



Chapter 3

Approach to a Comprehensive Social Security Provisioning



3.1 Introduction

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

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

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

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

The task of addressing, in the final instance,

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

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

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

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

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

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

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

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

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

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

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

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

3.2 International trends in social security provisioning

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

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

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

3.2.1 Western Europe

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

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

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

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

3.2.2 The United States

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

3.2.3 South East Asia

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

3.2.4 Developing countries

In developing country contexts, such as Latin America and Africa, the problem is usually poverty, chronic inequality and exclusion from the informal sector, and the extent of “atypical” employment (as it is understood in Europe) that comprise up to 50 per cent of all jobs. The majority of the population often stands outside formal systems of social security, being engaged

in rural and self-employment. Therefore the European social security focus on the risk of formal sector job loss is generally less relevant here.

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

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

3.3 Implications for South African context

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

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

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

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

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

Developing social security systems in a globalising era characterised by insecurity has led to significant debates on what type of approach or mix of interventions can best respond to the continuing crises of livelihoods and human security. “Third Way” supporters such as Giddens⁹ are eloquent on the need for social democrats to find ways to deal with risks that welfare states are no longer able to address. Giddens refers to “technological change, social exclusion or the accelerating proportion of one-parent households” but says little about the increasing risks encountered in the labour market. Standing gives an indication of the need for coping mechanisms to be developed to respond to insecurity.

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

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

3.3.1 Focus primary social security interventions on formally unemployed?

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

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

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

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

Common pitfalls for countries' mix of SP interventions

In many countries the mix of social protection (SP) interventions have suffered several generic pitfalls. The World Bank has highlighted the following pitfalls¹⁰

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

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

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

3.3.2 Workfare?

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

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

job or labour market training place.

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

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

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

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

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

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

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

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

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

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

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

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

Further, the UN Commission notes that:

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

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

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

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

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

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

Comprehensive social protection for South Africa seeks to provide the basic means for all people living in the country to effectively participate and advance in social and economic life, and in turn to contribute to social and economic development.

Comprehensive social protection is broader than the traditional concept of social security, and incorporates developmental strategies and programmes designed to ensure, collectively, at least a minimum acceptable living standard for all citizens. It embraces the traditional measures of social insurance, social assistance and social services, but goes beyond that to focus on causality through an integrated policy approach including many of the developmental initiatives undertaken by the State.

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

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

3.4.1 A comprehensive social protection “package”

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

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

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

Table 6
Matrix of means and ends¹²

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

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

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

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

b) Measures to address “capability poverty” This can be achieved through the provision of certain basic services deemed crucial to

enable a person to live and function in society. This includes the provision of basic (lifeline tariff) water and electricity, free and adequate healthcare, free education, food security, and affordable housing and transport.

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

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

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

Table 7
Comprehensive social protection package and components

	Application	Key components
Income poverty	Universal (a)	<ul style="list-style-type: none"> • Basic Income Grant • Child support grant • Maintained state Old Age grant
Capability poverty	Universal/ Eligibility criteria (b)	<ul style="list-style-type: none"> • Free and adequate publicly-provided healthcare • Free primary and secondary education • Free water and sanitation (lifeline) • Free electricity (lifeline) • Accessible and affordable public transport • Access to affordable and adequate housing • Access to jobs and skills training
Asset poverty	Universal/ Eligibility criteria (c)	<ul style="list-style-type: none"> • Access to productive and income-generating assets such as land and credit • Access to social assets such as community infrastructure
Special needs	Eligibility (d) criteria	<ul style="list-style-type: none"> • Reformed disability grant, foster care grant, child dependence grant
Social insurance	Eligibility (e)	<ul style="list-style-type: none"> • Cover for old age, survivors’, disability, unemployment, and health needs

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

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

3.4.2 Determining the “minimum” requirements for the CSP package

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

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

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

While the Grootboom case has emphasised that it is incumbent on the state to take reasonable measures to give effect to each one of these rights, the Committee believes that this should be translated into making available a minimum level or measure of provision to everyone. As a result, it may be advisable for the State to

stipulate up front its considered minimum obligations for service delivery, such as it is doing for the free water programme, and its intended schedule for progressively realising this.

Further, even while the state is rolling out these medium- to long-term programmes, it 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 invariably also facing “income poverty”.

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

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

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

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

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

3.5.1 Social protection and the economy

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

Indeed, the UN Commission for Social Development finds that:

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

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

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

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

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

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

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

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

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

3.5.2 Social protection and institutional arrangements

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

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

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

This declining public spending, concurrent with increasing commercialisation of key services, has pushed many people into the regulated private market. In this regard, the problems related to the health sector are relevant. To address this tension, institutional efficiencies clearly need to be improved substantially and/or

fiscal support needs to be increased. Regarding institutional efficiencies, efforts to devolve functions and create new responsibilities for provincial and local Government have run up against un-funded mandates and uneven institutional capacity.

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

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

3.5.3 Incorporating social mobilisation into social protection

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

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

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

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

3.6 Social protection and private social insurance

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

3.6.1 Mandatory cover

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

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

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

3.6.2 Lower earnings limits for mandatory social insurance

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

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

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

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

3.6.3 Articulation and means tests

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

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

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

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

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

- Old age and disability grants reduce by 50% of additional income.
- Other grants may be removed in total.

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

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

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

