller proportion of those goods which possess less elastic demands.

It is sometimes argued that the social security programmes should be financed from "general" instead of "earmarked" taxes since negative allocational non-neutrality can result from an excise tax on the wage alone, but not on capital. It is claimed, for example, that payroll taxes, by increasing the cost of hiring new employees, encourage the substitution of capital for labour since capital is not subject to the payroll tax. Therefore, it is argued that labour will be forced into "non-covered" employment while capital is drawn to employment "covered" under social security. It is thus concluded that important non-neutrality takes place.

Consideration can be given to the general tax financing of social security benefits from the progressive personal income tax. This would make the financing of social security more equitable in ability-to-pay terms. This would be a move away from any initial "private insurance" intent for the social security programme and would recognise, instead, that its benefits primarily represent a "redistributional" programme toward lower-income groups rather than a precise quid pro quo exchange of costs and benefits. (The schedule of benefits may be designed to favour workers whose lifetime earnings are below average. However, part of this redistribution could also reflect a transfer from the "youthful poor" to the "elderly poor".) Such considerations may be quite pertinent to state run health and unemployment insurance programmes.

The overall focus of the Treasury Department on user charges, levies and earmarked taxes is limited to offering definitions and general positions on desirability.

The review of the public finance literature looks at the issue from a different direction. It looks primarily at the relative "publicness" or "privateness" of a good as a basis for assessing options with respect to finance and provision. The particular character of the good or service will also determine what financing technique is feasible or available to policy-makers. A user fee or earmarked tax option may be desirable, but excluded as a policy option due to technical reasons (collection costs, inability to apply exclusion principle, etc).

The differentiation between user charges and levies is unclear in the Treasury documentation. For instance it recommends that "a policy preference [should favour] user charges above levies on economic efficiency and equity grounds" (Department of Finance, 1998). As levies are used in very different circumstances to user charges a general preference is inappropriate as the options are not substitutes. A similar inconsistency arises with comments such as: "Levies are a last resort and should only be considered where costs are borne by the targeted group benefiting from the service to be financed."

The idea of a "quasi-user charge", to be used where a "user charge" proves unattainable, is described by the Treasury as "essentially a levy". Television licence fees are used as an example. This is confusing and probably should be considered as a levy without any reference to a user charge. Levies are determined by statute and benefits are not directly linked to use. The use of a term such as "quasi user charge" in this context does not serve to improve clarity.

The Treasury does not make the distinction drawn by Gildenhuys between "user charges" and "consumer tariffs". Consumer tariffs would be used in the case of "quasi-collective-services" to pay for the extra operational costs incurred of supplying services to individuals. User charges, by contrast, do not cover the full costs of such services. This would occur in services where full-cost collective services would exceed the affordability of the larger part of the population. An example would be primary healthcare services.

"Consumer tariffs" would therefore seek to recover the full cost of each unit of a particular service consumed. An example in South Africa would be the billing of private medical schemes by public hospitals. The full cost would include full production and variable costs. A separate operational account is appropriate in such circumstances.

In the conclusions offered by the Treasury Department the proposal is made that in considering levy proposals, "the agency so funded is accountable to the constituency who bears the charge". This proposal is too broad and consequently difficult to apply.

- No distinction is made between a user charge, a consumer tariff, or an administrative levy of one form or another. Clearly the circumstances in each of these instances would vary so substantially that the term "accountability" is confusing.

- If it is assumed that this is a reference to an administrative levy and not a user charge, then it is difficult to understand what is meant by constituency and how this might practically be applied to a specific instance. Particularly if the levy has a regulatory function. The levy may be imposed in the broader interests of the country and be opposed by a particular constituency. Distinguishing between broader and narrower interests lies in the domain of Government policy.
- Thirdly, accountability to narrower interests, if it assumed they can be disentangled in some democratic manner, could have perverse consequences, e.g. in the case of regulatory authorities or bodies where regulatory capture is facilitated.

There are therefore numerous instances where a levy must be applied and administered in a manner that is accountable to Government in a transparent manner, but for which clear separation from the paying public is required. A case-by-case assessment is required. For instance, a distinction should be made between a licence fee paid to a commercial television station and levies used to finance a regulatory authority.

The Katz Commission suggestion that the distinction between user charges and general taxes on the basis of the benefit received principle can be blurred as "many taxes can be based on benefits received" is not correct. The distinction is typically made between benefits that are received in exchange for payment, e.g. an electricity and water charge, and those that are received collectively, e.g. through a defence force. The distinction is not based on the existence of a benefit, but rather on how directly the benefit is linked to the person paying.

The Katz Commission refers to instances where an "impost was merely used as a revenue generation device" and as such the "charge is more akin to a tax". It should be pointed out that crude examples of this, such as "traffic tickets," will have to be distinguished from a policy which has as its objective to make a particular class of person pay directly for services which they previously received free. This would have redistributional consequences but would not necessarily be regarded as a tax. In all instances Government authorities should clearly and transparently implement policy, making clear what its distributional and administrative objectives are. Poor policy making should be seen as a separate issue from the *a priori* appropriateness of a particular form of provision or finance.

Consideration needs to be given to the principles required to determine the initial grounds for the application or non-application of a particular form of finance or provision. Where grounds exist, certain pre-requisites should then be satisfied before implementation.

Social security systems typically make use of variety of funding sources and provider systems. These range from general tax-funding to regulated private markets, with many options in-between. South Africa has a fairly under-developed social security framework, and makes use of either direct state provision or partially regulated private markets. There is a need therefore to broaden the range of social security instruments, and to modernise existing approaches.

14.10 Generic financial framework for social security

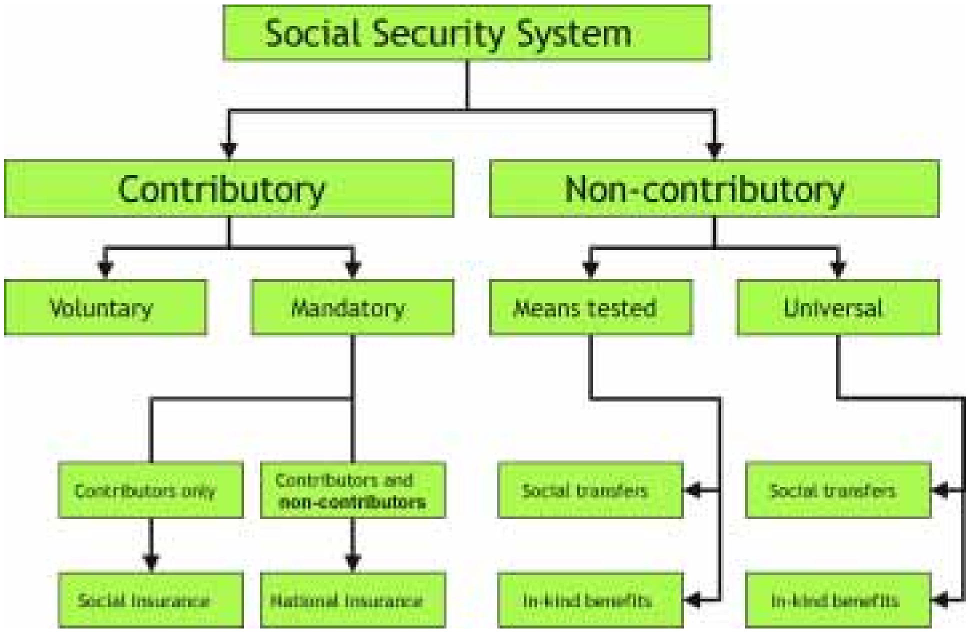
Social security systems usually have the following features as reflected in their financial framework (see figure 19):

- *Non-contributory*: This reflects benefits provided directly by the state, either as social transfers or benefits in kind. These benefits can be either means-tested or universal.
- *Contributory*: These benefits are funded through some form of contribution. These can be voluntary, as in the case of medical schemes and private retirement, or mandatory where social insurance schemes (UIF, COIDA) are involved. Mandatory contributions can either provide universal cover (National Health Insurance) or be limited to contributors only (Social Health Insurance). Voluntary contributions can either occur in relatively unregulated environment (private short-term insurance) or in regulated environments (medical schemes in South Africa).

14.10.1 Principles underpinning social security financial management

A clear need has emerged to specify the underlying public finance principles that underpin South Africa's social security system, both from a technical

Figure 19
Generic financial framework of a social security system.



and a social point of view. The former refers to technically efficient approaches to managing funds appropriated and spent differently from the conventional Government budget. The latter refers to redistributional and social solidarity goals. The overall objective is to harmonise technical efficiency with social solidarity requirements, so that the needs of the one do not undermine the other.

The principles underlying mixed financing options should arise logically from the character of the good or service and the key related policy objectives. Where variations from the general budget approach occur, operational requirements should be fairly easy to determine.

14.10.2 Recommendations

Mixed financing options, which include user charges, consumer tariffs, levies, and earmarked taxes, are of relevance only in cases of quasi-public or quasi-private goods and services. Once a good clearly fits into this range, efficiency gains are very likely through a move toward a mixed system.

As the grounds for mixed financing options relate primarily to the specific circumstances and nature of the good or service in question, no predisposition for or against such options can exist. For this reason, options should be assessed on a case-by-case basis. The level of funding always remains a policy decision based on Government priorities.

Once the nature of the good or service establishes that significant efficiency gains are achievable through mixed financing approaches, then a consistent operational environment should be established noting the following:

14.10.2.1 Use of alternative revenue sources

In all instances where user charges, consumer tariffs, or levies are charged, the relevant institution or authority should maintain separate operational accounts.

14.10.2.2 Financial accountability

Financial accountability should be delegated to the lowest appropriate level where separate operational budgets exist.

14.10.2.3 Earmarked taxes

Earmarked taxes should not be considered as an alternative to the general budget but rather be used only in specific instances where the quasi-public nature of the good or service requires a direct relationship to be established between the contributor and the good or service to be provided. Insurance of one form or another and retirement contributions, where compelled by the state, would fall into this category.

Where earmarked taxes are considered, separate operational budgets are recommended to ensure consistency between the funds raised and the entitlements to be funded.

14.10.2.4 Redistributional goals

As far as possible, specific redistributional goals should be achieved through general tax and budget allocations. It would not be inconsistent, however, for certain redistributional goals to be achieved amongst those paying a dedicated tax.

14.10.2.5 Trading accounts

Where trading accounts are in place, appropriate mechanisms must be established to manage surpluses or deficits through either:

- A stabilisation account used to equalise balances on a multi-year basis
- An approach for topping up and repaying (i.e. lending) money from the general budget, where a surplus or deficit occurs
- The establishment of consistent criteria as to how redistributional elements interact with the general budget.

14.10.2.6 Governance structures

An appropriate governance structure must be put in place if funds are managed outside of the usual public sector framework.

14.11 Social budget

Important to the revision of the social security system, is the development of a broader understanding of the inter-relatedness of all areas of social security, whether public, social insurance or private. The financial system is essentially a reflection of the institutional framework of social security. For this reason social budgets, which measure all of social security expenditure, and not merely the on-budget items, have become important measures to evaluate the performance of such spending within a nation.

An evaluation of the South African system of social security shows (estimates for 2001) that overall 30,1 per cent of GDP is spent on both contributory and non-contributory benefits (including education) in both the public and private sectors. Around 12,6 per cent (R112,8 billion) occurs within the non-contributory public sector environment, while 17,6 per cent (157,8 billion) occurs in the contributory environment (figure 20 and table 12). Most social security expenditure or contributions occur within the largely unregulated private contributory environment (by this is meant that social solidarity principles are not protected).

14.11.1 Fiscal capacity and the prioritisation of social security expenditure

According to the 2001 Budget Review the total budget for 2001/02 is R258,3 billion up from R255 billion in 2000/01. Overall this allocation implies a reduction in Government expenditure from 28,8 per cent of GDP in 2000/01 to 27,4 per cent of GDP by 2003/04. Despite the reduced percentage of GDP, these allocations involve slight real increases over the period of the MTEF.

The 2001/02 financial year provides for the introduction of a contingency reserve of R2

Figure 20
Social security expenditure in South Africa (estimates for 2001).

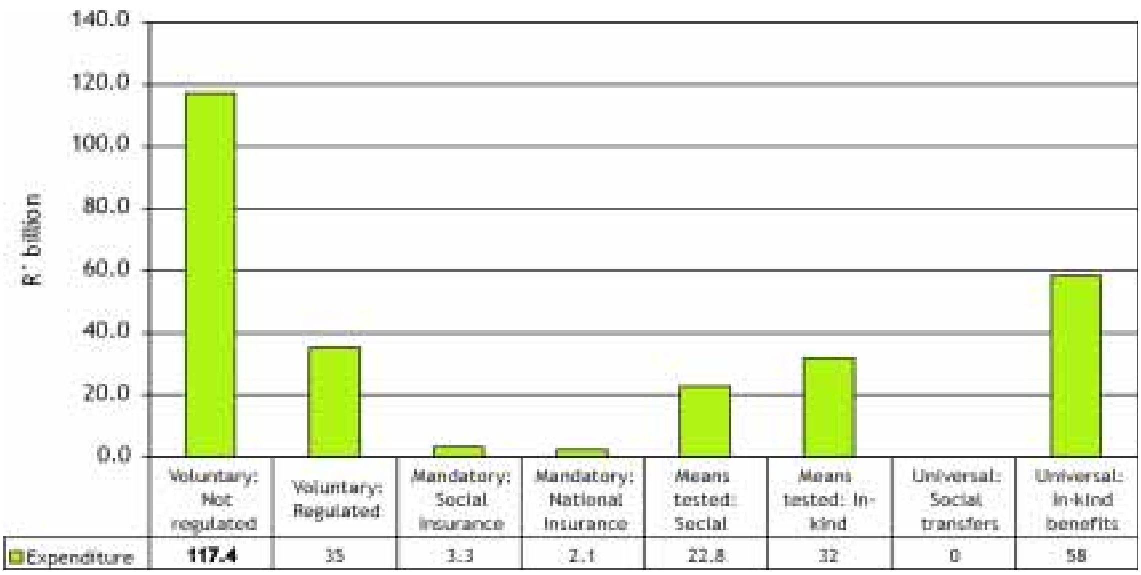


Table 12
Financial estimate of the total expenditure within the South African social security system

		Total	Contributory				Non-contributory			
	R' billion	270,6	157,8				112,8			
	% of GDP	30,1%	17,6%				12,6%			
Contingency		Voluntary	Mandatory		Means tested		Universal			
	R' billion	270,6	152,4		5,5		54,8		58,0	
	% of GDP	30,1%	17,0%		0,6%		6,1%		6,5%	
			Not regulated	Regulated	Social Insurance	National Insurance	Social transfers	In-kind benefits	Social transfers	In-kind benefits
Total	*R' billion*	270,6	117,4	35,0	3,3	2,1	22,8	32,0	0,0	58,0
	% of GDP	30,1%	13,1%	3,9%	0,4%	0,2%	2,5%	3,6%	0,0%	6,5%
Education	*R' billion*	52,8								52,8
	% of GDP	5,9%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	5,9%
Health	*R' billion*	68,5	0,7	35,0	0,3	0,5		32,0		
	% of GDP	7,6%	0,1%	3,9%	0,0%	0,1%	0,0%	3,6%	0,0%	0,0%
Housing	*R' billion*	5,2								5,2
	% of GDP	0,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,6%
Retirement	*R' billion*	62,5	50,2				12,3			
	% of GDP	7,0%	5,6%	0,0%	0,0%	0,0%	1,4%	0,0%	0,0%	0,0%
Disability	*R' billion*	14,1	8,7		0,3	0,8	4,2			
	% of GDP	1,6%	1,0%	0,0%	0,0%	0,1%	0,5%	0,0%	0,0%	0,0%
Children	*R' billion*	6,4					6,4			
	% of GDP	0,7%	0,0%	0,0%	0,0%	0,0%	0,7%	0,0%	0,0%	0,0%
Adult poverty	*R' billion*	0,0								
	% of GDP	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Unem -ployed,	*R' billion*	32,4	29,8		2,6					
	% of GDP	3,6%	3,3%	0,0%	0,3%	0,0%	0,0%	0,0%	0,0%	0,0%
Survivors	*R' billion*	28,8	27,9		0,1	0,8				
	% of GDP	3,2%	3,1%	0,0%	0,0%	0,1%	0,0%	0,0%	0,0%	0,0%

billion in 2001/02 but increases substantially to R8 billion by 2003/04. This contingency reserve is an unallocated amount.

Although interest payments appear to be rising, in real terms they are decreasing significantly over the period of the MTEF. In theory this should improve the capacity for improved Government services.

Social services receive a declining share of overall GDP over the MTEF period, from 13,3 per cent of GDP in 2000/01 to 12,7 per cent in 2003/04. Of all the most significant sectors, this decline is the largest reprioritisation (table 13).

Over the period interest payments decline significantly as a percentage of GDP, from 5,3 per cent of GDP in 2000/01 to 4,5 per cent in 2003/04 (figure 21). If Government expenditure were to remain a constant proportion of GDP, this in itself would have provided an additional 0,9 per cent of GDP for Government services.

Overall consolidated expenditure has also declined as a proportion of GDP, reflecting the position that increased economic growth should not be translated into additional public goods and services.

When the national allocation is added to the contingency reserve, and expressed as a percentage of the overall consolidated expenditure, the national allocation rises from 31,7 per cent in 2000/01 to 34,8 per cent in 2003/04. This substantially outstrips the changes in the provincial allocation which reduces from 46,3 per cent of the total consolidated expenditure in 2000/01 to 45,4 per cent in 2003/04.

Of interest is the decision to leave a substantial portion of the gains from the reduced interest payments unallocated. According to the medium-term budget, all reductions in debt service costs are effectively added to the Contingency Reserve. (The space calculated here is an estimate, and could in fact be larger or smaller depending on what in fact transpires.)

Table 13
Consolidated provincial and national expenditure from 2000/01 to 2003/04 (nominal prices) R' million

	1997/98	2000/01	2001/02	2002/03	2003/04
R' million	Estimated outcome	Revised estimate	Medium-term estimates		
Protection services	31 214	40 975	45 778	49 221	52 031
Social services	99 230	116 577	126 242	135 444	144 156
Economic services	18 123	19 589	22 645	24 409	25,574
General Government services and unallocated expenditure	17 020	22 276	25 046	26 795	28 760
Interest	38 820	46 186	48 138	49 651	51 022
Subtotal: Votes and statutory amounts	204 407	245 603	267 849	285 520	301 543
Contingency reserves	0	0	2 523	4 378	8 766
Consolidated expenditure	204 407	245 603	270 372	289 898	310 309

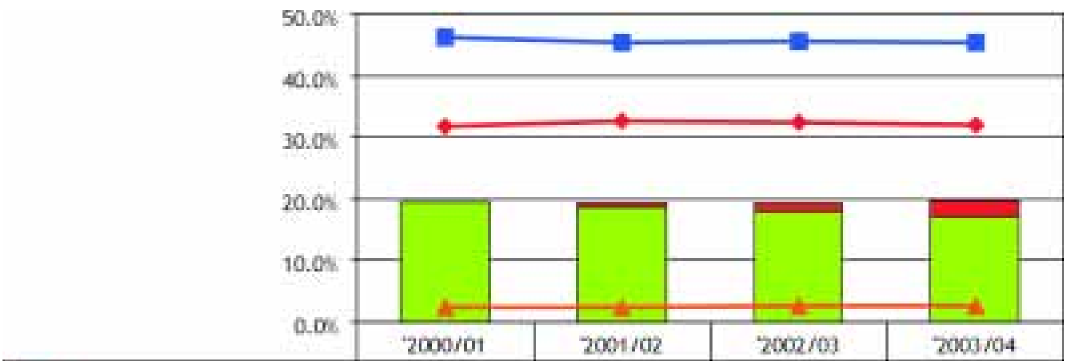
Overall there is evidence of sufficient fiscal capacity for improved social sector spending without adverse macro-economic impacts.

The following potential sources of improved fiscal capacity (expressed in nominal terms) are noted by the Committee:

- ***Economic growth***: If consolidated expenditure was to remain at 28 per cent of GDP for the MTEF, an additional R3,7 billion would be available in the 2002/03 financial year, and R6,1 billion in the 2003/04 financial year.
- ***Reduced debt servicing***: Effectively this is the allocation provided within the Contingency Fund. In 2002/03 this amounts to R4,4 billion, while in 2003/04 it rises to R8,8 billion.
- ***Expenditure increased as a percentage of GDP***: If Government were to increase targeted expenditure to 29 per cent of GDP a further R9 billion would be available in 2002/03 and R9,7 billion in 2003/04.

Thus, in 2002/03 the combined additional funds would amount to R8,1 billion and in 2003/04

Figure 21
Consolidated provincial and national expenditure from 2001/02 to 2004/05.



	2000/01	2001/02	2002/03	2003/04
Contingency reserve	0.0%	0.8%	1.4%	2.7%
Debt service costs	19.6%	18.6%	17.9%	17.1%
Local government allocation	2.4%	2.5%	2.6%	2.6%
Provincial allocation	46.3%	45.4%	45.6%	45.4%
National allocation	31.7%	32.6%	32.4%	32.1%

R14,9 billion without any increase in expenditure as a percentage of GDP. This increases to R17,1 billion in 2002/03 and R24,5 billion in 2003/04 if expenditure is allowed to increase to 29 per cent of GDP (figure 22).

14.12 Reform proposals and their financial implications

This section provides an estimate of the financial implications of major policy recommendations of the Committee. The evaluation is provided for the period 2001-2015. The assessment is provided both in 2001 prices and expressed as a percentage of GDP. A summary of the policy areas evaluated

14.12.1 Assumptions

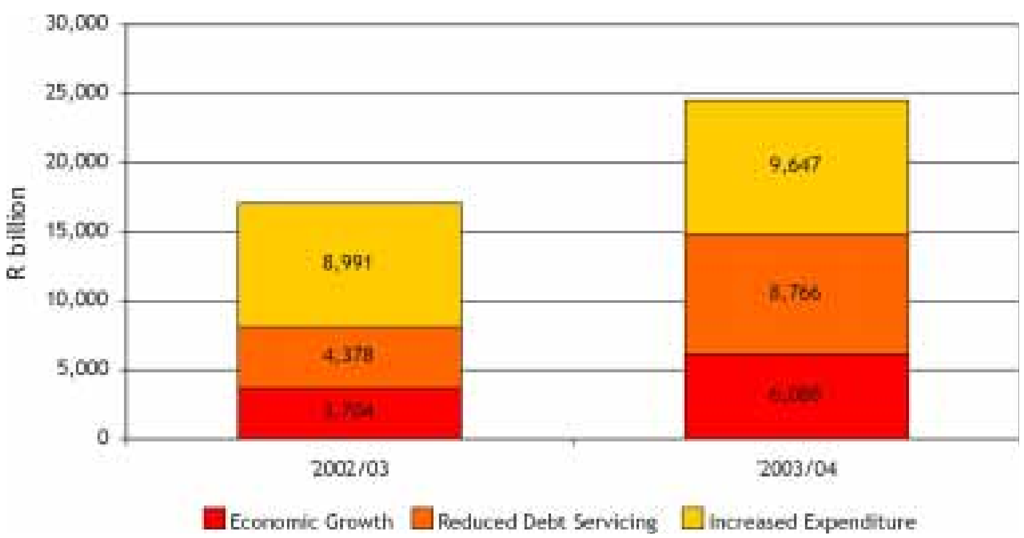
The following assumptions underpin the financial evaluation presented below:

- The policy evaluation occurs over a period 2001 to 2015
- GDP growth is assumed to be 2 per cent per annum from 2001 to 2005 and thereafter until 2015 to be 3 per cent
- GDP in 2001 is taken as R897,9 billion
- Government expenditure in 2001 is taken as R245,6 billion
- Costs are assumed to be in constant 2001 prices.

Due to the complexity and inter-relatedness of the policies under review a central scenario has been chosen for illustrative purposes, based both on recommendations of the Committee as well as scenarios assessed.

- ***Education***: Here it is assumed that Government expenditure on education will remain a constant percentage of GDP consistent with the current ratio.
- ***Health***: The policy framework provided for in the section above on Generic Financial Framework for Social Security is modelled here, reflecting the introduction of low-cost medical schemes, the conversion of the current tax rebate to an explicit subsidy for medical scheme members, the gradual mandating of cover, and the ultimate shift away from general tax funding to a universal contributory system.
- ***Housing***: Here it is assumed that Government expenditure will remain a constant percentage of GDP consistent with the current ratio.
- ***Retirement***: The policy framework outlined in the section above on Reform Proposals and their Financial Implications is modelled here, reflecting the shift of funding from unregulated to regulated and mandatory cover. The removal by 2005 of the means test on the state old age pension is also assumed (funded from the removal of the inequitable tax rebate for people over 65).

Figure 22
Fiscal capacity over and above the existing MTEF with no negative macro-economic implications.



- ***Disability***: Here it is assumed that all current areas covering disability will remain a constant proportion of GDP.
- ***Children***: The extension of the CSG in accordance with the medium- to long-term income support scenarios examined earlier is assumed here. It is assumed that a gradual extension of the CSG will occur including older age categories. Coverage for children up to 18 years is assumed to be implemented by 2005 (with a delayed take-up).
- ***Adult poverty***: Scenarios consistent with the medium- to long-term income support scenarios are provided with a "solidarity grant" introduced in 2006 (with a delayed take-up).
- ***Unemployment***: Here it is assumed that Government expenditure on unemployment will remain a constant percentage of GDP consistent with the current ratio.
- ***Survivors***: Here it is assumed that Government expenditure will remain a constant percentage of GDP consistent with the current ratio.

14.12.2 Results

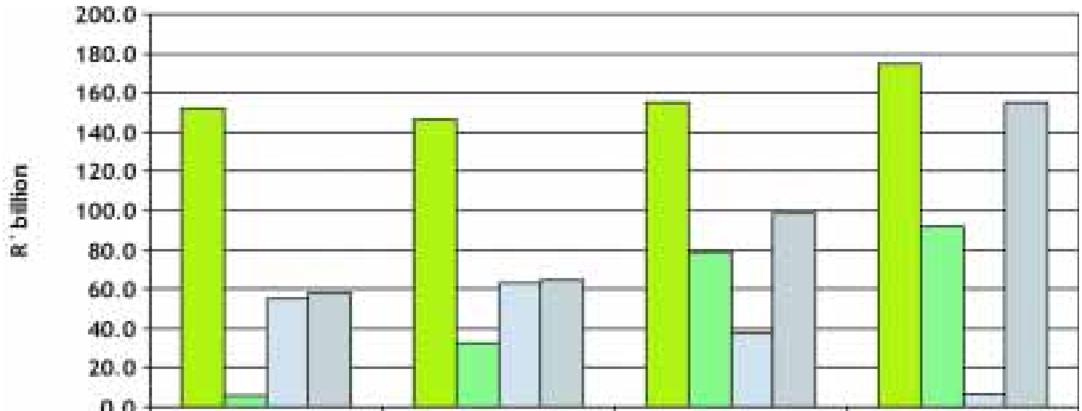
The reforms show that overall expenditure on social security (both public and private) increases in real terms from R270,6 billion (30.1 percent of GDP) in 2001 to R427,8 billion (32,4 per cent of GDP) in 2015, largely in accordance with growth in the economy (figures 23 and 24, and table 13). Overall there is an additional 2,3 per cent of GDP spent on social security, primarily as a result of expected increases in the cost of private voluntary cover for social security benefits.

The most significant change over the period involves the increase in mandatory forms of contributory social security cover and universal benefits offered directly by the government. The former primarily involve healthcare and

Table 14
Social security expenditure in 2015 if all the maximum scenarios evaluated by the Committee are implemented

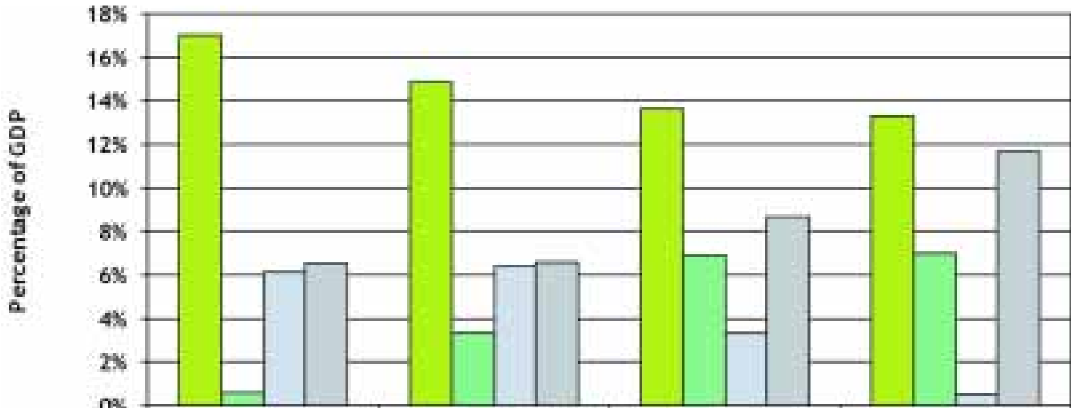
		Total	Contributory				Non-contributory			
	R' billion	427,8	266,7				161,0			
	% of GDP	32,4%	20,2%				12,2%			
Contingency			Voluntary		Mandatory		Means tested		Universal	
	R' billion	427,8	175,0		91,8		6,2		154,8	
	% of GDP	32,4%	13,3%		7,0%		0,5%		11,7%	
			Not regulated	Regulated	Social Insurance	National Insurance	Social transfers	In-kind benefits	Social transfers	In-kind benefits
Total	*R' billion*	427,8	145,0	30,0	31,1	60,6	6,2	0,0	69,7	85,1
	% of GDP	32,4%	11,0%	2,3%	2,4%	4,6%	0,5%	0,0%	5,3%	6,5%
Education	*R' billion*	77,5								77,5
	% of GDP	5,9%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	5,9%
Health	*R' billion*	88,6	0,0	30,0	0,3	58,2				
	% of GDP	6,7%	0,0%	2,3%	0,0%	4,4%	0,0%	0,0%	0,0%	0,0%
Housing	*R' billion*	7,6								7,6
	% of GDP	0,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,6%
Retirement	*R' billion*	96,1	47,4		26,4				22,3	
	% of GDP	7,3%	3,6%	0,0%	2,0%	0,0%	1,4%	0,0%	1,7%	0,0%
Disability	*R' billion*	20,7	12,8		0,5	1,2	6,2			
	% of GDP	1,6%	1,0%	0,0%	0,0%	0,1%	0,5%	0,0%	0,0%	0,0%
Children	*R' billion*	26,2							26,2	
	% of GDP	2,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	2,0%	0,0%
Adult poverty	*R' billion*	21,2							21,2	
	% of GDP	1,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	1,6%	0,0%
Unemployed	*R' billion*	47,6	43,8		3,8					
	% of GDP	3,6%	3,3%	0,0%	0,3%	0,0%	0,0%	0,0%	0,0%	0,0%
Survivors	*R' billion*	42,3	41,0		0,1	1,2				
	% of GDP	3,2%	3,1%	0,0%	0,0%	0,1%	0,0%	0,0%	0,0%	0,0%

Figure 23
Social security policy evaluation for the period 2001 to 2015 expenditure in constant 2001 prices.



	2001	2005	2010	2015
Voluntary	152.4	146.1	155.1	175
Mandatory	5.5	32.6	78.8	91.8
Means tested	54.8	63	37.9	6.2
Universal	58	64.4	98.5	154.8

Figure 24
Social security policy evaluation for the period 2001 to 2015: expenditure expressed as a percentage of GDP.



	2001	2005	2010	2015
Voluntary	17.00%	14.90%	13.60%	13.30%
Mandatory	0.60%	3.30%	6.90%	7.00%
Means tested	6.10%	6.40%	3.30%	0.50%
Universal	6.50%	6.60%	8.70%	11.70%

retirement, while the latter involve the removal of the means test on the state old age pension, and other poverty measures becoming more universal. Overall, when phased in over a long period, the strategic reform of the system of social security involves a significant shift toward social security funding allocated to funds that incorporate social solidarity principles with little net affect on the fiscal framework.

The reform path assessed is affordable when seen from a long-term perspective, as all improvements in the social security system occur broadly within current macroeconomic constraints. No significant changes in the proportion of GDP allocated to social security are required if these scenarios are implemented. In particular, the implementation of a universal system of social assistance grants in key areas becomes both feasible and affordable. Importantly, the restructured social security system removes gaps in coverage that exist in the present, without changing the overall proportion of GDP used.

Chapter 15 Social Security Within a Regional Context

15.1 Background

Addressing social needs and problems by way of social protection measures within the region is of paramount importance to achieve the goals and aspirations of economic and social integration and co-operation. As stark differences in the quality of life are the driving force behind human migration, a regional approach on social collectivity and equality is therefore in South Africa's interest. Effective measures should be put in place to ensure compliance with treaties and the protocols.

A distinct social security paradigm is also necessary in order to regulate at a regional level social insurance measures for particular categories (e.g. the employed) and, with this purpose in mind, to develop measures of co-ordination in the region. Finally, it may be necessary to develop baseline standards that apply across the board in the region, but are implemented with reference to the particular socio-economic status of each of the member countries. These baseline standards may rely on either internationally accepted norms and/or generally applicable human rights norms.

Analysis of regional aspects highlights, amongst others, the extent of the inadequacy social security arrangements in the region (table 15). Studies in the region further indicate the apparent failure of domestic social security measures to address poverty alleviation meaningfully. Social inclusion and participation is not an option for large numbers and significant categories of people. This flows from the fact that most country specific social security systems cater exclusively for the whole or part of the formally employed, thereby marginalising the non-employed workforce, the self-employed, the informally employed, and the unemployed.

In addition, the growing interdependence in the region, and the more extensive migration of the region's workers and residents, suggests the need for a common response.

15.2 Regional implications for South Africa

Provisions in South African social assistance and in some social insurance laws distinguish between nationals and non-nationals.

It is, therefore, necessary, firstly, to consider these distinctions between South African citizens and citizens of other Southern African Development Community member states. Secondly, to develop a common framework and charter on social protection and to ensure a consistent approach is implemented. Thirdly, it will be necessary for South Africa as a SADC member state to engage actively in promoting the social protection dimension of SADC integration and interdependence. Fourthly, active involvement in developing acceptable baseline standards in the area of social protection for the region is required. These standards should be implemented with reference to the particular socio-economic status of each of the member countries, as suggested above.

Finally, it will be necessary for South Africa to adopt measures aimed at co-ordinating its social security system with those of the other SADC member states. This can be done either bilaterally and/or (preferably) multilaterally.

Table 15
Social security systems in Southern Africa, a comparative assessment

Type of Scheme	Contingencies	Bot	Les	Mal	Mau	Moz	Nam	RSA	Swa	Tan	Zam	Zim
Mandatory Savings schemes (mainly by way of National Provident Funds) (being replaced)	Old age								X	X	X	
	Disability								X	X	X	
	Death								X	X	X	
Non-Contributory Schemes	Old age	X			X		X	X				
	Disability				X		X	X				
	Widowhood				X							
	Orphanhood/ Children				X			X				
	War veterans	X					X	X				
Social Insurance	Old age				X	X		X		X		X
	Disability				X	X		X		X		X
	Survivorship/ Death				X	X	X MSD	X UIF		X		X
	Sickness					X	X MSD	X UIF				
	Unemploy-ment							X UIF				
	Maternity						X MSD	X UIF				
	Adoption							X UIF				

Note: X denotes the existence of a scheme.

15.3 Findings

It is clear from the analyses above that most of the social security schemes across Southern Africa mainly focus on protecting people who are employed in the formal sector. Coverage of targeted populations tends to be narrow, excluding the most vulnerable across the region, in particular those in rural areas, without any form of social protection. The benefits paid by many schemes are inadequate to meet basic needs. In the case of non-contributory schemes, a heavy reliance on general tax revenues strains Government financing, keeping benefits at low levels in most countries. Moreover, the social welfare schemes (or non-contributory schemes) are still in an embryonic stage, and the number of beneficiaries has been low as well as the benefits.

It is also clear that the systems, as is the case with the underlying socio-economic, administrative and political profiles of the countries, are hugely diverse in nature. This, of course, makes it difficult to develop baseline standards for the region and to adopt measures to co-ordinate the various country social security systems. This is exacerbated by the fact that many of the country systems have not been well researched.

Co-ordination of social security is presently almost totally absent in the region. The few examples that do exist do not function satisfactorily, while attempts to enter into more comprehensive arrangements still have to bear fruit.

Administrative inertia and inefficiency in the area of social security delivery are, with some notable exceptions, apparently major obstacles. And yet it would appear that tailor-made solutions, for example, relying on NGOs and traditional authorities, to assist in this regard, have been relatively successful.

Most of the countries in the region have embarked on restructuring processes. Some of these have already yielded interesting results, such as a clear transition from national provident fund to pension fund systems and the introduction of short-term benefits as a first step towards developing the social security system holistically. More research and policy analysis is required to understand the role and function of informal social security mechanisms and how they link to the formal system in the region as a whole.

The aim of economic integration as is evident in most of the protocols and the resultant movement of labour from one SADC country to another, requires that provisions be adopted to co-ordinate current social security systems in the SADC countries. Although the Charter of Fundamental Social Rights contains more direct provisions in this regard, specific standards still need to be developed to assist the member states to fulfil their duties as expected at a regional level.

Chapter 16
Conclusion

South Africa faces a continuing challenge of alleviating poverty and meeting basic needs. The Government has committed itself to reducing inequalities through providing basic services to poor households. Progress has been made in terms of delivering some of the services. Severe challenges remain, however. There is no income support programme for children between 7-18 years, adults between 18-59 years and no general assistance for households where no one is employed. Over 13 million people live below the poverty line and have no access to social security. As such, South Africa's social security system is neither comprehensive nor adequate.

The Committee has found that much of what we refer to as "social security" derives from the European concept, which took as its basic assumption that social security would develop around formal sector employment. The reality is that in the developing world formal sector employment may never become the norm that it is in Europe. As a result, the Committee has found that the development paths of African economies, and third world countries in general, require a fresh look at social protection systems more appropriate to their environments and needs.

In this regard, the Committee has found that a lack of policy to address income poverty has been a constraining feature of South Africa's socio-economic programmes. The Committee therefore recommends that an appropriate social security concept for South Africa must prioritise the needs of people without any incomes, with insufficient incomes or who are engaged in informal activities.

In addressing this gap, the Committee has formulated a comprehensive social protection system that enables the attainment of "positive-sum" policy interventions, rather than narrow policy trade-offs between social and economic policy objectives. The Committee is of the view that by creating greater income security the poor, who are currently trapped in survivalist and low-income informal work, become empowered to risk pursuing higher-return activities that can break their cycle of poverty.

In addressing the full spectrum of social protection policy, the Committee paid considerable attention to matters concerning health, retirement, unemployment, children, disability, constitutional and legal requirements, and institutional and financial feasibility. Detailed research analysis has informed the Committee's recommendations in these areas.

To address income poverty, and underpin the Comprehensive Social Protection framework as a whole, the Committee has recommended a comprehensive and integrated medium- to long-term framework for income support. The Committee is of the view that such a Comprehensive Social Protection framework would simultaneously address the constitutional and socio-economic imperatives through emphasising two aspects:

- Ensuring that all citizens have a minimum acceptable standard of living through a social protection package, enabling them to participate and advance in social and economic life, thus reducing socio-economic constraints to sustainable growth in South Africa.
- Providing people with their socio-economic rights, thus enabling them to enjoy their democratic rights. As such comprehensive social protection, by providing universal coverage, thus embeds an important form of social citizenship – and could be seen to form a central component of the democratic State's "contract with the people".

Finally, the Committee recommends that an implementation phase for the Comprehensive Social Protection framework be designed with officials from the various Social Cluster Departments, a core group of Committee members and two international experts.

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End notes

1 Survey of Total Employment and Earnings, Statistics South Africa.

2 This trend was evident and discussed at a meeting of technical experts representing approximately 15 countries contributing to a Forum on Progressive Governance in Stockholm in June2001.

3 Dorrington et al. 2001. The impact of HIV/ AIDS on adult mortality in South Africa. Medical Research Council: Tygerberg. September 2001.

4 The Stats SA publication Unemployment and Employment in South Africa states that 32 per cent of African households contained no employed people. The total number of African households (5 950 992) comes from Leibbrandt, Woolard and Bhorat (2000, p.49). These authors used the 1995 OHS The total number of households in the Leibbrandt et al piece (8 801 993) accords well with the 1996 population census number of 9 060 000 (Report No. 03-01-12 [1996], p.86. Note that this excludes institutions and hostels. The number of workerless African households in 1999 comes from a report using the 1999 OHS. by Michael Samson of the Economic Policy Research Institute. There were 3 069 897 such households, 2 859 167 of them containing working adults, and 210 730 containing either pensioners only or pensioners and children (skip-generation households).

5 This information is drawn from the South Africa Human Development Report 2000, South Africa Transformation for Human Development 2000, United Nations Development Programme, Pretoria.

6 USAID, 2001. “Payment for municipal services” Pretoria.

7 Constitutional Court of South Africa (Judgement). 4 October 2000.

8 Standing 2000, p.9.

9 Giddens 1998, 2000. Giddens (1998, p.100) says that: “Social democrats have to shift the relationship between risk and security in the welfare state, to develop a society of ‘responsible risk takers’ in the spheres of Government, business enterprise and labour markets. People need protection when things go wrong, but also the material and moral capabilities to move through major periods of transition in their lives.”

10 These pitfalls were identified in a World Bank Study on Best Practices in Social Protection draft document, April 2001.

11 UNSD, 2000.

12 Based on May et al, 2000.

13 Section 8(1).

14 In terms of section 8(2) a provision in the Bill of Rights binds a natural or a juristic person if, and to the extent that, it is applicable, taking into account the nature of the right and the nature of any duty imposed by the rights.

15 Given the distinct constitutional duties placed on the state and organs of state to fulfil, promote, protect and respect social security rights, and the constitutional rules of interpretation of these rights, all existing legislation, as well as common law and customary law must be scrutinised and brought in accordance with the right to access to social security, as well as other social security-related rights.

16 World Bank, Poverty Reduction Sourcebook.

17 The SALDRU survey takes its name from the University of Cape Town’s South African Labour and Development Research Unit, which undertook a national household survey in 1993 in cooperation with the World Bank.

18 Payment Extraction Report for Pay Period April 2001, SOCPEN system — Department of Social Development, 5 April 2001. The figure counts beneficiaries for the Child Support Grant as the actual number of grant recipients, not the number of children. In March 2001, there were 842 892 beneficiaries, receiving grants for 1 084 659 children.

19 Finance Minister Trevor Manual acknowledged the State Old Age Pension system as one of Government’s most important poverty alleviation programmes

(Budget Speech 1997/98), a fact which is similarly recognised in the White Paper (1997): "The number of elderly South African beneficiaries has stabilised, with fairly good coverage (80%), but there are still particular pockets where many eligible people do not get a grant. The impact of a grant income on household income for people in poverty is dramatic. The majority of people in poverty who are not white live in three-generation households, and the grant is typically turned over for general family use. In 1993, there were 7,7 million people in households that received a state grant. For black South Africans, each pensioner's income helped five other people in the household." See also COSATU (1996), Ardington & Lund (1995), and Haarmann (2000).

20 Haarmann (2000) summarises the findings of the task team's report (Schneider & Marshall, 1998): "The task team recommends changing the test by moving from assessment of functional capacity only to evaluation of a range of needs and economic factors and hence developing a 'profile of needs' of the applicant. This profile should, besides the medical and financial indicators, also include indicators like the costs related to the specific disability, the support mechanisms, and a socio-economic profile of the area and possible vulnerability to discrimination. The rationale for this recommendation is the appreciation that each disability creates a range of needs. This is especially the case in the South African situation where other social security measures like accessible healthcare, re-training, vocational rehabilitation and transport are largely absent. The task team inter alia recommends the employment of 'evaluators' in each district for evaluating the needs of people with disabilities, an improvement in the administration and information system of the grant and a stronger inter-sectoral collaboration of the different departments. Strategies for people with disabilities that were already set out in the White Paper ranged from improvement of accessibility to the welfare system, to training opportunities, transport and the labour market.

21 Finance Minister Trevor Manuel, Budget Speech 2001.

22 See for instance significant research analyses on this undertaken by Pieter le Roux (2001).

23 COSATU (1998); Hazelhurst (2000); Samson, Babson, Mac Quene, van Niekerk (2000).

24 These submissions include (and are based on) information supplied by the Child Health Policy Institute, UCT " Special Focus on Social Security for Children infected and affected by HIV/AIDS", 2001.

25 Gathering accurate data on disability is notoriously difficult. This is for many reasons, but is in large part due to the many competing definitions of disability itself and to practical difficulties with identifying people with disabilities. Definitions of disability differ from survey to survey; people answering household questionnaires respond to questions differently depending on their personal notions of disability; the stigma associated with disability may cause some people to conceal their status; since the disability tends to more prevalent in poorer households and communities, precisely those communities where it is most difficult to gather data, it can be more difficult to capture people with disabilities in standard household surveys. Such problems are common to many efforts at obtaining a quantitative profile of people with disabilities in developing countries

26 This figure is derived from the 1999 OHS, which provides the lowest estimate of disability prevalence among available surveys. For example, Elwan [1999] p.8 reports that evidence from the 1990 United States census suggested that nearly 29.2 per cent per cent of the population had a family member who was disabled in some respect.

27 These include, among others, the Universal Declaration of Human Rights (1948), the African Charter on Human and People's Rights (1981), the United Nations Standard Rules on the Equalisation of Opportunities for Persons with Disabilities (1993), and The Convention on the Rights of the Child.