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## Committee Report No 4

### *Comprehensive Social Protection: Conceptual Framework*<sup>1</sup>

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Poverty is not knowing where your next meal is going to come from, and always wondering when the council is going to put your furniture out and always praying that your husband must not lose his job. To me, that is poverty.

(Mrs Witbooi of Philipstown, quoted in Wilson and Ramphele, 1989)

Because we are one another's keepers, we surely must be haunted by the humiliating suffering which continues to afflict millions of our people. Our nights cannot but be nights of nightmares while millions of our people live in conditions of degrading poverty ... No night can be restful when millions have no jobs, and some are forced to beg, rob and murder to ensure that they and their own do not perish from hunger.

(President Thabo Mbeki, inaugural speech, 1999)

Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion ...

(Declaration of World Summit for Social Development, Copenhagen, 1995)

#### **4.1 Introduction**

Tackling poverty and deprivation, and its effects, is 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 remain 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.  
(RDP: 1.2.9)

This challenge, in its general sense, is of course not a new one. Poverty, unemployment, inequality and generally high levels of vulnerability have 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 out of this "nightmare" of poverty and deprivation.

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, for principally reasons of inherited design, is “archaic, lacks integration, and has many gaps.”<sup>2</sup>

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 a relatively stagnant and pressured 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)).

Moreover, the development paths of African economies, and developing countries in general, require a fresh look at social protection systems more appropriate to their environments and needs. The reality is that in the developing world, formal sector employment may never become the norm that it is in Europe. Yet much of what we refer to as “social security” derives from the European experience. This European concept, primarily that of contributory social insurance, took as its basic assumption that social security would develop around formal sector employment. As a result, social security is often described as measures to protect against “loss of (formal wage) income”. Such a conception is therefore of limited relevance to Africa and the developing world, where the risk of “insufficient” income (formal or informal) is invariably more prevalent than a “loss” of income.

An appropriate social security concept for South Africa therefore needs to address the realities of our labour market, beyond simply addressing matters of loss of income. In particular an appropriate social security concept needs to address the needs of people without any incomes, with insufficient incomes or who are engaged in informal activities.

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].<sup>3</sup>

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.

- The first section provides definitions of poverty, inequality, unemployment and vulnerability, and discusses why these conditions matter. This section reviews the extent of these conditions in South Africa, and puts forward the Committee of Inquiry's proposed conceptual approach to addressing these various conditions.
- The second section discusses the socio-economic trends and system reforms that are occurring internationally and the various forms of social security that exist in South Africa currently.
- The third section discusses the causality of poverty and other damaging conditions in South Africa. It assesses the extent to which the current social security framework is addressing the inherited and emerging challenges.
- The fourth section discusses the options for a comprehensive social security system for South Africa.

## 4.2 Section 1: Definition and concepts

It is important to clarify the meaning of the terms “poverty”, “inequality”, “unemployment” and “social exclusion” 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.

### 4.2.1 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*** That is, 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 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, disability) effectively trapping people and their dependants in a cycle of poverty.

A snapshot of poverty in South Africa today will reveal the following:<sup>4</sup>

- 45 per cent of the population (18 million people) live on less than \$2 a day (a poverty line suggested by the World Bank)
- 25 per cent of African children are stunted (that is, short for their age)
- 10 per cent of Africans are malnourished (that is, underweight for their age)
- 60 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.

#### 4.2.2 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 social mobility of the poor through reducing barriers to the poor in advancing in social and economic life, actively 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 among the highest in the world. South Africa is ranked as the third highest in the world, surpassed only by Brazil and Guatemala.<sup>5</sup>

Inequality between races remains the most striking feature of South Africa. While 61 per cent of Africans live in poverty, only 1 per cent of whites are in poverty. This 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)—see table 4.1.

**Table 4.1: Declining incomes and growing inequality (1991–1996)<sup>6</sup>**

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

In the period 1991-1996, however, intra-racial (that is, class) inequality increased. This suggests that the “Two Nation” 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. The complex features that shape perceptions and experiences of the fractures and divisions in South African society must be taken into account. However, from a social security perspective the key issue is to ensure that those who are currently excluded are given a stake in the present; those who have benefited from past privileges are able to promote a level of solidarity that ensures them a stake in the future.

### **4.2.3 Unemployment**

Even more than poverty and inequality, the definition and measurement of unemployment is a controversial issue. There are two widely used definitions: a “strict” and an “expanded” one, with the latter including discouraged workers who have given up looking for work. With wages being the principal source of income for people, the loss of a job, or the inability to find one, has a devastating impact on individuals and their dependants.

The Committee’s review has shown that statistical data and analysis derived from this are generally highly contested. In particular, it is argued that due to the limited scope of the statistical sampling, growth in the informal and other sectors is under counted. Further, repeated changes in unemployment definitions and statistics methodology have made employment trends difficult to calculate accurately.

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 who has “worked” parking cars for one hour in the past week appears insignificant, since such work does not provide adequate job and wage security.

However, using the one available set of comparable employment statistics,<sup>7</sup> which covers the formal private sector, formal sector employment has fallen by almost 20 per cent between 1990 and 2000, or one million jobs. This is clearly a massive decline, with serious social and economic implications. As mentioned, there well may be concurrent informal-sector employment that is unrecorded. However, household survey evidence demonstrates 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, in a conceptual framework for comprehensive social security, is that South Africa is characterised by a labour surplus economy that is unlikely to change within the next 10 years. 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.

#### 4.2.4 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 seek to justify. These criteria could, for example, be income, education, skin colour, 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 which 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.

#### 4.2.5 Vulnerability

Vulnerability refers to the risk of a particular individual or group falling into poverty or in situations that compromises their human well-being. Certain individuals or groups, due to their position in society, are more vulnerable to the negative consequences of economic, political and social trends, cyclical changes or “shocks”. Generally women, children, households or communities with limited

assets are least able to cope with the effects of, say, a negative change in basic service provision or access to wage incomes.

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.

### **4.3 Section 2: International trends and existing Social Security in South Africa**

To what extent is there an international convergence of social security reform, and what are its implications for South Africa?

#### **4.3.1 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 erodes 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.<sup>8</sup> 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. 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 need to create a private market in social services in place of a state function.

#### **4.3.2 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.<sup>9</sup> 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 health care, for example. Social polarisation and exclusion is extensive, and hence, contrary to popular perceptions, rates of social mobility in the US are also low.

### **4.3.3 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.<sup>10</sup> This has motivated the development of unemployment insurance in these countries that, until recently, had achieved close to full-employment.

### **4.3.4 Developing countries**

In developing country contexts, such as Latin America and Africa, the problem is usually poverty, chronic inequality and exclusion because of 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.<sup>11</sup> 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.

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.

### **4.3.5 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 such markets are driven more by the need to create profit opportunities for global and domestic capital rather than to 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, supported by rational and valid argument. This is appropriately incorporated in a manner that supports the 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.<sup>12</sup>

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

- Increased *selectivity* of state transfers
- *Multi-tourism* 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<sup>13</sup> 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.<sup>1</sup> Standing<sup>2</sup> 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 disentanglement 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”.

#### **4.3.5.1 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 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.

In many countries the mix of social protection (SP) interventions have suffered several generic pitfalls:

### **Common pitfalls for countries' mix of SP interventions**

- 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.

(Source: World Bank)<sup>14</sup>

### **4.3.6 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.<sup>15</sup>

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 two million to about 13 million.<sup>16</sup>

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”.<sup>17</sup>

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.<sup>18</sup>

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 a “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.

#### **4.4 Section 3: The causes of poverty and addressing the challenges**

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.

#### 4.4.1 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 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.

Apartheid gave black South Africans an inferior education, excluded them from ownership of most of the land and the prime residential property, and prevented them from entering many of the more lucrative occupations by prohibiting or severely restricting their access to many economic activities. 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, the 1928 Industrial Relations Act that gave employees rights similar to that they were gaining in the Scandinavian countries, but excluded Africans from the definition. In the mid-1970s the old age pension paid out to Africans was only 10 per cent of that of white South Africans. Substantial maintenance grants were paid to single mothers with low income, but not if they were African.<sup>19</sup>

Over the last few decades of the twentieth 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, as democracy approached, 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.

#### **4.4.2 Shortcomings in the South African social security system**

As mentioned above, the apartheid social security system was generally comprehensive and inclusive for whites at the expense of the black majority, who were entirely excluded. Though the distributional stance has shifted considerably since that period, many distortions remain.

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 assumptions on which the Social Assistance Act, No. 95 of 1992, is based are the following:

- There is strategic social security planning capacity, at appropriate government levels, that is able to prioritise, co-ordinate and integrate interventions.
- There is administrative capacity to implement legislation and policies. This includes national, provincial and local governments with the requisite staffing levels, skills, systems and procedures, and financial and other necessary resources. It also includes the ability of these different branches of government to enter into and manage public-private partnerships.
- There is a pre-existing social security infrastructure, both in urban and rural areas, that can be used as a platform from which to roll-out policy and legislative requirements.
- Social security development and planning is sequenced with national budgetary planning. The integrity of social security policies and legislation, once reached, need to be maintained by being provided with requisite fiscal support to, for example, ensure that benefits maintain their real values.
- Significant levels of public debt exist which act as additional limitations on the coverage, extent and characteristics of social security provision that is possible.
- Significant economic growth with job creating outcomes, thus taking pressure off social security provision.
- Capacity of community sector to use new opportunities and to limit their expectations in relation to government programmes

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.<sup>20</sup>
- **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.<sup>21</sup>

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.<sup>22</sup> Therefore excluding those unemployed getting disability and childcare related grants, about five 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.<sup>23</sup>
- **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 total 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), massive administrator profit-taking and undermined consumer protection. The relatively high levels of expenditure is due to two-thirds of health spending going towards the well resourced, private health sector.<sup>24</sup>
- 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.

Third, it is important to consider the additional barriers faced by women. The UN Commission for Social Development<sup>25</sup> stresses the following:

... many women are still barred from paid employment because of their homemaking and childcare duties. Inferior access to health, education and training places them in a disadvantageous position in the labour market where many

women predominate in low-pay, low-status, part-time or contract-work, which offers limited opportunities for social security coverage. Additionally, unequal access to productive resources such as land, credit, ... restricts women's capacity for self-protection and increasing their dependence on their families.

These gender barriers are equally relevant for South Africa, too.

#### 4.4.3 The growing 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.<sup>26</sup>
- ***The state is increasingly 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,<sup>27</sup> 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, if at all available. The rich (mainly white) make use of private services. There is thus a continuation of the Two Nation divide. This also contributes to a lack of racial tolerance and understanding, and reduced support among whites and the rich for interventions to bolster the public services.

- ***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.<sup>28</sup> Importantly, this same lack of an ability to pay undermines the possibilities for social insurance to be the key route of including those who are currently excluded.
- ***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.

#### 4.4.4 Defining an appropriate social security concept

Comprehensive social security ... is necessary because traditional familial, communal, or private market welfare arrangements are wholly inadequate. It is also necessary because stable democracy demands a level of social integration that only genuine citizenship can inculcate. (Esping-Andersen, 2000 [1996], p.2)

... since the early twentieth century, welfare policies have reached across from public to private and helped uphold a patriarchal structure of familial life ... (Cited in O'Connor *et al*, 1999, p.61)

##### 4.4.4.1 Comprehensive social protection

The objective of comprehensive social security is 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”.  
(White Paper for Social Welfare, 1997)

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. The extent to which one can adopt this traditional concept of social security for South Africa can be questioned.

First, 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 are certain to fall short.

Second, while the non-contributory social assistance aspect can extend to non-contributors, it does so in a residual “safety net” fashion, essentially seeking to ameliorate the difficulties of those that fall through the economic system. However, developing countries such as South Africa, require more active systems that can play a constructive role in promoting economic development and addressing the structural basis of poverty and social exclusion.

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.<sup>29</sup>

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 protective 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 as 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.

#### **4.4.4.2 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-prize-winner has been useful in developing the content of the CSP package. Basic incomes, services, and assets emerge as central components of the “capabilities” approach. This is set out in table 4.2.

**Table 4.2: Matrix of means and ends<sup>30</sup>**

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

(Source: May, *et al.* 2000)

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 package form:

- 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 primarily income transfer which ensures that all South African 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, the comprehensive social protection basic platform, that should be available to all South Africans (including certain categories of non-

citizens). To this basic floor, (d), which addresses special needs, and largely as it currently applies, will be added.

Crucially, what are the key components of such a CSP package? After detailed analysis of the social and economic cost-benefits of possible components,<sup>31</sup> the key income transfers, services, assets and special needs measures put forward by the Committee of Inquiry are set out in table 4.3.

**Table 4.3: Comprehensive social protection package and components**

	<i>Application</i>	<i>Key components</i>
<b>Income poverty</b>	Universal (a)	<ul style="list-style-type: none"> <li>➤ Basic income grant</li> <li>➤ Child support grant (0-6 years)</li> <li>➤ Maintained State Old Age grant</li> </ul>
<b>Capability poverty</b>	Universal/ Eligibility criteria (b)	<ul style="list-style-type: none"> <li>➤ Free and adequate publicly-provided healthcare</li> <li>➤ Free primary and secondary education</li> <li>➤ Free water and sanitation (lifeline)</li> <li>➤ Free electricity (lifeline)</li> <li>➤ Accessible and affordable public transport</li> <li>➤ Access to affordable and adequate housing</li> </ul>
<b>Asset poverty</b>	Universal/ Eligibility criteria (c)	<ul style="list-style-type: none"> <li>➤ Access to productive and income-generating assets such as land and credit</li> <li>➤ Access to social assets such as community infrastructure</li> </ul>
<b>Special needs</b>	Eligibility (d) criteria	<ul style="list-style-type: none"> <li>➤ Reformed disability grant</li> <li>➤ COIDA (injuries)</li> <li>➤ RAF</li> </ul>

This package includes mainly publicly provided forms of social protection. On the whole this total package needs 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.

In addition, the Committee of Inquiry has proposed important reforms to many other, privately provided but State regulated, aspects of social protection. These forms are aimed at improving inclusively, equity, consumer protection and efficiency of the benefit types concerned. These include the private pension/provident funds and life assurance.

#### **4.4.4.3 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.

Essentially, determining the “minimum essential level” could be a complex and involved process, with the minimum level being determined on a case-by-case basis. In other words, determining or contesting a minimum essential level may require a Constitutional Court challenge each time, with uncertain outcomes for all concerned. While there is a clear logic to that approach, it does not appear to serve either the interests of the State, which may suffer costly judgements, or those in need of such minimum essential levels of support. This is all the more likely when one considers the State’s current lack of institutional ability to roll out these programmes fast enough. This lack of clarity over “minimum” obligations will therefore not assist effective delivery. 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 with 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.

#### **4.4.5 Financial implications**

##### **4.4.5.1 Social protection can promote sustainable growth**

The Poverty and Inequality Report 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.<sup>32</sup>

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.

##### **4.4.5.2 “Affordability” is not a linear process**

Internationally, two factors have been important in terms of 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.

#### **4.4.5.3 Fiscal space does exist**

A further factor is the extent to which “affordability” is determined by a policy decision to *reduce* public spending as a percentage of GDP from 28% in 2001 to 25% in 2007.<sup>33</sup> In this regard the parameters of “affordability” may be artificially constrained.

Further, research indicates considerable taxable capacity in the South African economy. South African revenue to-GDP is currently 24,7%, compared to 42,3% in Organisation for Economic Cooperation and Development (OECD) countries.<sup>34</sup> This indicates that higher taxes, if related to better outcomes, are unlikely to result in immigration from South Africa to OECD countries. Further, the South African revenue to-GDP level is lower than the average for developing countries within 20 per cent of South Africa’s per capita income level.

However, before considering options for increasing tax revenue to-GDP ratios, there is a need to recognise that the current South African fiscal parameters can accommodate increased public spending, if appropriate and sufficient return initiatives can be developed and implemented. In this regard, there has been a reprioritisation away from social spending, without any prior explicit policy decision. The extent to which this has occurred (a shift of about R7 billion) represents some degree of fiscal space that can be reclaimed without a new policy decision being made.<sup>35</sup>

There is potentially further fiscal space through the creation of a “contingency reserve” in the National Budget. Since 2000/1, the savings from the reduced debt servicing have been moved into an unallocated reserve. By 2003/4, it is estimated that this reserve would be 2,7 per cent of the total budget, or approximately R8 billion.<sup>36</sup>

In addition, the State provides numerous tax breaks to regulated 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.

#### **4.4.5.4 Current system and social costs**

The current cost of social security transfers, based on actual take-up rates, is R18 billion. Calculations by the Committee of Inquiry show that should the take-up for these targeted schemes reach 100 per cent, an additional R8 billion would be expended on grant payments.<sup>37</sup> Further, in this event, there would be an approximate additional R5 billion required for the administrative costs based on current grant: administrative cost ratios.<sup>38</sup> In short, even in the current scenario, the total potential social spend could be increased by that additional R13 billion liability.

Finally, there is a cost to not acting. 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.

#### **4.4.6 Institutional framework**

##### **4.4.6.1 The need to resolve multi-institutional challenges in a short timeframe**

Given the legacy of apartheid and the relatively short space of time since democracy, much of the institutional framework necessary to address poverty, unemployment and inequality is weak or absent. Therefore the challenge is to rapidly resolve multi-institutional challenges. These challenges include, for example, the design of new policy and legislation; new administrative structures at national, provincial and local level put into place to ensure the inclusion of the previously excluded; a change of mindsets; 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 contributed to growing institutional crises. The current economic strategy has introduced a tighter fiscal approach from government, with less fiscal support for social protection reforms. 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 (mentioned above) 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. There is clearly more to be done in this area. First, there is a need to explore ways of increasing autonomy, and hence accountability, in delivery institutions (such as public hospitals) as a strategy to increase operational efficiency. Second, the fiscal federal environment, introduced after the 1996 Constitution, needs to be re-examined. Provinces are responsible for implementation, but national government for developing planning and

overall budgets. There is often a disjuncture between the two processes, with a tendency for the different roles and responsibilities to become confused and appropriately directed.

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.<sup>39</sup> 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, it is advisable that, wherever possible, social protection systems avoid the use of means tests.

Related to problems of means testing and screening of applicants is the unevenness and fragmented nature of adjudication measures. In many instances claimants are required to go to the High Court, face undue delays, and much of this without access to any legal aid.<sup>40</sup> In this regard, consideration needs to be given to the creation of a social security tribunal able to process all social security claims (both social assistance and social insurance).

#### **4.4.6.2 Incorporating social mobilisation into social protection**

Social mobilisation is important in embedding social protection in economic organisation and social relations. It is also important in terms of increasing the level of participatory governance, institutional accountability and, hence, contributing towards institutional effectiveness and efficiency.

In this regard, the Committee of Inquiry supports 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.<sup>41</sup> 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.

In this regard 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; these organisations are generally facing funding and capacity constraints, and the attempt 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). NGOs and CBOs are more likely better suited in social mobilisation roles, and related roles where they can keep a critical perspective and promote the interests of communities and potential beneficiaries.

#### **4.4.6.3 The need for co-ordination of planning, implementation, monitoring and evaluation**

Current social security functions are, in practice, spread across many different line departments and tiers of government and the State. To the extent that the State needs to deliver a comprehensive social protection system, as suggested by the Committee of Inquiry, or meet its obligation to progressive realisation of its existing constitutional socio-economic obligations, better co-ordination of planning and implementation is needed. Hand in hand with planning and implementation goes the need for effective monitoring and evaluation of programmes.

Government has already recognised the need for this. One instance of improvement in this area has been the announcement of integrated urban and rural development strategies. This reflects an important understanding of the need to integrate service delivery strategies for optimal impact, in this case around development nodes. These integrated strategies, while at an early stage, should result in more effect delivery at the nodal points. However, these strategies do not, and were not intended to, comprise a sufficiently coherent and co-ordinated response to the constitutional obligations. They are also unable to comprise a wider absence of a comprehensive social protection system.

The Committee of Inquiry has thus revisited the notion of a National Social Security Agency. It is suggested that such an agency be responsible for, in varying degrees, leading the planning and monitoring and evaluating of State programmes for comprehensive social security. While the various tiers of government currently required to implement programmes would largely continue to do so, a single national agency would promote effectiveness and overall State efficacy.

The Committee recommends that social security (social assistance and social insurance payments) be a fully-funded mandate within a costed norms approach. This would be administered at a national level while social welfare services remain a concurrent function of national and provincial government. It is further suggested that there could be provincial involvement in the national agency, representing a commitment to “co-operative governance”, through, for example, provincial secondments to the agency.

The Committee envisages the establishment of a Social Protection Commission, that comprises relevant government departments, key stakeholders, and international experts. This Commission would play a policy advisory and evaluation role, and inform the activities of the agency.

The Committee has also recognised that the budget processes need to reflect these planning processes. In this regard, the current Medium-Term Expenditure Framework (MTEF) lacks a prior strategic framework that can shape the overall direction of government spending. The current MTEF process is largely effected on the basis of “competitive budgeting”, where departments compete against one another for resources. This encourages a less holistic and comprehensive approach, and has allowed, for instance, social spending as a whole to decline in relative terms rather than strengthen. For this reason, the Committee of Inquiry suggests a Medium-Term Strategic Framework (recognising the importance of comprehensive social protection) creating an overall framework for the MTEF.

#### **4.5 Section 4: Transformation options**

The Committee has identified three options.

##### **4.5.1 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, the interventions are perhaps unnecessary because the suggested end-state will be reached naturally over time with improvements to its administration. Here it is hoped that current marginal reforms of existing institutions would bear fruit in the future. There will probably be considerable support for this option, particularly by those who fear having to pay, or facilitate finance, for the appropriate interventions.

The Committee is of the view that this would be an ultimately short-sighted position, however. The current reforms fail to satisfy the constitutional imperatives and thus make the State vulnerable to repeated Constitutional Court challenges, and are clearly inadequate. Further, the current system fails to address the socio-economic imperatives, and does not offer adequate social protection even remotely approaching a minimum acceptable standard of living. Also, the social costs of the absence of proper social protection will contribute towards a tendency of social instability. This would force the State to increasingly criminalise and judicialise essentially poverty-related social conditions and threaten to 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.

##### **4.5.2 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, budget 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.

#### **4.5.3 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.

##### **4.5.3.1 Phase 1: Comprehensive social protection system prioritising the most vulnerable**

Recognising that a comprehensive social security system requires significant time for development and aware of South Africa's current needs and crises, 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 and destitute for immediate assistance. It also sequences the policy changes in line with financial and institutional capacity considerations within a long-term vision of social protection. The key components of phase 1 are identified below.

##### **4.5.3.2 Phase 1: Period 2002 to 2004**

- Set minimum income level to eliminate destitution
- Prioritise vulnerable and destitute groups (for instance, children)

- 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 to all children (those below 18 years of age who qualify through a simple means test) 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 children in poverty live in households in poverty, and therefore the entire household will consume whatever grant one gives for the child. The addressing of *de facto* household poverty in this manner will exclude more than one million poor households without children, and may create perverse incentives regarding children. These problems will be addressed in phase 2, however.

#### **4.5.3.3 Phase 2: Comprehensive social protection for all**

This phase completes the building of the comprehensive social protection system initiated in phase 1. 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.

#### **4.5.3.4 Phase 2: Period 2005 to 2015**

- Set a level to address absolute poverty
- Level of the grants determined in relation to a comprehensive package
- Grant expanded to other vulnerable groups.

This phase, which includes the extension of the universal basic income grant to adults, would simultaneously address the constitutional and socio-economic imperatives through ensuring significantly reduced instances of destitution. This option would emphasis two aspects.

- A comprehensive social protection system must ensure that all citizens have a minimum acceptable standard of living through a combined package, enabling them to participate and advance in social and economic life.

- Comprehensive social protection, by providing people with their socio-economic rights, enables 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 represent the Democratic State’s “contract with the people”.

In its initial phase, the progressive realisation of the entire CSP package would need to be clearly set out. In this regard, prioritisation would be given to addressing income poverty to have an immediate reduction in deprivation. Measures to address capability and asset poverty, by their nature longer-term endeavours, will be progressively realised.

The CSP, reflecting a time-sensitive standard, needs to be appropriately enhanced over time. These changes would need to reflect both societal and development needs and opportunities. In this regard there would be a need to benchmark and relate the CSP package to relevant human development and economic indices.

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## ENDNOTES

- 1 This chapter draws on the research papers and inputs developed by the various sub-committees of the Committee of Inquiry into a Comprehensive Social Security System. It also includes submissions and contributions made through public hearings.
- 2 Terms of reference of Committee of Inquiry into a Comprehensive Social Security System.
- 3 Constitutional Court of South Africa (Judgement). 4 October 2000
- 4 Le Roux, 2001.
- 5 South Africa Human Development Report 2000: Transformation for Human Development, UNDP
- 6 Whiteford, A. and van Seventer, D.E. 2000. "South Africa's changing income distribution in the 1990s" Studies in Economics and Econometrics.
- 7 Survey of Total Employment and Earnings, Statistics South Africa.
- 8 Taylor V, Report from the Progressive Governance Forum held in Sweden in June 2001
- 9 Meth, 2001
- 10 South Africa Human Development Report 2000:Transformation for Human Development, UNDP
- 11 Standing, 2000. The Report draws heavily on this publication (Standing, 1999).
- 12 Standing 2000, p.9
- 13 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."
- 14 These pitfalls were identified in a World Bank Study on Best Practices in Social Protection draft document, April 2001
- 15 Handler, J. August 2000 "Reforming/ Deforming welfare", New Left Review cited in Meth, 2001
- 16 Handler, J
- 17 Handler, J
- 18 Handler, J
- 19 Taylor, 2000
- 20 CASE. 2001. Survey of disability grant recipients. Johannesburg.
- 21 Samson, 2001
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- 23 Samson, 2001
- 24 Van den Heever, 2001.
- 25 UNSD, 2000
- 26 Meth, 2001
- 27 Van den Heever, 2001
- 28 USAID, 2001. "Payment for municipal services" Pretoria
- 29 UNSD, 2000
- 30 Based on May et al, 2000
- 31 This detailed analysis is provided in the full Committee of Inquiry report.
- 32 UNSD, 2000
- 33 van den Heever, 2001
- 34 Samson, 2001
- 35 van den Heever, 2001
- 36 van den Heever, 2001
- 37 Samson, 2001
- 38 Committee's own estimates
- 39 Standing, 2000
- 40 Olivier et al, 2001
- 41 van den Heever, 2001