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Committee Report No 1

Introduction

1.1 Purpose of the Committee of Inquiry (the Committee)

1.1.1 Government Commitments

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

- a) The elimination of poverty and the establishment of a reasonable, and widely acceptable, distribution of income;
- b) The provision of a reasonable income in old age;
- c) The provision of affordable, decent and effective health care for all; and
- d) 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 Program and in tripartite agreements.

The essence of these policy objectives are 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, has reviewed the social security system and identified crucial gaps. These include:

- The Unemployment Insurance Fund covers less than 40 percent of the labour force at any given point in time, and offers benefits to less than 6 percent 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 COIDA, the Road Accident Fund, the Department of Social Development and the private sector.
- Many people remain financially vulnerable in respect of health care.
- 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 will 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 to 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 health care. (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;
 - Macroeconomic environment;
 - Impacts on Government as an employer; and,
 - Income distribution.
- ***Key recommendations on future directions:***
 - Long-term or ultimate objectives and targets;
 - Short-term or required intermediate reforms consistent with the long-term objectives
- ***Implementation process:*** The Committee must make concrete recommendations on implementation steps and prerequisites.

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

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

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

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

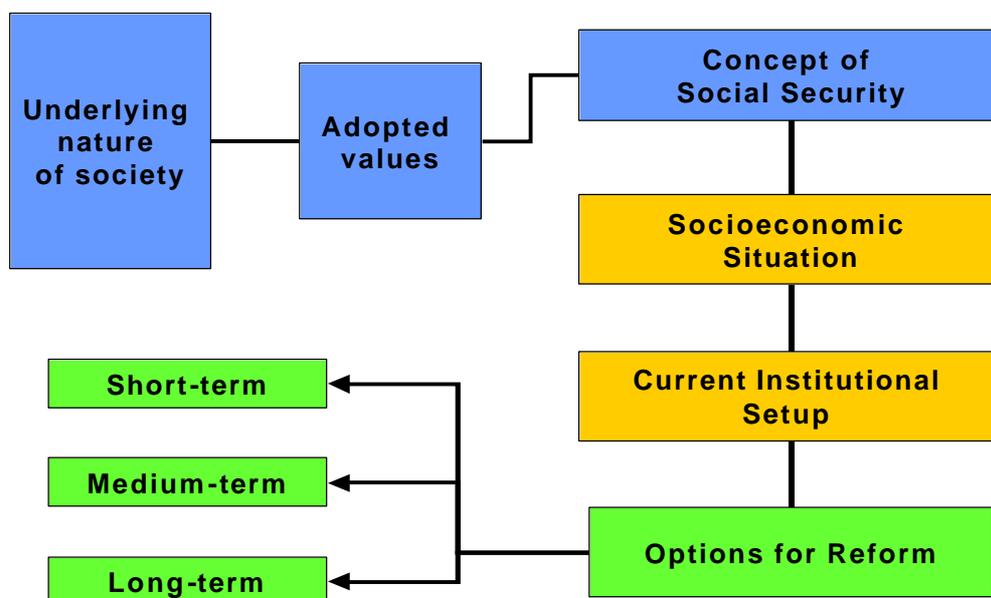
1.2.2 Interpretation of Terms of Reference

The broad and complex nature of the issues raised in the terms of reference provided to the Committee required the initial development of a conceptual framework for evaluating social security in South Africa. The framework settled upon is reflected in **figure 1.1** and highlights the following:

- (a) *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.
- (b) *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 organized 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, values are influenced by socio-economic structure and the related distribution of power in society.
- (c) *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 organized response to particular contingencies. Such a concept would interpret explicit and implicit values and seek to give them practical form.
- (d) *Socioeconomic situation*: The prevailing socio-economic environment reflects an additional consideration which may exacerbate particular contingencies faced by society. Certain groups may be more severely affected by disease, early parental mortality, etc..
- (e) *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.

- (f) *Options for reform:* Where the response to prevailing needs in a society are inconsistent with the adopted values, reform is required. Such reform will require short- medium- and long-term objectives to be set.

Figure 1.1: Framework for Evaluating the Social Security System



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, disability, poverty and unemployment. This required that all major areas of social security, such as health, old age and retirement, children, disability, etc. be examined holistically. This required that the Committee form a number of sub-committees consistent with this approach. The subcommittees dealt with: health, retirement and old age, unemployment, and poverty. Sub-committees were also formed to focus on cross-cutting issues, social assistance, social insurance and non-traditional forms of social security.

The Committee attempted to collate as much information on the 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 subcommittees 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 organizations where this proved necessary.