

Towards a comprehensive social security system in South Africa

- Working Paper -

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Abbreviations

COSATU	Congress of South African Trade Unions
CSG	Child Support Grant
CSS	Central Statistical Services
DBSA	Development Bank of Southern Africa
DG	Disability Grant
DIB	Demographic Information Bureau
FFC	Fiscal and Financial Commission
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
HDI	Human Development Index
HH	Household
HSL	Household Subsistence Level
IMF	International Monetary Fund
MINMEC	Welfare MINMEC: the committee of the Minister of Welfare and the Provincial Members of the Executive Council
NGO	Non Governmental Organisation
OHS	October Household Survey
RSA	Republic of South Africa
SALDRU	Southern Africa Labour and Development Research Unit
SOAP	State Old Age Pension
SMG	State Maintenance Grant
UPE	University of Port Elisabeth

Paper 1: Situation analysis

1.1.) Introduction

South Africa has inherited a fragmented social security system which was not based on comprehensive coverage for the population as a whole, but started as a social security net for mainly 'whites'. Although it has been extended to other groups over time, the coverage remains very incomplete. The White Paper of Social Welfare commits itself to *an integrated and comprehensive social security system* (White Paper, p51 at 45) and states that *every South African should have a minimum income, sufficient to meet basic subsistence needs, and should not live below minimum acceptable standards.* (WP, p.49 at 27). The constitution has entrenched the right to social security and appropriate social assistance. [s 27 (1)(c); (2)]

The challenge in South Africa, at the moment, is to fill the concept of a 'comprehensive social security system' with meaning and to develop a vision and a strategy. The two pillars of social security, social assistance and social insurance, have to be analysed in terms of coverage and costs in order to be able to clearly identify the problems and to develop a 'comprehensive' vision.

The main focus of this research, which consists of four papers, will be on the social assistance aspect of the social security system: While an analysis of all aspects of a social security system (contributory and non-contributory benefits) will be broadly included in the research, the focus will be on possibilities of extending social assistance to the poor who are not included (or only very temporarily, through UIF for example) in existing social security provisions.

This first paper analyses the current programmes which provide social security for South Africans. The impact of these programmes in regard to poverty alleviation will be looked at. The analysis enables the authors to identify the vulnerable groups in South Africa which do not have access to social security. Furthermore, COSATU's position on a comprehensive social security system so far will be summarised and additional issues which will have to be addressed in a new policy will be outlined.

1.2.) The present social security system

1.2.1.) What programmes exist under the present system?

The White Paper for Social Welfare, which was approved by Parliament at the beginning of 1997, defines social security as

...a wide variety of public and private measures that provide cash or in-kind benefits or both ...
(White Paper, 1996:45)

These measures are said to come into place if firstly a person is - for various reasons - unable to avoid poverty or secondly children have to be maintained. (White Paper, 1996:45)

It is outlined that the social security system in South Africa consists of four elements:

- Private savings - people voluntarily save for unexpected events
- Social insurance - joint contributions by employers and employees (and in some cases also government)
- Social assistance - non-contributory and income-tested benefits provided by the state
- Social relief - short-term measures in crises

This analysis will focus on the coverage provided for the poor and disadvantaged (e.g. long-term unemployed, children, etc.) in South Africa. Private pension and medical funds are therefore not considered further as they provide social security for people in formal employment.

The following table indicates what kind of programmes exist at the moment and who qualifies for them¹:

¹ Only the most important conditions and elements of the programmes are explained.

I Social assistance:

	Who is eligible?	What does the benefit provided look like?	
		Amount	Duration
a) Old age pension	Female person over the age of 59 / male person over the age of 64 whose income is less than R1250 (individual) or R2500 (combined); a sliding scale means-test is applied	Up to R470 per month	For the rest of the life, unless the income situation changes. (long-term)
b) Disability grant	Disabled person (with a medical certificate that the disability will continue for longer than six months) earning less than R1250 (individual) or R2500 (combined); a sliding scale means-test is applied	Up to R470 per month	Until the income or medical situation improves. (long-term)
c) Child support grant (replaces the SMG)	Children from 0-7 years living in a household which has an income of less than R833 per month ² (the programme aims to reach 3 million in the year 2003)	R100 per month	Up to the seventh birthday of the child or until the income situation changes. (medium-term)
d) Foster care grant	Parent/s who take a child (0-18) which was placed in their custody	R350 per month	Until the child turns 18 or the child is no longer in custody. (long-term)
e) Care-dependency grant	Parent/s of a child who needs care (medical report needed)	R 470 per month	Until the child is 18 or not longer in custody of the parents. (long-term)
f) Social relief	Persons in need of temporary material assistance	Up to R470 per month	Not longer than three exceeding months (in exceptional cases another three months). (short-term)

² This means-test has not yet been finalised, the information is taken from recent press statements of the Department of Welfare

II Social insurance:

a) Unemployment Insurance Fund:	In general: Workers earning less than R82,992 per annum (R6,619 per month) can contribute. However certain groups of workers are excluded: Contract workers, piece workers, casual workers working less than eight hours a week, domestic workers, employees in central government	45% of the last insured earning	Maximum duration is 26 weeks (6 months) (short-term)
Unemployment benefit	Unemployed person who contributed at least 13 out of the last 52 weeks; seeks work; must apply personally.	45% of last earning	Maximum of 6 months. (short-term)
Benefit for dependants of deceased	Widow/er (or dependent children) , if the deceased has contributed at least 13 weeks within the last five years.	A lumpsum equivalent to 6 months of benefit payments	Once off payment. (short-term)
Illness benefits	Contributors who receive less than one third of their wage from their employers during period of illness.	45% of the last earning	Up to 6 months. (short-term)
Maternity benefits	Female contributors who receive less than one third of their wage from their employers during maternity leave.	45% of the last earnings	Up to 6 months. (short-term)
Adoption benefits	Unemployed female contributor who has contributed at least 13 weeks out of the last 52 weeks.	45% of the last earnings	Up to 6 months. (short-term)
b) Workmen's compensation (Under review at the moment: Compensation for industrial accidents and diseases)	Workers injured or disabled by accidents arising out of and occurring in the course of their employment. Only people earning less than R42 000 (1992)	Temporary or permanent disability benefit (75% of earnings up to R2,000 a month); medical benefits; survivor benefit	- medical benefit up to 2 years - permanent benefit as a pension (long-term)

III Other Programmes:

a)Public health care	Everybody in need of medical care (means-tested)	Subsidy to the costs of medical care according to income	
b)Special health care programme	Pregnant women and children under the age of six	Full costs of medical care	
c)Public works programmes	Low wages are used as screening mechanism: Only the most needy will be willing to work for such wages	R7 - R25 per day	
d)Flagship programme	Unemployed women with children under five (the projects will reach about 120 women in each province)	Employment and training project	
e)Primary school nutrition programme (PSNP)	Children in primary schools	Food	

Some remarks about the programmes:

I. Social Assistance

The White Paper on Social Welfare states that about 2,8 million people in South Africa receive a grant³. The State Old Age Pension is the largest social assistance programme with about 1,7 million beneficiaries and the positive and redistributive effect of this programme is widely acknowledged⁴. The disability grant reaches according to the Department approximately 600,000 disabled people in South Africa. The State Maintenance Grant with about 350,000 beneficiaries will be phased out soon. Whether the Child Support Grant, which replaces the SMG in the beginning of 1998, will be effectively able to alleviate poverty remains to be seen. Besides the already minimalist approach of the programme to provide only R100 per month to children in the age-group of 0-6 years, the yet to be developed means-test could jeopardise the objective of reaching the poorest children in South Africa: According to information presently available, the Department of Welfare is considering targeting 48% of the children who live in households with an income of less than R833 per month. If a means-test, based on household income, is applied, it will directly discriminate against larger families/households and hence against the poorest children as they live in larger households. A means-test at the proposed level would exclude about 45% of the poorest children in South Africa⁵. In addition, the Department's target of 48% (of children from 0-6 years) does not correspond with current poverty levels of children in South Africa where approximately 65% to 70% of children live below the poverty line.

II. Social insurance

It is estimated that less than 12% of the unemployed benefit from the UIF⁶ due to the exclusion of groups of workers, the long-term unemployed and people who never had a job. On top of that the benefit is too low (45% of earnings) and too short (maximum of six months) to function as social security during time of unemployment and work seeking periods. According to the Report of the Presidential Commission to Investigate Labour Market Policy, the Fund faces financial, administrative and structural problems which need to be addressed urgently⁷.

3 WP p45 at 3.

4 COSATU submission on Social Welfare White Paper, p. 9

5 see Appendix

6 Report of the Presidential Commission to Investigate Labour Market Policy, par. 379

7 For more information on this point, please consult NALEDI publications and the report of the Labour Market Commission.

III. Other programmes

The special health care programme that provides free health care for pregnant women and children under the age of six was one of the first programmes implemented by the new government. This is a very important measure for this vulnerable group, but it covers only health needs for a limited space of time.

Although the positive impact of the other programmes for certain communities should not be denied, the success on a national level and their function in terms of a social security system is restricted because of the limited coverage. The Public Works Programmes have difficulties to get off the ground. The Labour Market Commission states that by January 1996 28,158 jobs had been created and an 'upper bound estimate of the employment creation would be 100 564 jobs'⁸. The low income which these jobs provide should be kept in mind. The Flagship Programme of the Department of Welfare only targets just over 1000 women. The nutrition programmes in primary schools, while making a difference for the children in the schools where such programmes exist, are according to media reports⁹ faced with financial and delivery problems or even closure due to fraud and corruption.

As argued above these programmes have the potential to alleviate poverty, but their impact is limited. If they are regarded as part of a comprehensive social security system this impact must be carefully analysed and evaluated.

1.2.2.) Potential coverage of the present system

The welfare system which the present government inherited from the National Party regime was not intended to provide either equal or comprehensive coverage to all South Africans. This created two problems:

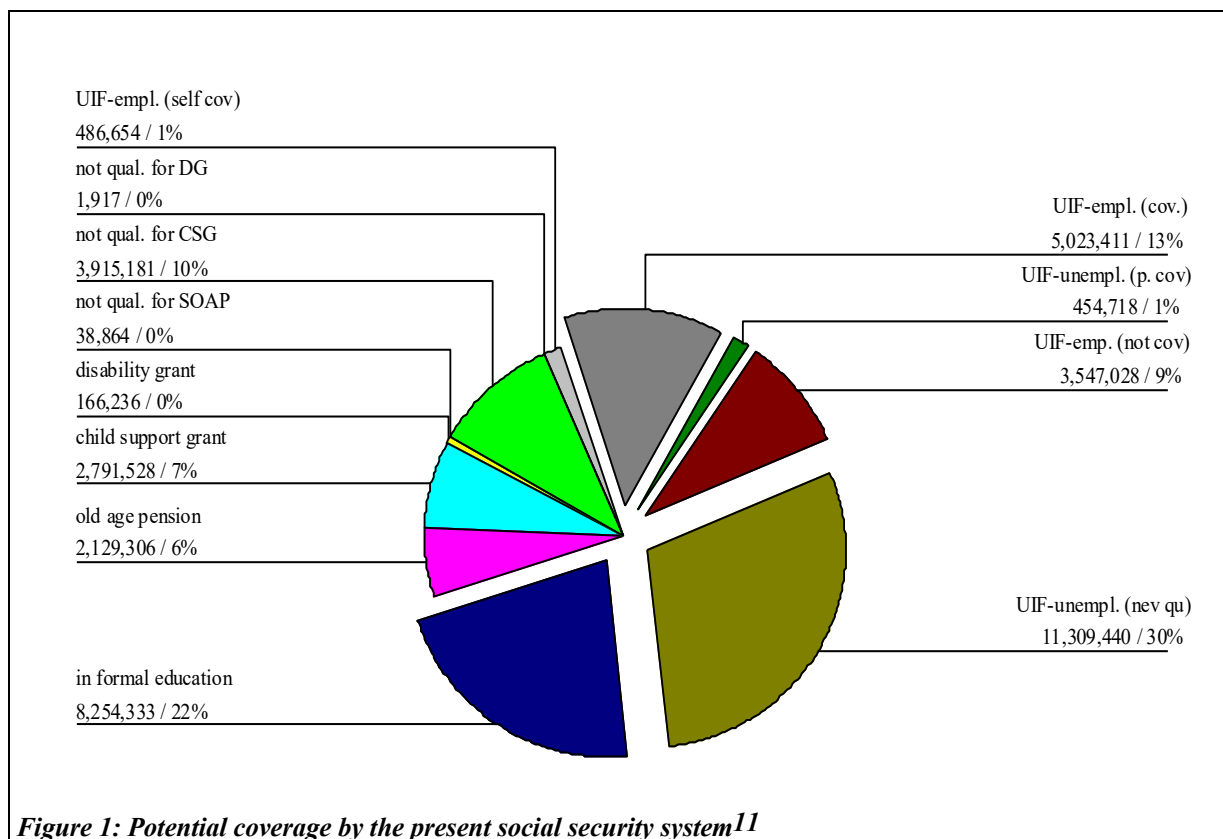
- Social security was not one consistent system but the contrary. A conglomerate of different systems with different policy objectives had to be reconciled.
- No coherent administration which is geared to service all South Africans existed.

While the latter problem, although the amalgamation of the different systems has been completed, still hampers social welfare due to delivery and efficiency problems, this paper wants

⁸ Report of the Presidential Commission to Investigate Labour Market Policy, par. 402

⁹ Mail & Guardian, January 31 to February 6, 1997

to look at the system side of the present social security system¹⁰. Therefore the question here is not who is reached and covered at the moment, but **who could potentially be reached if the revised programmes works with a 100% efficiency.**



¹⁰ The introduction of the child support grant marks the latest bigger social security programme which is meant to deracialize the maintenance grant system.

¹¹ All calculations done in this paper are based on calculations with the SALDRU data, which was collected just before the elections in 1994. The estimated population of 38 million correlates with the preliminary results of the 1996 census. All incomes have been increased by the consumer price index to 1997 standards.

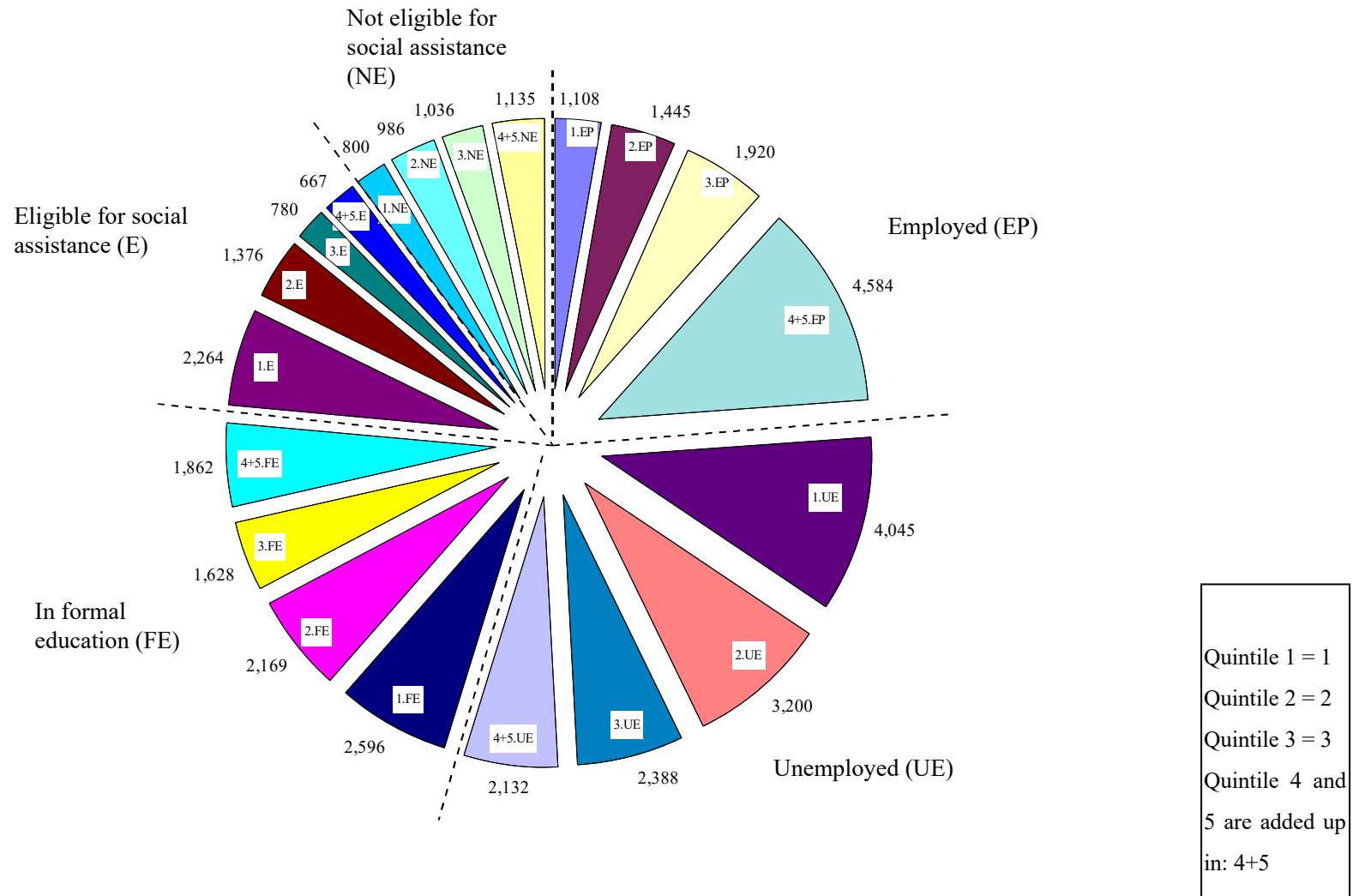


Figure 2: South Africa's population distribution according to quintiles grouped into people being eligible, not eligible for social assistance; employed, unemployed and in formal education. (numbers in thousands)

Figure 1 shows the potential coverage if the present system would reach 100% of the targeted people. The cake pieces which are not exploded (the left top quarter) are considered to be either covered by the present system in some form or belong to a group which is deliberately excluded from the present system as their earnings are considered to be above the means-test or UIF maximum. Here one has to distinguish between two groups: Firstly, people in employment who earn above the maximum set by the UIF. Secondly, children who do not qualify for the CSG if a household means-test as suggested is introduced at R800. While the first group will be able to provide for themselves, the second group consists of a large number of children who are living even below any reasonable poverty line and would be in need of support.

Figure 2 shows the relative poverty groupings according to quintiles.¹² This graph divides South Africa's population in the following groups: employed, unemployed, in formal education, eligible for social assistance and not eligible for social assistance. **Note that the definition of 'unemployed' is different than the commonly used definitions. This paper refers to the 'unemployed' as those without employment and those who are not in formal education. It was decided that for the purpose of this study this would be the most adequate definition as the gender implications of 'job-seeker' and 'not job-seeking' persons are avoided. This results in higher numbers of 'unemployed' than in commonly used statistics.** Whereas Figure 1 allows for a more detailed analysis of how each individual on its own is covered, Figure 2 gives an indication of who in these groupings are the poor and thereby on whom a comprehensive social security system should concentrate.

It is clear that the relative poverty measure into quintiles has severe shortcomings.¹³ One of the major problems arises due to the fact that and how this method defines a poverty line. The World Bank regards the bottom two quintiles as the poor and the top three quintiles as the non-poor. By nature a relative poverty measure does actually not allow for a clear poverty line, as it does not group people according to their needs. However, the World Bank justifies this method by saying:

It turns out that these cut-offs indicate an extend of poverty in the same range as that produced by the minimum food need lines. (World Bank, 1995:8)

12 Note that the 4th and the 5th quintile are summed up into one group. This was done for the sake of a better overview, as relatively few people fall within the richest two quintiles and the pieces on their own are rather slim.

13 For a detailed critique see Dirk Haarmann's forthcoming thesis: From state maintenance grants to a new child support system: Possible options with special reference to their financial, social and developmental impact.

It therefore needs to be kept in mind that this cut-off point is seen to be the minimum food line. While being aware of these shortcomings, the authors decided to use the division into quintiles because of comparison reasons.

Figure 1 shows that 30% of South Africans are unemployed and never qualified for the UIF benefits. It hence becomes clear that the UIF found cannot be seen as an adequate solution even for short term unemployment. While 13% of South African's have employment of the sort that they are supposed to contribute to the UIF found, only 4% less (9% of South Africans) are in employment which is excluded form UIF coverage. While Figure 1 only shows that 31% of South Africans are unemployed it does not give any indication whether all of them are living in poverty. Looking at Figure 2 it becomes clear that 62% of the unemployed live in the bottom two quintiles, indicating that they are living in households below the poverty line. This can be seen as an indication for high long term unemployment rates in the respective households. Adding the people being classified as living in the bottom two quintiles of those being unemployed or in formal employment or excluded from social assistance, it becomes clear that 13.8 million South Africans live below the poverty line without qualifying for support under the present social security system. This amounts to over 35% of South African's.

Box 1: Potential coverage by the present SSS

- 30% of South Africans are unemployed and never qualified for UIF support.¹⁴
- Only 13% of South Africans have access to short-term unemployment benefits.
- 9% of the population do not qualify for short-term unemployment benefits although they have employment.
- Old age pensions and the grant system are in terms of longer-term coverage the most important social security programmes. They could potentially reach 13% of the population.
- 62% of the unemployed are living in the bottom two quintiles.

14 Note that the definition of 'unemployed' is different than the commonly used definitions. This paper refers to the 'unemployed' as those without employment and those who are not in formal education. It was decided that for the purpose of this study this would be the most adequate definition as the gender implications of 'job-seeker' and 'not job-seeking' persons are avoided. This results in higher numbers of 'unemployed' than in commonly used statistics.

- In the bottom two quintiles 13.8 million South Africans (= over 35%) are unemployed or in formal education or not eligible for social assistance and do not qualify for support under the present social security system.

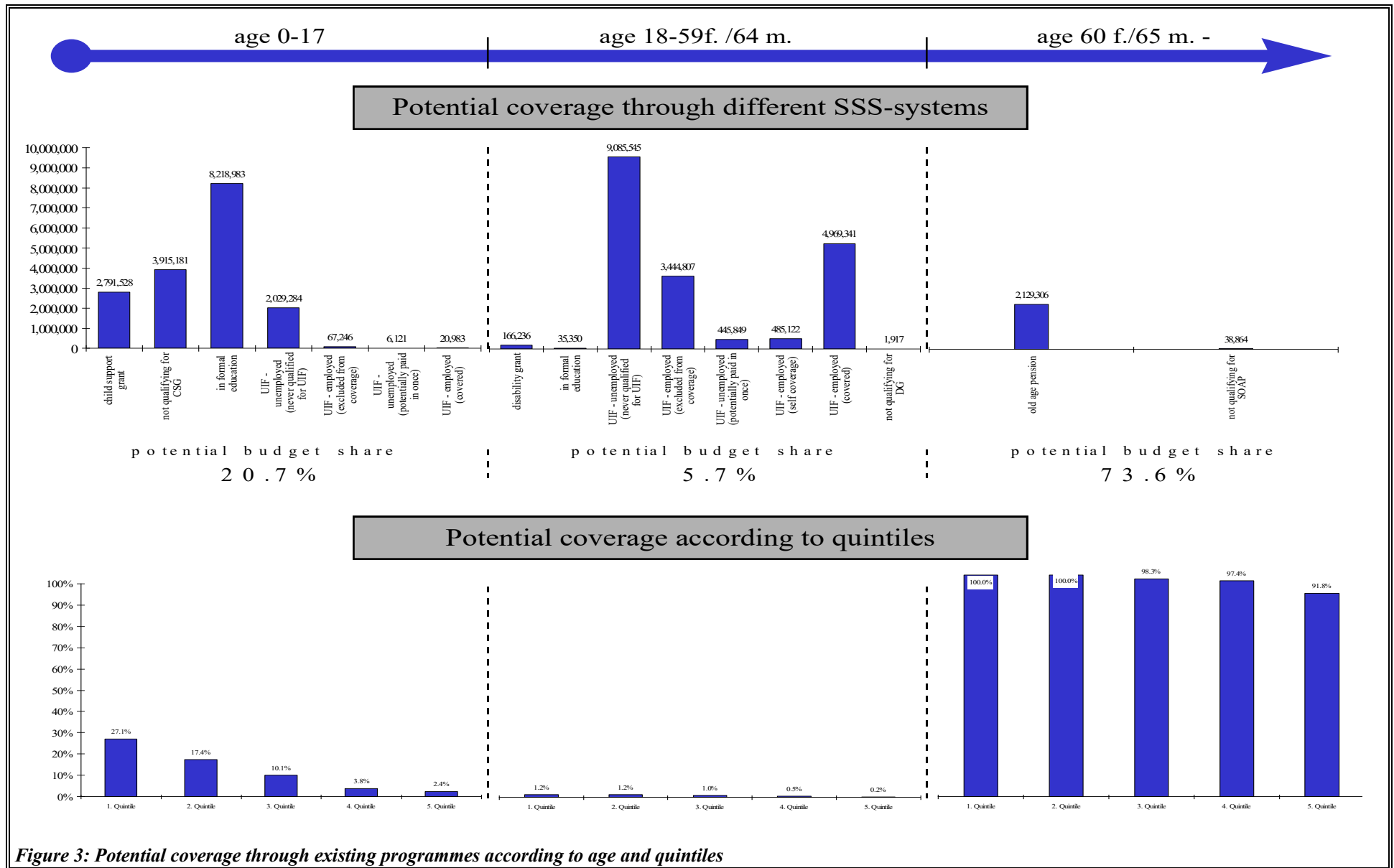


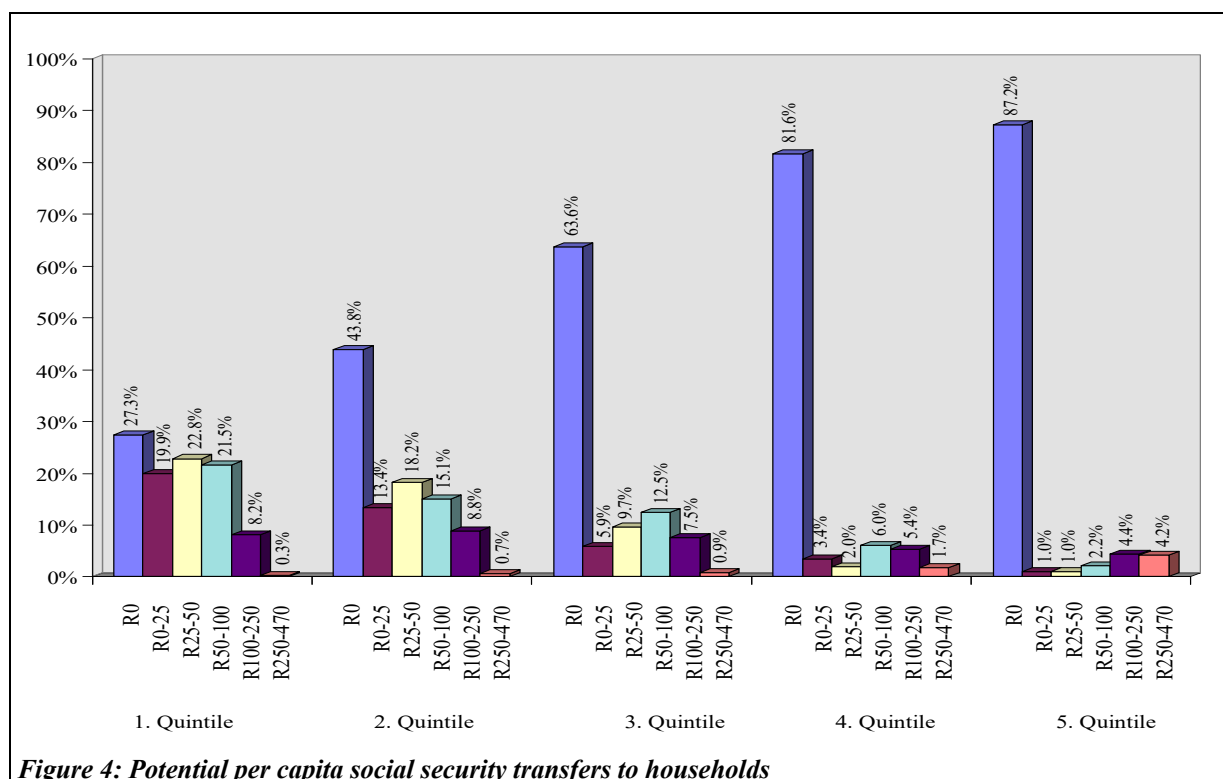
Figure 1 and Figure 2 have been looking at the South African population at once. Figure 3 now looks at the potential coverage over the life circle: childhood, adulthood and retirement. The first graph shows the same classification like Figure 1, however, they are separated now into the 3 age groupings. The second graph indicates how many percent in each age group according to quintiles are eligible for social assistance. In-between both graphs the percentage of the potential total budget share (social assistance) is indicated.

It becomes clear that the present system is strongly biased towards social security provision for the elderly. However, looking at the extremely low level of the old-age pensions it has to be clear that there is no room to decrease this part of social assistance in favour of the other population! This finding should be rather understood as an indication how little the support for the other age groupings is, knowing that even the amount for the old-age pensions does not guarantee a decent living.

Among the children it is striking that if the new child grant is introduced with the present suggested means-test, not even 1/3 of all children in the poorest and only 17% in the second quintile have access to it. For the adult grouping it becomes clear that nearly no social security is provided. Especially the group of the long term unemployed is vulnerable, as they do not receive any social assistance. Looking at the elderly it can be shown that in fact only a minority is excluded by the means-test. It seems to be questionable if a means-test is really cost efficient in the case of the old-age pensions. Or whether self-targeting would not free more resources currently spent on administration.

Box 2: From cradle to grave: comprehensive coverage?

- The main focus of the present system is the provision of social security support for the elderly. Over 70% of the potential budget share goes to Old Age Pensions.
- If the new child grant is introduced with the present suggested means-test, not even 1/3 of all children in the poorest quintile have potentially access to it.
- Less than 6% of the social security budget will potentially be spent on people between 18 - 59 (f) / 64 (m)
- Given the present poverty situation in South Africa, it is questionable whether the means-test is cost-efficient.



While the calculations above (except for the budget share projections) have solely looked at the potential coverage (width), Figure 4 attempts to clarify the depth of the coverage, namely how much the present system could potentially transfer to the different households (according to quintiles). It should be noted that the intervals reflected e.g. R0 - R25 per month at the bottom end are smaller than on the top e.g. R250 - R470. On the first look this distorts the picture, as one is inclined to believe that e.g. people represented in the second or third bar 'do already get something', but in fact the per capita transfer is minimal. This method was, however, chosen in order to allow for a greater differentiation of the people on the bottom side.

Nearly 27.3% in the bottom quintile and 43.8% in the second quintile live in households where no person qualifies for social assistance at all. So even assuming 100% efficiency of the present system, these households would receive no support at all. 70% in the bottom, 75.4% in the second and 79.2% in the third quintile live in households qualifying for less than R50 per capita per month.

Box 3: Potential per capita social security transfers into households

- Nearly 30% of the bottom quintile and over 40% in the second quintile live in households which -even assuming 100% administrative efficiency get no social security transfers at all.
- 70% of the bottom quintile would at best get less than R50 per month.

The next graph indicates the reduction of the poverty gap through social assistance payments. The question it tries to answer is by what percentage the present social assistance scheme potentially reduces the gap to the poverty line. For the sake of this calculation the UPE figure for a low-middle income group in Durban (standardised to a single person household) was taken as the poverty line. For example: If a household had a total income of R500 per month, and according to its size the poverty line indicated that the subsistence level for that particular household lies at R900, the poverty gap would be R400. If this household now received social assistance of R200 per month the poverty gap would be closed by 50%. It becomes clear that this method is sensitive towards the poorer household being relatively in need of more money than richer households.

Figure 5 is divided into quintiles. Each quintile entails information in six bars. The first bar gives the percentage of the potential budget share of the social assistance budget of the respective quintile. The next four bars indicate the percentage of people whose poverty gap is reduced by 0%, 1%-49%, 50%-99%, and 100% or more. The sixth bar indicates the percentage of people in the respective quintile who do not fall below the poverty line.

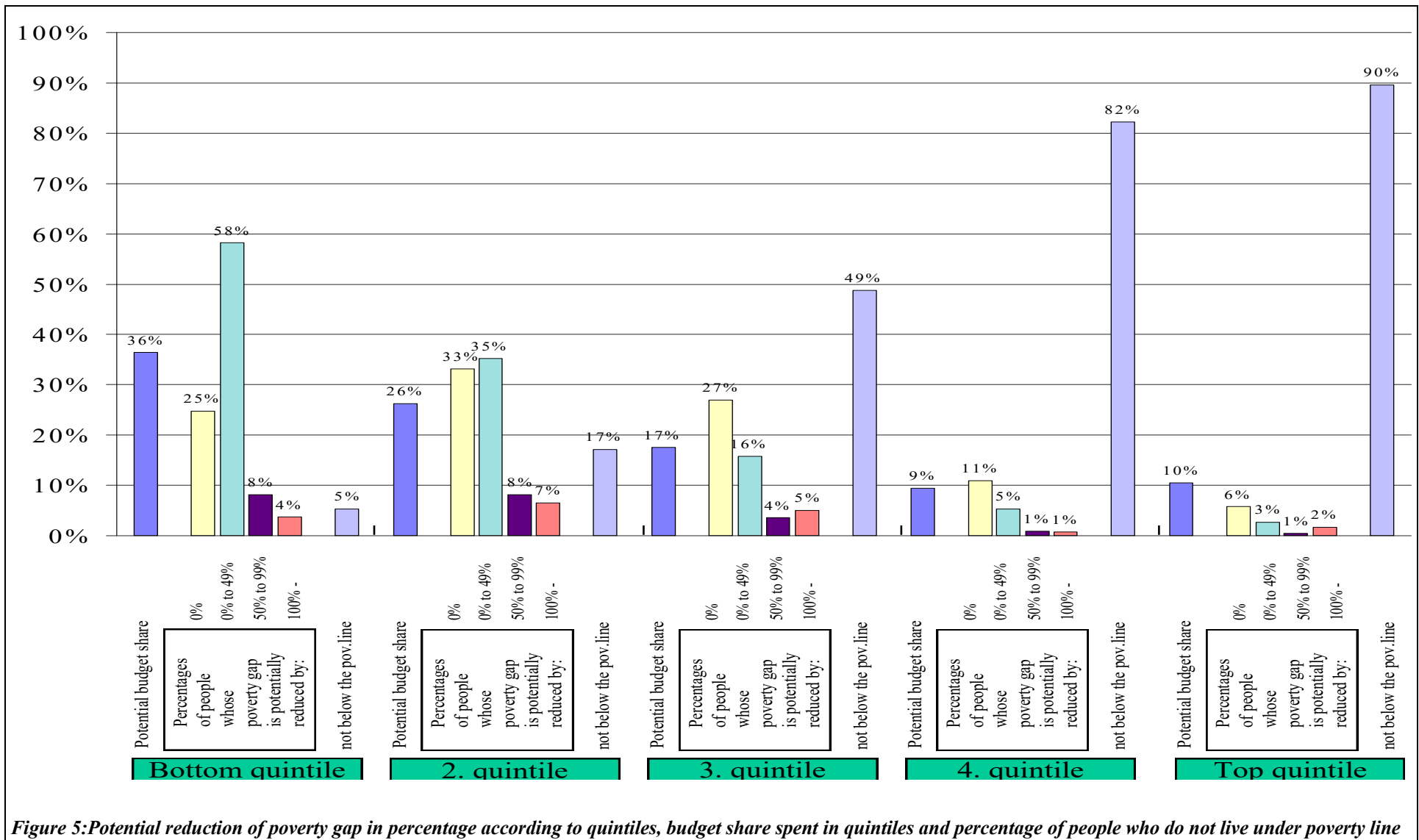


Figure 5 shows that social assistance for the majority of people in the bottom quintile at best only reduces their poverty gap by 49% or less. It is striking that only in 4% of the cases in the bottom quintile, social assistance reaches the extend to fully close the poverty gap. Even in the second and third quintile, it is only able to close the gap for 7% and 5% of the people respectively. It can be concluded that present levels of social assistance are far from being accurate to guarantee a minimum living.

Box 4: Present levels of social assistance

- For nearly 60% of the people in the bottom quintile receiving social assistance, the support potentially received reduces the poverty gap by less than 50%
- Only for 4% of the cases in the bottom quintile social assistance reaches the extend to fully close the poverty gap.

1.3.) Building a policy

1.3.1.) COSATU's position

COSATU has been addressing the question of a comprehensive social security system in South Africa during the last years. In particular, its involvement in the development of the White Paper on Social Welfare has led to the commitment of government to the development of 'an integrated and comprehensive social security system'. The issues which have been addressed by COSATU can be grouped into five broad categories:

- I. Role of government
- II. Social assistance
- III. Social insurance
- IV. Financial implications
- V. Research

I. Role of government

COSATU, by referring to the constitutional right to social security, has firmly stated that **the provision of social security is the responsibility of the state** and that this responsibility entails to assist people who are unable to support themselves.¹⁵ Hence, it is strongly argued that the state cannot rely on social insurance as that excludes people who cannot contribute to such schemes. COSATU has pointed out that the true test in regard to the constitutional obligation is whether government takes steps towards the progressive realisation of the right to social security in the form of a more generalised social assistance scheme.

Assuming the position described above, COSATU sees the need for clarification from the Minister of Welfare on the role of the state: The Minister in a response to COSATU's submission on the White Paper opposed its position and instead called for a redefining of the role of the state in the provision of social security 'by entering into partnership and promoting voluntarism'. It needs to be clarified if this 'redefining' entails a diminishing of the state's involvement in favour of privatisation.

¹⁵ COSATU submission on Social Welfare White Paper, p3

In order to deal with these and other questions, COSATU has called on the department to develop a comprehensive and integrated **vision of a social security system**. COSATU has suggested that an **inter-ministerial task team** should be appointed which can work across intra-governmental boundaries and which can lead to better co-ordination as social welfare does not exist in isolation but consists of different programmes. The White Paper, while saying that there should be 'inter-departmental and inter-ministerial planning and co-ordination, does not identify the government departments which should be involved. COSATU therefore suggested that the following should be included: Labour, Health, Finance, Trade and Industry, Housing, Education, Public Works and Transport. An inter-ministerial task team could ensure that all different aspects and elements of existing programmes are taken into account and that their interrelation can be analysed.

COSATU regards this not merely as a call for more co-operation but as a call for the restructuring of government in order to be able to meet the demands and to develop a coherent strategy.

Furthermore, COSATU also regards **broad consultation with civil society** as essential to ensure that social security becomes a combined effort of government and civil society. The linkages with civil society should therefore be formalised. A joint effort should be made to improve the service delivery of both, government and civil society.

It has been considered that broad consultation with civil society will be more fruitful in regard to the extension of social assistance to the poor, as organisations of civil society and labour will have similar goals. In regard to the restructuring of the social insurance schemes, labour considered bilateral talks with government, as the private sector might have contrary goals (privatisation) to the ones of labour.

Box 5: The role of the state

1. Provision of social security is the responsibility of the state
2. An inter-ministerial task team should be appointed
3. Civil society should be consulted on the extension of social assistance
4. Bilateral talks with government on the restructuring of social insurance should be considered

II. Social assistance

COSATU calls for a **universal access to social assistance for people who are unable to support themselves**. This is in particular important for people who are not in formal employment and who therefore are excluded from social insurance schemes.

So far two proposals have come up in regard to **an extension of social assistance**: A basic income programme which gives benefits to all citizens without a means-test or alternatively to people with a low income (less than R1000 a month).

Furthermore, COSATU has pointed out that the **administration and delivery of the existing system must be improved** so that the people eligible are reached.

Box 6: Social assistance

1. Extension of social assistance to all poor through universal provision
2. Improvement of administration and delivery of existing system to the people eligible

III. Social Insurance

COSATU has pointed out that the existing social insurance is not capable of extending to the people that benefit from social assistance. Therefore an investigation into a complementary system between privately and publicly funded social security is needed. A system providing universal coverage meets the challenges to find the right mix.

In terms of the restructuring of the existing social insurance schemes, three goals should be addressed:

1. Increase coverage
2. Reduce duplication
3. Create equity and democratisation

Box 7: Social insurance

1. Social insurance is not capable of covering social assistance needs
2. The restructuring of social insurance needs to look at increased coverage, reduces duplication and greater equity and democratisation

IV. Finance

COSATU sees the need to focus **financial planning** on the question of the **extension of the social security net**. This planning is important to give an informed opinion on the financial constraints of a policy. On the basis of this, strategies can be developed.

COSATU demands that the Department of Welfare spells out **quantified commitments or targets** to give meaning to the vision of a comprehensive social security system. Such commitments or targets would counteract cuts in welfare spending which would hurt the poor and benefit the wealthy but instead can lead to the reprioritisation of the budget in favour of Welfare.

Furthermore, COSATU speaks in favour of the **separation of the social security and welfare services budget**, because of the different activities funded by them. Such a separation would prevent that transfers from one component are used to solve the shortfalls of the other one.

Box 8: Finance

1. Financial implications of the extension of the social security net must be determined
2. Department of Welfare should spell out quantified commitments or targets
3. The social security budget and the welfare services budget should be separated

V. Research

Many aspects of the existing social security system, a new policy and the way forward need more detailed research. COSATU has, for example, expressed the need to have certain **statistics verified**, like the take-up rate of State Old Age Pensions. Furthermore, the **usefulness of the means-test** can be questioned and considerations of an abolishment would need to be informed about possible consequences. The development of a new policy must be grounded on research into, inter alia, **adequate levels of support** and **realistic time-frames** of implementation. Another important area is the relationship between **social security provision and economic spin-off**.

Box 9: Research

- More research into aspects of the existing social security system and into the development of a new policy is needed (means-test, certain statistics, adequate levels of support etc.)

1.3.2.) Present trends in welfare policy

The welfare policy in South Africa is outlined in the White Paper on Social Welfare which was approved by Parliament in February 1997. In the White Paper, the Department of Welfare has adopted a 'developmental' approach towards social welfare as it has emerged from the World Summit for Social Development in 1995 and as defined by J. Midgley. The main feature of this developmental approach is that **social development and economic development are interdependent and mutually reinforcing**. It acknowledges that economic growth without social development is meaningless as growth on its own does not benefit the whole population. Therefore mechanisms must be put in place which ensure the equitable allocation and distribution of resources. By the same token, social development cannot take place without economic development¹⁶.

This approach is seen as an appropriate strategy to overcome the legacy of the past and to fulfil the 'vision' of the White Paper, namely to create a 'welfare system which facilitates the development of human capacity and self-reliance within a caring and enabling socio-economic environment'.

The concept sounds promising, but the true test is how the Department fills it with concrete policies and programmes.

The newly adopted policy for child support, the Child Support Grant, can be seen as a test case for the development of concrete policy under the concept of developmental social welfare.

The Child Support Grant is aimed to pay R100 per month to the primary care-giver of children from 0-6 (incl.) years. The Department of Welfare says that 48% of the children in South Africa will be supported when the programmes reaches maturity. The policy was adopted on the basis of the Lund Committee's recommendations.

Focusing on the 'general' direction of the programme, one can identify two important points:

¹⁶ Midgley, 1996:3; WP

Firstly, analysis of the Lund Committee's report reveals that the Committee has given in to the pressure of working within the policy directives given by the macro-economic framework - meaning no budget increase is possible¹⁷. The recommendations are based on the belief that any demand for an increased budget could jeopardise the whole programme. This approach stands in stark contrast to the concept of developmental social welfare. While developmental social welfare regards economic development and social development as mutually reinforcing, the new policy adopted a pure dependency approach. The developmental approach, too, acknowledges fiscal constraints and argues for efficient social programmes, but the acknowledged necessity for social spending allows for an equal relationship between the two. This most important aspect of the concept underlying the White Paper on Social Welfare is not reflected in the Child Support Grant.

Secondly, the Department of Welfare accepted a minimalist approach towards the support of children. While it is accepted that some trade-offs (like the age-cohort, or the level of benefit) have to be made due to fiscal constraints, the question of where welfare policy, in particular social security, is going, has still to be answered. The Department of Welfare does not state that it is working towards the progressive realisation of the right to social security by looking into possibilities to increase the age-cohort or the level of benefit. Instead, it declares that the programme is only meant to support a certain percentage of poor families with parts of the costs of raising a child in its most vulnerable years. This approach is far away from a comprehensive social security system and COSATU rightly accused the Department of 'piece-meal restructuring' instead of looking at the broader picture of social security policy in South Africa.

Furthermore, the Department, while acknowledging the limitations of the Child Support Grant, refers to its 'developmental' programmes - like the Flagship programmes - which are meant to offer support and to substitute the Grant and the loss of the SMG. Besides the fact that they have extremely limited coverage, the argument unveils the trend to use the concept of developmental social welfare as a means of justification for cutting back on social security spending. Again, this is in contrast to the original concept of developmental social welfare. The concept does not substitute social security with developmental programme, but sees social security as an integral and important part of developmental social welfare.¹⁸ The challenge in the formulation of social security policies within the concept of developmental social welfare is to focus these policies on poverty.¹⁹

17 Lund report, 1996:24-25

18 'The developmental function (of social security) is expressed through the use of social security resources for both economic and human capital mobilization' (Midgley, 1993:136)

19 Midgley, 1993:136

Box 10: Present trends in welfare policy

1. The White Paper commits itself to 'developmental social welfare'.
2. The main feature of the concept of developmental social welfare is that social development and economic development are interdependent and mutually reinforcing.
3. This is, however, not reflected in the current policies: The concept is used to give priority to GEAR strategies over redistribution and social development.
4. Instead of working towards a concrete framework for the realisation of a comprehensive social security system, the impression is created that as soon as 'other' government policies (e.g. job creation) come into effect there would be no need for comprehensive coverage in welfare.

Paper 2: Comparative lessons

2.1.) Introduction

This paper is part of a series of papers written for the Congress of South African Trade Unions on the issue of a comprehensive social security system for South Africa.

The first paper analyses the current programmes which provide social security for South Africans. The impact of these programmes in regard to poverty alleviation is looked at. The analysis enables the authors to identify the vulnerable groups in South Africa which do not qualify for social security under the present system. Furthermore, COSATU's position on a comprehensive social security system so far is summarised and additional issues which will have to be addressed in a new policy are outlined.

While the first paper concentrated solely on the South African situation, the second paper now tries to look at what lessons can be learnt from comparative studies.

During the work on this paper (and especially during a social security conference in Johannesburg led by the ILO, which the authors had the privilege to attend) it has become clear that there are no models which South Africa could copy in order to address the present social and economic challenges the country is facing. It therefore was decided to focus on some generally important lessons one can draw from the experience of other countries in order to gain an overview.

The second part then has a closer look at the experience of 5 selected countries. It is clear that this can neither give a comprehensive overview of the international experience nor can it even do justice to the experience of the individual country. However, the examples should be seen as a point of departure and as an encouragement to look for creative solutions. Namibia was selected as an example for a developing country with a social fibre comparable to South Africa, which is in the process of building a social security system. Chile, Mauritius and Gabon were selected as relevant examples of social security systems which are like South Africa regarded as upper-middle income countries. Finally Germany was chosen as an example of a welfare state.

2.2.) General issues in Social Security

Before looking at different countries and their social security systems, some general issues on the topic will be outlined very broadly.

2.2.1.) Relationship to economic development

As already discussed in the first paper, the concept of developmental social welfare and, based on this concept, the White Paper on Social Welfare stresses the point that social and economic policy are interdependent and mutually reinforcing. It acknowledges that economic growth without social development is meaningless as growth on its own does not benefit the whole population.

Not only is that laid down in the concept of developmental social welfare but:

There is a growing international consensus that a successful attack on poverty requires a socio-economic development strategy that links growth and social policies in such a way that they reinforce each other. (Gsänger, 1994:1)

Furthermore in regard to rich economies Drèze and Sen (1991:11) pointed to the empirical fact that

improvements in living standards (...) have often been the direct result of social intervention rather than simple economic growth.

Looking at developing countries, Sooth (1992:15) quoting von Braun says:

No developing country with a formerly low level of income has realised higher income levels without a massive extension of the social spending budget.²⁰

Social security is an integral part of social policy as it reduces economic and social insecurity and hence supports the goal of social policy as formulated by Gesänger (1994a:87) for the intervention which ‘*meets the needs of both the individuals and their communities*’. Accord-

²⁰ The original quotation is in German: Kein Entwicklungsland mit zunächst niedrigem Einkommen ist in höhere Einkommensgruppen aufgestiegen ohne die massive Ausweitung des Sozialbudgets.

ing to Midgley (1996:1), social security in the industrialised world can be regarded as the single most important social programme today.

He, moreover, refutes the argument of the political right that social security is detrimental to economic growth as it apparently increases inflation and decreases work incentives. Midgley (1996:11) points to the fact that the changes made to social security by the 'right' did neither enhance economic growth nor the social well being of ordinary people. In contrast, he points out that

...many would argue that the changes introduced by the political right simply increased the wealth of those who were already prosperous and further impoverished the poor.

At a recent ILO conference in Johannesburg (November 17-19 1997) Scholz from the ILO office in Geneva indicated that the percentage of GDP spent on social security in industrialised countries actually increased, despite the claim of the dismantling of the welfare state. Giving Germany as an example of a country which has been governed by a conservative party for many years (15 years) he pointed to the fact that spending on social security was higher than ever before, in absolute as well as in relative terms. In regard to South Africa, he argued that the discussion whether social spending hampers economic growth was over: The necessity for a functioning social security system of some sort as a prerequisite for economic growth is widely accepted internationally. Moreover, South Africa is clearly in a totally different situation than industrialised countries with an already existing system. The restructuring and reduction of the welfare state in places like Sweden should in no ways be seen as a contradiction to an initiative in South Africa for developing a comprehensive social security system, in a country, where not even a basic system exists.

These facts make clear that the importance of social security especially in developing countries cannot be overestimated.

2.2.2.) Definition of Social Security

As the paper will outline social security systems of different countries, we have chosen to use a broad interpretation of the ILO definition of social security as it is widely used and accepted.

The ILO defines social security as

...the protection which society provides for its members, through a series of public measures, against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unem-

ployment, invalidity, old age and death; the provision of medical care; and the provision of subsidies for families with children'. (ILO, 1984:2-3)

Midgley (1996:3) indicates that the ILO distinguishes between four different funding possibilities of social security:

- a) Social insurance: occupationally based approach which is funded by workers and employers.
- b) Social assistance: benefits from general revenue for people eligible according to a means-test.
- c) Employers mandate: employers are responsible for benefits to employees who encounter specific contingencies.
- d) Social allowances schemes: benefits from general revenues to all who encounter specific contingencies without applying a means-test.

The need for social security can be seen as resulting either from unexpected hazard (temporary adversity) or from structural socio-economic insecurities (chronic deprivation) which prevent a person from meeting his/her basic needs. This difference divides the target group into two groups:

- The 'vulnerable': They have 'sufficient' income or resources, but they face certain economic risks which can typically be protected by social security arrangements.
- The 'poor': They need economic protection which ensures them a minimum standard of basic needs satisfaction.

Due to this division, social security systems entail two aspects:

- 'Protection': Prevention of the decline in living standards in general and in the basic living conditions in particular. This aspect is mostly covered by the provision of **social insurance**.
- 'Promotion': Enhancement of the normal living conditions and dealing with regular and often persistent deprivation. This aspect can be dealt with by **social assistance** schemes.

While the strategies might differ substantially, there are, at the same time, significant complementarities, and social policy can influence both aspects simultaneously. Burgess and Stern (1991:46), for example, argue that

... the probability of occurrence of extreme hardship would generally be reduced if the mean income (standard of living) is raised, provided the distribution (in the appropriate sense) is not widened.

Drèze and Sen (1991:4) see the same interdependence when saying that

...success with the promotional objectives may make protection easier (for example, individual insurance may be less difficult when one's normal level of prosperity is higher).

We will come back to these different aspects when discussing strategies and costs of different programmes.

The ILO model - 3 tier social security scheme

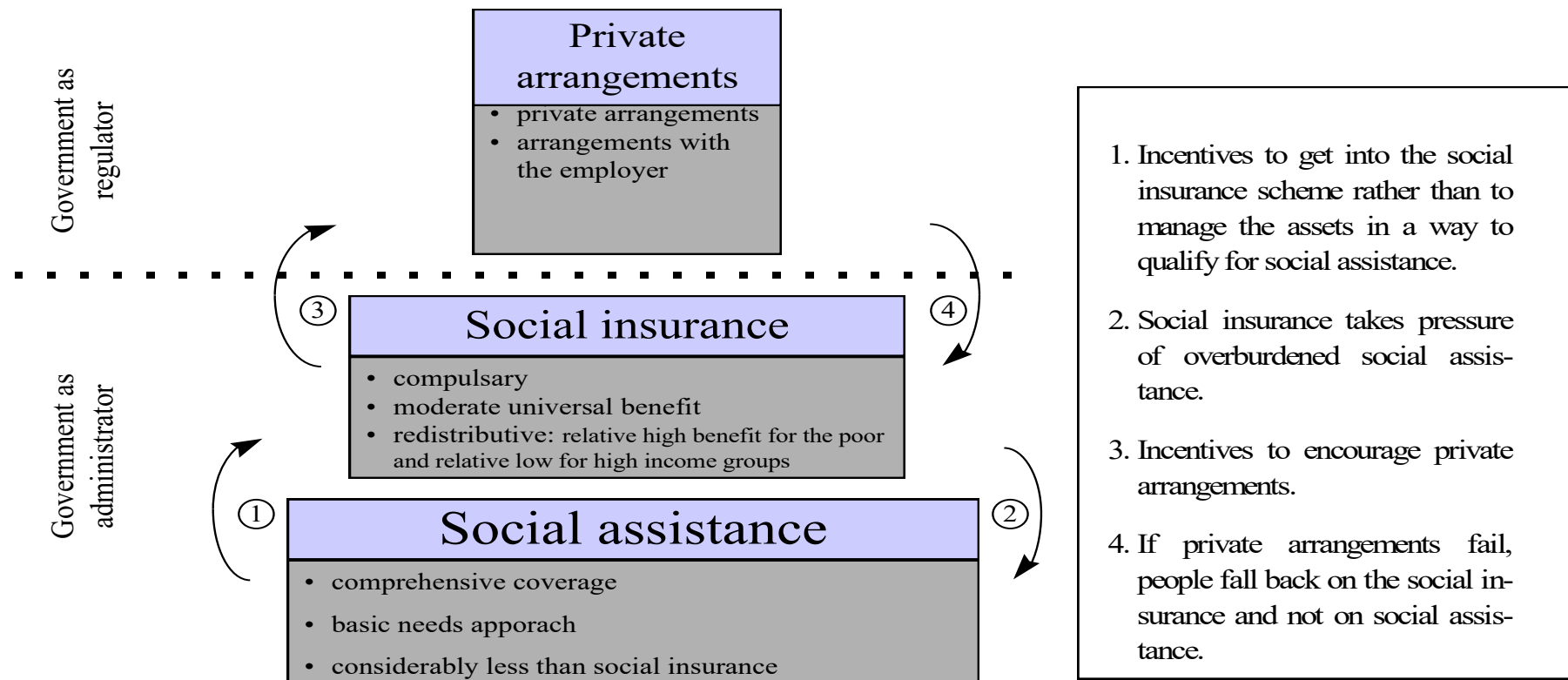


Figure 6: ILO model

2.2.3.) Reasons for the provision of social security

There are different reasons for the establishment of social security systems which have been identified by several authors (Drèze, Sen; Atkinson, Burgess, Hills, 1991)

Market failure	Vulnerability or deprivation may result where markets do not function well or do not exist at all (labour market, capital market, insurance market)
Re-distribution of wealth	Government regards the distribution of income as unjust
Raising standard of living of the poor	Structural reasons lead to chronic deprivation which government wants to reduce
Rights	The provision of social security might be confirmed in the constitution and regarded as a fundamental right
Public pressure	Pressure from individuals, communities and social or political organisations may provide one of the strongest (positive) reasons for government provision for social security. In terms of developing social security systems Burgess and Stern (1991:58) note that <i>the empowerment of the poor and their participation (...) appear to have been of crucial importance in countries which have had some success in the provision of social security.</i>

2.2.4.) Dynamics

When providing social security, there are three different constraints which have to be taken into account:

I. Economic incentives and constraints

The structure of social security and the financial capacity of a country are interrelated. There are positive effects of social security like higher productivity or reduction of dependency on children in old age. (These positive sides will be discussed in more detail in the section on ‘impacts’.) However, mostly the negative aspects of social security on behaviour are highlighted. The standard argument against social security / assistance is

...that transfers to the poor have been counter-productive, in that more people are deterred from seeking self-help than are raised above the poverty line by the transfers. In the case of benefits in kind, it has been argued that households reduce their own purchases, or resell the goods, thus undermining the attempt to achieve specified consumption levels of particular goods. (Atkinson & Hills, 1991:86)

In regard to social insurance, it is argued that

...unemployment insurance makes people work less hard whilst on the job (because they are less worried about losing it), and put less effort into finding a job that would be the case if there is no support at all for the unemployed. (Burgess & Stern, 1991:70)

These arguments are under a lot of discussion, as the data for developed countries in this respect is conflicting (Atkinson & Hills, 1991) and in regard to developing countries a lack of data does not allow for decisive conclusions either (Burgess & Stern, 1991).

The arguments are connected to the earlier section on ‘relationship to economic development’. Moreover, the question of financial resources when developing a social security system has to be addressed. While it is accepted that the social security systems of industrialised countries as such are not feasible in developing countries, the overemphasis on the argument of restriction by limited economic development and resources has to be looked at.

Resource constraints should not be overlooked but it would be a mistake to regard these constraints as the most important obstacle to be overcome in attempts to provide social security through direct public support in developing countries. (Drèze & Sen, 1991:28)

The authors regard the creation of political, social and economic conditions under which the system can function and which are designed to lead to determination and effectiveness in the orientation towards the deprived groups in a country as far more important.

II. Administrative constraints

Incomplete information and maladministration are the two main administrative constraints which will be highlighted here:

- **Incomplete information**

Social security systems have to be able to identify potential beneficiaries. However, information on the welfare status of individuals is highly imperfect. This is in particular the case if it comes to means-testing and the identification of poverty lines which is mostly needed for the provision of social assistance. In regard to social insurance which is related to life cycle contingencies, like maternity, old-age etc., the needs assessment is easier. A possible targeting of the poor by

contingencies requires a careful analysis in how far they fall into one of the contingencies. (e.g. Single mothers).

- **Maladministration**

Burgess and Stern (1991:66) identified the problem that

...there is no guarantee that this objective (removal of deprivation or protection from adversity) is shared by the agency which actually implements the policy.

This can lead to corruption and misappropriation by agency officials.

The ILO at its recent conference on social security in Johannesburg highlighted further problems of public agencies, especially in Africa:

- Faulty record keeping.
- Delays in payments.
- Poor investment policies.
- Lavish spending on salaries and fringe benefits, cars, and international travel.
- High administrative costs.

Having identified these problems, the question whether private management instead of public would be a better option, the following strengths and weaknesses of private management were spelt out:

Strengths	Weaknesses
Broaden investment options	Loss of economics of scale and administrative efficiency
Exit options (consumer choice)	Risk of lower programme participation
Harness profit motive to increase investment yields	Shifts government's role rather than eliminating it

The trade-offs in the public/private choice can hence be formulated as follows:

- Lower administrative costs versus greater consumer choice.
- Government as administrator versus government as regulator.

III. Political constraints

The overall political philosophy is a key factor not only for the setting of the goals for social security systems, but also for the resources which are made available for the programmes.

Indeed, the provision of social security is not at all an automatic consequence of economic growth, but reflects the political process. (Atkinson & Hills, 1991:87)

Public confidence in and acceptance of social security systems depend on the perception of the benefits and costs of the programmes by the electorate. In general, the degree of electoral support for socialist or radical parties, or the strength of organised labour is expected to influence the redistribution via social security.

Moreover, public pressure by interest groups is an important factor. It has to be taken into account that the 'middle class' is often better organised and able to voice their demands than the poor.

2.2.5.) Strategies

When looking at different strategies for the development of social security systems, two contrasting approaches can be identified (Drèze & Sen, 1991:22-28):

- **Growth-mediated security:** This approach promotes economic growth and then takes the best advantage of the potentialities released by greater general affluence, including not only the expansion of private incomes but also an improved basis for public support.
- **Support-led security:** This approach resorts directly to wide-ranging public support in domains such as employment provision, income redistribution, health care, education and social assistance in order to remove destitution without awaiting a transformation in the level of general affluence.

There are success stories for the growth-mediated approach (Kuwait) and experience where economic growth was not combined with social provisioning (Brazil). On the other hand, in countries with low economic growth, e.g., Costa Rica, Cuba and Jamaica, outstanding results in social indicators, like under 5 mortality, have been achieved by ambitious programmes of public support at an early stage of development. (Drèze & Sen, 1991:26)

These different strategies cannot be discussed thoroughly here, however it should be noted that the experience of support-led security suggests that the belief that the provision is 'inordinately' expensive is at least to some extent misleading. (see also economic constraints)

2.2.6.) The family and the community as providers of social security

Besides the state, one should also note the importance of the family and the community in providing social security (informal social security). There are certain advantages and disadvantages mentioned by Burgess & Stern, 1991:59-62.

Advantages:

- Private transfers are significant to help smooth consumption and are directed towards the poor, the young, the old, women, the infirm, and the unemployed.
- There is an informational advantage on this level as the immediate family or community may be well placed to judge whether an individual has really fallen on hard times. In addition social opprobrium which can arise from fraud/neglect can be very strong.

Disadvantages:

- The community and the family are affected by adverse phenomena at the same time as help is needed. This places constraints on the effectiveness of social security provisions on that level.
- There might be a stigma attached to an application for help in communities.

A possible solution to these disadvantages is to draw on 'grass-roots organisations' which have contact to the community and at the same time may be big enough to socialise the risk.

The relationship between formal and informal social security provision is an important factor. Empirical evidence points to the fact that provision of assistance from the state does not result in the complete replacement of the assistance provided by the family or community, though partial displacement - if the programme is not well planned - might occur.

Moreover, the gender dynamics of community and informal provision of social security has to be looked at. Often women are the ones who take up community and 'voluntary' work. Therefore, the approach entails the danger that the burden is put disproportional on women.

2.2.7.) Impact

The political and economic impact of social security systems can be summarised (in accordance with Lambert) in the following table:

Impact on micro level		Impact on macro level				Impact on society
Individual and private households	Business	Economic trend	Growth	Economic structure	Distribution	
Economic security	Increase in costs of production	Stabilisation of consumption spending	Population growth	Change in costs structure	temporal: aimed at persons	social stability
Greater personal freedom	Stabilisation of demand		Supply of labour	Change in price structure	temporal: aimed at generations	social justice
Decrease of need to supply labour	Increase of productivity		Increase in productivity	Change in demand structure	amongst persons: Insured/non-insured	
Improvement in health status, reduction of mortality, rise in life expectancy	Social stability		Increase and stabilisation of consumption spending	Change in the relationship between private and public goods	amongst persons Employee/ self employed	
Decrease in working years			Increase in savings	Change in property investment	amongst persons in the group of the insured	
Social integration			creation of capital			

2.3.) Examples from different countries

2.3.1.) Germany²¹

The German social security system is quite complex and complicated, therefore only the main features are outlined here. The German system is mainly based on a social insurance system which depends on formal employment and is financed by the employees, the employers and the state. In addition, the state provides social assistance for people in need. This system is financed by tax revenue. While the system started in the late 19th century under Bismarck with the main focus on unemployment benefits, it developed over the years into a comprehensive social security system. The following aspects make up the social insurance schemes:

- public health insurance
- care insurance (only recently to cover the costs for care in old age or illness)
- unemployment insurance
- accident insurance
- pension insurance

²¹ Based on Dietz, 1996, König, 1996 and Roppel, 1992

The contributions are based on the level of earnings of the employee. The system therefore intentionally entails a certain degree of redistribution.

The social assistance covers:

- child allowance
- accommodation allowance
- educational allowance
- social assistance: covering of living expenses and special circumstances like disability, pregnant women.

In 1992 around 1,3 million households in Germany received social assistance. Over 50% of these households were single person households, the second largest group were single parents with children and also a considerable group of families with children.

In 1990, the social budget amounted to about DM 70.3 billion or nearly 30% of the GDP.

Population in mill. (WB ²²)	81.5
GNP average annual growth rate 1985-1994 (WB)	(not available due to the unification)
Real GDP per capita (PPS\$ ²³) (HDR)	19,285
Human Development Index ²⁴ (HDR)	0.924
HDI ranking (HDR)	19
Life expectancy at birth (yrs.) (HDR)	76.3
Infant mortality (per 1,000 live births) (WB)	6
Urban population growth rate 1990-94 (WB)	1%
Gini-index (WB)	not available
Spending on social services ²⁵ as % of total spending 1994 (WB)	not available (1980:68.8%)

The financing structure of the retirement system is one of the main aspects which are under discussion in Germany: Being based on the 'pay-as-you-go' concept, the pensions of one year

22 All data provided is from 1994. WB data is according to the World Development Report 1996: From Plan to Market, published by the World Bank. HDR data is according to the Human Development Report 1997.

23 *Purchasing power parity (PPP) estimates of GDP per capita: the U.N. International Comparison Programme (ICP) has developed measures of GDP on an international comparable scale, using purchasing power parities instead of exchange rate as conversion factors. The PPP conversion factor is defined as the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as one dollar would buy in the United States. (World Bank, 1996:225)*

24 The Human Development Index value is according to the Human Development Report 1997.

25 Includes education, health, social security, welfare, housing and community amenities.

are financed by the contributions of the same year (social contract). Germany, due to lower birth rates and higher life expectancy, faces the problem of an ageing population. This leads to higher demands on the scheme and will require higher contributions from the present generation.

2.3.2.) Chile²⁶

Since 1973, Chile's economic development is characterised by a neo-liberal macro-economic policy and structural adjustment programmes. While the strategy did lead to economic growth, social development did not take place. Poverty increased from 17% of people living below the poverty line in 1970 to 38,1% in 1987. This is accompanied by a largely unequal distribution of income.

The social policies follow the principle of decentralisation, privatisation and specialisation (focus) which is influenced by the strategy of the 'Chicago Boys' and in line with World Bank policy.

Population in mill.	14.0
GNP average annual growth rate 1985-1994	6.5%
Real GDP per capita (PPS\$)	9,129
Human Development Index	0.891
HDI ranking	30
Life expectancy	75.1
Infant mortality (per 1,000 live births)	12
Urban population growth rate 1990-94	1.8%
Gini-index	56.5
Spending on social services as % of total spending	64.9%

The main factor of the restructuring of the former social security system is the privatisation of the pensions scheme and the medical aid as well as the education system.

Here the privatisation of the pension scheme should get special attention. It was privatised in 1983 and 13 different companies were founded, of which 4 are foreign companies. Despite the privatisation, membership is still compulsory for employees in formal employment. Self-employed people can join the scheme voluntarily. The main difference to the former public scheme is that now only the employee pays contributions whereas before also employers and the state contributed. The government regulates the administration and the investment policy of the companies in order to secure stability.

²⁶ Based on Stahl, 1994 and Queisser, 1995

The positive assessment in the first years has given way to growing scepticism in regard to the economic feasibility and the social implications of the new system. While the economic indicators were favourable in the first years, the administrative costs are relatively high (34-42% now 25% of the contribution) and 65% of the insured are concentrated in the three biggest companies. The success of investment is largely dependent on the macro-economy which entails a high risk (inflation etc.). Moreover, the capital is often used for the privatisation of government assets and companies. The security of the funds is therefore questionable.

The social implications gave rise to further criticisms. Although membership is open to the self-employed, small businesses and casual workers, they are in reality mostly excluded. Only 60% of the 4 million formal members pay their contributions regularly²⁷. The reasons for this are unemployment, seasonal work, low levels of income in the informal sector, but also corruption from the side of the businesses which keep the contributions of their employees. This does not only affect the economic feasibility of the scheme and the security of the pensions for the members, but it also means a further exclusion of low level income groups and the poor.

The social programmes of the state are mainly poverty alleviation programmes and public works programmes. These programmes include family allowances, nutrition programmes and free health care, public housing and public works programmes. These programmes are however restricted to people who live in extreme poverty and not all households below the poverty line have access to these programmes. Furthermore, the programmes have mainly charitable character and are not aimed at the development of a safety net.

In addition, the World Bank has established a social fund to soften the 'social costs' of the SAPs. Unlike other funds in Latin America, the one in Chile is designed for long-term development and integrated into the social programmes of the government. The fund provides credits or financial support for NGOs or municipalities. The main focus is to enhance the productive sector (small business support, training etc.) or to improve the standard of living (infrastructure, nutrition etc.). Points of criticism on the fund include the dependency on foreign funding and, related to that, the lack of possible redistribution in the highly unequal distribution of income in Chile.

All in all one has to conclude that the social security system in Chile does not have a good coverage and the changes introduced under the neo-liberal strategy lead to a situation in which even less people are covered. Neither the private sector nor the state social programmes

27 Another author speaks of 57% of 5 million employees.

are able to provide social security for people living in poverty. Furthermore, the new system tends to exclude low wages workers in urban centres which often face irregular work opportunities and unemployment which makes regular contributions impossible. The changes introduced neither contribute to a more equal distribution of wealth nor to social justice, but exaggerated the negative social implications of the neo-liberal economic strategy.

2.3.3.) Mauritius²⁸

The development of a social security system in Mauritius started over 100 years ago and the social policy efforts after independence in 1968 had a good starting point as especially a fairly well developed administration was already in place.

The social security system in Mauritius covers the following aspects and is built on a combination of social insurance and social assistance:

- health care
- pension scheme
- employment injury and invalidity
- social assistance for families, disabled persons, unemployment benefit

Population in mill.	1.1
GNP average annual growth rate 1985-1994	5.8%
Real GDP per capita (PPS\$)	13,172
Human Development Index	0.831
HDI ranking	61
Life expectancy	70.7
Infant mortality (per 1,000 live births)	17
Urban population growth rate 1990-94	1.4%
Gini-index	not available
Spending on social services as % of total spending	not available

Government officials and the military are excluded from the schemes and have much better benefits than the rest of the population.

The state provides free health care for people below a certain income level (ten times the minimum wage). People with a higher income have to pay and hence contribute to the costs of the system. The remaining costs which amount to 9,2% of the overall budget are covered by the state and are well above the average of sub-Saharan countries (5-6%).

28 Mainly based on Sooth, 1992

The state provides a basic pension for all citizens which is seen as a contribution from the side of the state to the living expenses of persons older than 59 years. In 1990, the level of the pension amounted to approximately 31% of the minimum wage. In addition, contributions to the National Pension Scheme are compulsory for people in formal employment. Employees and employers pay 3% and 6% respectively. Failure to pay from the side of the employer results in high penalties or up to 3 months in prison.

Insurance against employment injuries and invalidity is based on contributions and depends on the level of income. In case of permanent disability the pension amounts to 80% of the former wages which is higher than the normal pension. However in case of death, the widow/er receives only 50% and dependants only 7,5% of the wages.

The state provides social assistance for people who are disabled, who were deserted or unemployed for longer than six months and not able to support themselves or their families. The assistance is means-tested. A family with two children can receive 220 MR under the scheme, whereas the employees in the lowest income group earn about 600MR per month.

Looking at the system, one should be aware of the fact that Mauritius has a shortage of labour at the moment (1991). In addition, due to large sugar plantations in rural areas and the compulsory insurance for the employees, the overall coverage rate is relatively high in comparison to other countries. (1:2,3) However, the 'self-employed' in the informal urban sector are still excluded.

2.3.4.) Gabon

Although the country already had some social programmes like family allowance and medical aid for civil servants, the development of a social security system only started after independence in 1960.

The system has, like in Mauritius, insurance and social assistance components. However, the insurance component is divided according to employment status. The following three groups each have their own system:

- I. Government officials and military (20%)
- II. Employees in the formal sector (20%)
- III. Public servants, self-employed and seasonal workers

Population in mill.	1.3
GNP average annual growth rate 1985-1994	-3.7
Real GDP per capita (PPS\$)	3,641
Human Development Index	0.562
HDI ranking	120
Life expectancy	54.1
Infant mortality (per 1,000 live births)	89
Urban population growth rate 1990-94	5.1
Gini-index (1994)	not available
Spending on social services as % of total spending	not available

The ministry of finance administers the benefits for the first groups and pensions, maternity leave, medical aid, payments for employment injuries and family allowances are provided. The costs are met by the state.

The benefits of the second and third group are insurance based. The administration of the second group is in the hands of a private company, but regulated by the respective ministries. A public agency is responsible for the administration of the third group.

Looking at the last two groups, the following aspects are covered:

- pension, invalidity and surviving dependants
- medical aid
- family allowance and support for school fees

The contributions in the second group are divided between employee and employer with 2% and 5% respectively. The insured in the third group have to pay their contribution every three months. Due to problems which often resulted in failure to pay the contribution, the agency found an interesting incentive for this group: The payment of family allowance and health

expenses (which are covered by social assistance) are dependent on the payment of the contribution to the insurance.

The medical aid for the second group is financed by contributions of the employer of 2% and the rest has to be paid according to the level of income by the employee. The state provides the most important drugs for all citizens.

The state provides health care for people in the third group and people below a certain income group.

The second and third group receives family allowances and contributions to school fees from the insurance at circa 3 (2) times the rate of the social assistance benefit for non-insured. It has to be taken into account that this benefit is only 5% of the current minimum wage.

2.3.5.) Namibia

Namibia is in the process of establishing a social security system. Due to its historical similarities it might in fact offer some interesting insights for South Africa. In 1994 the social security law was passed in Namibia. This law introduced a state social insurance system for sickness, maternity and death benefits (funeral expenses). The Namibian government deliberately launched the short term benefit scheme first, in order to gain broad political support for the programme. As the ILO experts explained at the recent ILO social security conference in Johannesburg this worked extremely well: People directly (and not only after years e.g. pension scheme) felt the difference. In fact, an application can

Population in mill.	1.5
GNP average annual growth rate 1985-1994	3.3%
Real GDP per capita (PPS\$)	4,027
Human Development Index	0.570
HDI ranking	118
Life expectancy	55.9
Infant mortality (per 1,000 live births)	57
Urban population growth rate 1990-94	6.2%
Gini-index	not available
Spending on social services as % of total spending	not available

be processed in one hour if all papers are in! These tangible effects, an aggressive customer care, including reception desks at each welfare point, and broad public relations programmes assure public support.

The scheme is financed by a 0.9% contribution rate (each from the employer and the employee) with a maximum payment of N\$400 per month. According to the ILO it is to be expected that this rate can be reduced over time as it over insures the risks covered. The benefits are structured in a redistributive way: Part of the high income groups contribution is used to top up the minimum benefit for low income groups.

The Namibian government plans to introduce a compulsory pension scheme in 1998. (Namibia has a social assistance scheme although on a lower level than the South African state pensions.) At the same time, it aims to introduce a development fund in order to address the problem of poverty caused by long-term unemployment. The idea is to collect more money for the compulsory pension scheme and to use some of the money for the social development fund. The ILO has so far been critical of this suggestion as they fear that this might erode the public support for the programme if workers money is used for other purposes than the social insurance scheme. However, the idea enjoys the support of the Namibian President who regards it as a way to address the massive poverty problem. The ILO said that one solution in fact might be to publicly announce that a certain percentage (e.g. 0.2%) of the money is used for such a fund. This percentage should than be regarded as a self imposed limit, which the government should be accountable for.

	old age	coverage	un-employment	coverage	family	coverage	health	coverage	population	GNP per capita	Av. ann. growth	adult illiteracy (female / male)	infant mortality per thousand birth
Germany	insur. & ass. & pri.	whole pop.	insur. & ass.	whole pop.	ass. & (+tax benefit)	means-test	ins. & ass.	whole pop.	81.5 mill.	25,580			6
Chile	insur.	comp. for form.empl.	pr. & ass.	extreme poor	ass.	extreme poor	pr. & ass.	extreme poor	14 mill.	3,520	6.5	5 / 5	12
Mauritius	insur. & ass. & pri.	whole pop.	insur. & ass.	whole pop. (small benefit)	ass.	means-test	ass.	means-test	1.1 mill.	3,150	5.8	21 / 13	17
Gabon	insur.	form & part of inform.	insur.	form. & part. inform.	insur. & ass.	poor	ins. & ass.	poor	1.3 mill.	3,880	-3.7	47 / 26	89
South Africa	insur. & ass.	whole pop.	insur.	form. empl.	ass.	extreme poor	ins. & ass.	vulnera.	40.5 mill.	3,040	-1.3	18 / 18	50

Figure 7: Comparative systems

Looking at the different systems, one can clearly identify the logic behind the ILO - model as discussed earlier. In countries like Mauritius and Gabon, the compulsory pension insurance run by the state or strongly regulated by it, has advantages for the whole population and seems to enable the government to build in some redistributive mechanism for the sake of social assistance. The Chile example reveals the disadvantages of privatisation (see p.40). The scheme lacks extended coverage to the informal sector and the poor not only in regard to pensions, but also regarding access to health services and education.

Paper 3: Different options

3.1.) Introduction

This third paper outlines three basic options to extend the coverage of social assistance measures. Furthermore, it presents some of the important factors which should be part of a microsimulation model that would be able to sketch the social and financial implications. The paper is based on the research done for the first two papers, on a workshop with the 'Reference Group' on 24 November 1997, and on subsequent discussions with the COSATU Parliamentary Office. Furthermore, the discussions at the second workshop on 26 January 1998 were later integrated into this paper.

The three options which crystallised are:

1. A basic grant for all citizens
2. A basic grant on the basis of a means-test
3. Unemployment support

The first option is based on the idea of social citizenship and would come as a social entitlement. It would alleviate extreme poverty, reduce inequality and promote social stability. The second option has the same foundation. However, a means-test is applied to target people and thereby the number of people supported and the direct costs are reduced. The third option entails that people receive support during time of unemployment. This idea is based on a life-cycle contingency approach in contrast to a basic grant approach.

The paper, firstly, discusses these options and secondly presents some of the factors needed for a possible microsimulation model.

3.2.) The three options

3.2.1.) A basic grant

The idea of a basic grant or a guaranteed minimum income is an old approach and has been advocated by different political sides. Already Aristotle spoke about the need to promote distributive justice and as conflicting economists as Marx and Hayek argued for a guaranteed minimum income.

The approach can either be realised through a support on a low level where everybody receives a certain amount (basic grant) or through a negative income tax (guaranteed minimum income) where every person or family who earns less than a defined minimum would receive a 'top up'. Here only the first option will be considered. This has two reasons: The second option would require a very well-established tax system, which does not exist in the present South Africa. Furthermore, most of the people eligible would either have no income at all or would earn it in the informal sector where they do not earn a regular and easily determinable income.

This first option could entail a mechanism - to regain some of the costs involved - which reclaims the amount paid out - or even more than that amount - from people above a certain income level. That could be operated by the tax system and the amount would be added to the tax payable.

There are various advantages and disadvantages attached to such a basic grant²⁹.

The advantages of a basic grant are:

- It helps to alleviate extreme poverty.
- It favours larger households, which tend to be poorer, as they pool income.
- It leads to a more equal intra household distribution of income which contributes to the empowerment of women and younger people in the family.
- It contributes to make people economically active.

²⁹ Jeremy Baskin had recently advocated the idea of a basic grant in South Africa. (Mail & Guardian, January 24 to 30, 1997) He identified some of the advantages mentioned here.

- It gives people important cash resources which enables them to take part in community development in a meaningful way.
- It contributes to the improvement of the health status. Thereby, it increases productivity and improves the ability of children to learn and perform at school.
- It reduces inequality.
- It contributes to social cohesion and reduction of crime.
- It has positive impacts on the economy as it stabilises consumption spending and demand. This is of particular importance for the local economy as the poor have the propensity to consume domestically produced goods.
- There is no danger of corruption as the payment comes as entitlement and is not dependent on officials who have the power or discretion to decide who receives it.
- Due to the low amount, there is no disincentive to seek work.
- It brings everybody into the financial system (if the grant is paid to a bank account).

The disadvantages of a basic grant can be formulated as follows:

- It puts a fiscal and administrative burden on Government.
- It might be politically difficult to pay it to everybody even though some money can be reclaimed through the tax system.
- The tax system is not well established enough to reclaim the costs from all who do not need the support.
- There are no financial institutions in rural areas and the costs for paying out the grant are disproportionately high, given the low amount.
- It would duplicate existing welfare transfers.

3.2.2.) A basic grant with a means-test

This second option amends the first option by applying a means-test to select people eligible for the grant. By doing so, it enables one to identify a smaller group of people who should receive support. A means-test can be based on income or proxy indicators like housing, rural area etc. Due to the limitation of this paper and the belief that for this kind of system income testing is the most viable option for means-testing, despite the various problems attached to it, here only income testing is considered.

Besides the advantages of a basic grant as outlined above, the following positive effects of this second option can be identified:

- The means-test identifies a target group, thereby one supports fewer people and limits the support to people ‘in need’.
- Politically it might be easier to support only people ‘in need’.
- The direct costs are lower in comparison to the first option.

However, the introduction of a means-test entails also disadvantages:

- It puts a greater burden on the administration as a means-test requires more capacity and time than a grant paid to everybody.
- It adds administrative costs which are difficult to quantify.
- Although the amount is limited, a means-test by definition creates a ‘poverty trap’ which could discourage people who fall just below it, to change their situation in order not to lose the grant.
- Due to the high poverty levels in South Africa, an administratively simple means-test can only exclude the ‘few’ rich people.
- It opens the door to corruption as the payment of the grant depends on an official.

Some remarks regarding a 'household grant'

An idea similar to the basic grant for individuals is to pay a grant to households instead. However, there are some serious negative implications of such a grant and it has therefore not been considered any further here.

The disadvantages are:

- It discriminates against larger households, as they have to share the same amount amongst more people. This is in particular detrimental to poorer households as they tend to be larger, as well as to rural areas.
- There is an incentive to break up households.
- There is no intra household distribution of income which takes away the empowerment effect on women and younger people.
- Household structures in South Africa are fluid and it is therefore difficult to define a 'household'.

3.2.3.) Unemployment support

The third option would be to provide social assistance for people facing certain life-cycle contingencies. Considering the results of the first paper, the most vulnerable groups would be families with children as well as the unemployed. Assistance for the elderly and the disabled

is in place, however this approach would require a careful analysis of the present coverage of the disability grant which is impossible with the present data set. For the sake of this research, only support for the unemployed is considered.

This approach has to identify the exact coverage and extent of existing social insurance measures to avoid duplications. The level of benefit has to be decided upon. This will be informed by the decision whether the assistance provides a certain minimum subsistence level (as claimed with the State Old Age Pensions) or just a support (as claimed with the Child Support Grant).

Again, there are certain advantages and disadvantages to this approach. The following advantages can be identified:

- Only people who are faced with unemployment receive support.
- Due to relatively small numbers of recipients, higher benefits can be paid out.
- The support can be expanded in phases to build a comprehensive system.
- The system can cater for different needs (e.g. differentiate between old-age pensions and child grant)

The main disadvantages are:

- The administration is more expensive and difficult.
- One has to define 'unemployment' e.g. what about the self-employed who earn below the minimum wage?
- The coverage is necessarily lower than with a basic grant system which is paid out to all. The 'working poor' are excluded from support.

Having outlined the advantages and disadvantages of the three different options, the next part has a close look at some of the factors which would form part of a microsimulation model.

3.3.) Important factors

We preliminary identified some factors which are of importance for a microsimulation model which could analyse the financial implications of a social assistance scheme.

3.3.1.) Programme chosen

The first element is of course the choice of the programme. For more transparency and for comparative reasons with regard to the first paper the South African population should be divided into three groups: children (0-17 years), working age adults (18-59/64 years) and the aged (60/65 years and older).

3.3.2.) Level of benefit

A comprehensive social security system requires comprehensive coverage. Equally important, however, is the level of benefit provided. The first paper has shown that the present system, even if it pays out to everybody, who at the moment is eligible to social assistance, falls by far short of providing a level of support which could be labelled 'comprehensive'.³⁰ Figure 5 has shown that in fact none of the households in the bottom quintile potentially receives enough in order to get above the described poverty line. The different programmes with different levels of benefit are being analysed here in a way as to demonstrate their impact on the reduction of the poverty gap.

3.3.3.) Means-test

The means-test defines the people who are eligible for support (target-rate). The test is important for the second and third option. In case of a basic grant system with a means-test, it has to be decided upon a kind of poverty line. People living below that line would be eligible for the grant. The definition of this line depends on one's notion of poverty and where the people who need support live. This paper cannot discuss that question in detail nor find a final solution to it. In order to have a comparable figure, one could decide to define people in the

³⁰ For a detailed analysis see Figure 5 p.22.

first two quintiles plus 10% as eligible for a basic grant. The model should allow for changing that means-test, so that the financial and social implications of such a change can be analysed.

Although there is no means-test for the first option, the possibility of reclaiming the money from people earning above a certain amount could be included under this section of the model. One suggestion would be that the grant is regained from people earning more than R3,000 a month. In addition, a kind of 'solidarity tax' could be imposed on people earning above R5,000 a month. Double the amount of the grant would be reclaimed from their taxes, so that they de facto pay the equivalent amount of one grant.

3.3.4.) Take-up rate

This factor takes account of the fact that not everybody eligible would take up the support. The factor is therefore important in order to make realistic cost projections. The take-up rate is influenced by various factors like the information provided to the potential beneficiaries, the level of benefit, the social acceptance of the benefit etc. The single most important factor is, however, the administration of the system. The number of people who have access to the benefit and who get onto the system depends on the administrative capacity³¹.

To get realistic approximations, this area urgently requires more research. This research relies on the investigation into the existing State Old Age Pensions. Various researchers (Le Roux, Lund and Ardington) as well as our own calculations on the SALDRU data have indicated a take-up rate of about 75%. This is considered to be high by international standards. Given the fact that the level of benefit provided in these options is considerably lower than the SOAP, 75% would seem to be an optimistic maximum. In addition, a model should allow for a slower take-up rate in the first years to a final take-up after several years.

3.3.5.) Economic growth

A model should be built in a way that different economic growth rates and different impacts of such a growth can be incorporated. This seems to be crucial as a comprehensive social security system has important economic spin-offs.

31 see 3.3.6.) Administration

3.3.6.) Administration

A new system requires administrative capacity and infrastructure to deliver. For a realistic costing of policy scenarios, a model should take account of limitations in the administration as well as the impact on already existing programmes.

3.3.8.) Population growth

A microsimulation model has to take account of population growth rates. Given the current HIV/AIDS situation in South Africa it is important to incorporate findings of demographic models which analyse the impacts of the infection on fertility and mortality rates. Shifts in the age structure of South Africa's population are hence to be expected and have to be looked at.

3.4.) Social importance of the various factors

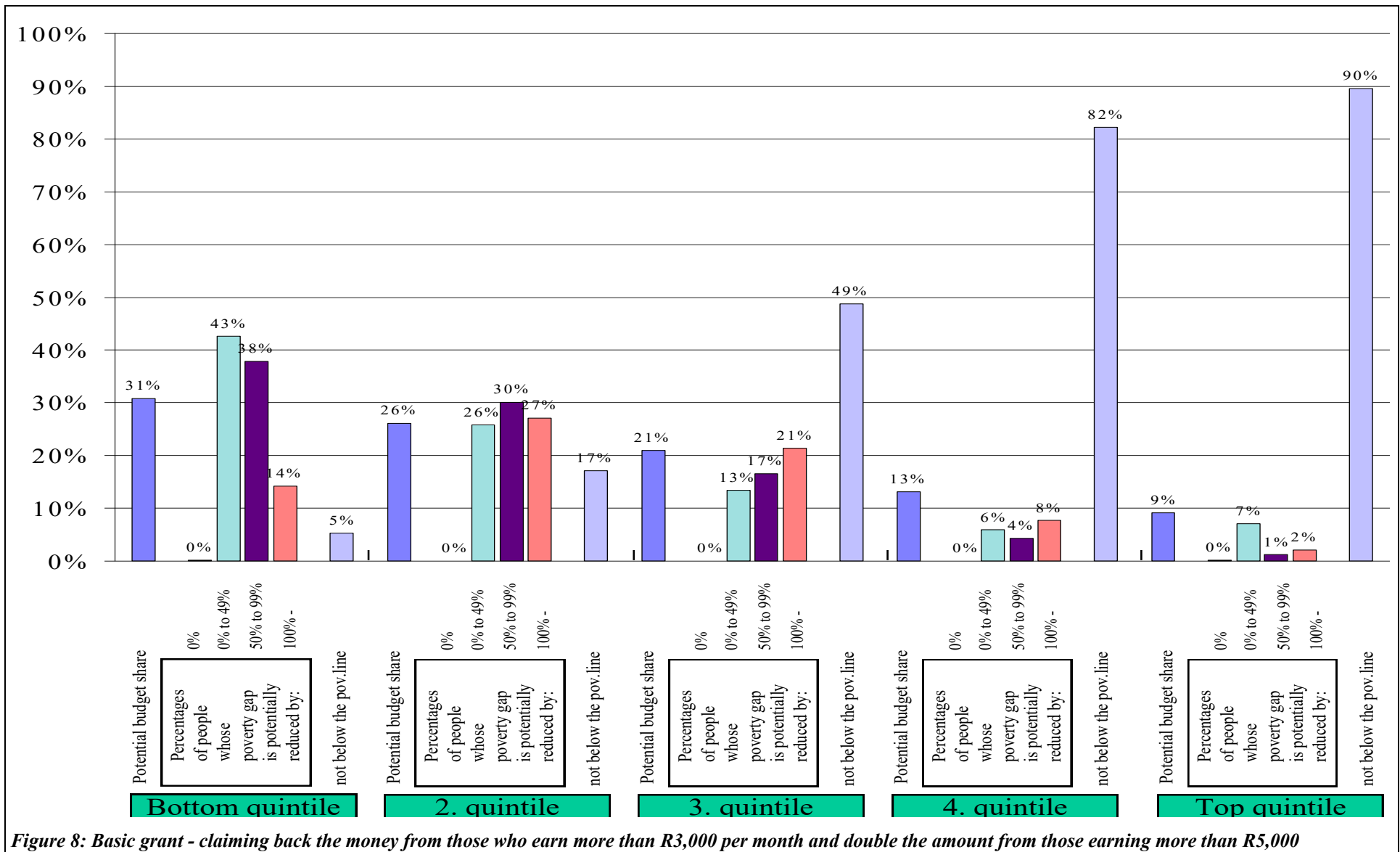
This section demonstrate the social implications of the different programmes. The section is structured in a way that firstly, a table provides the information about the programme chosen and the content of the various factors. Secondly, a graph demonstrates the social implications of the programme chosen, namely the reduction of the poverty gap in the different quintiles. This section is not meant to come up with concrete policy recommendations but rather to enhance a discussion on different options.

The graph which demonstrates the social implications is the same used already in the first part of the research (see Figure 5).

All programmes are designed in a way that people who qualify for existing programmes (SOAP, CSG etc.) are paid the existing benefit and not the new one.

The first programme (Figure 8) entails the following components:

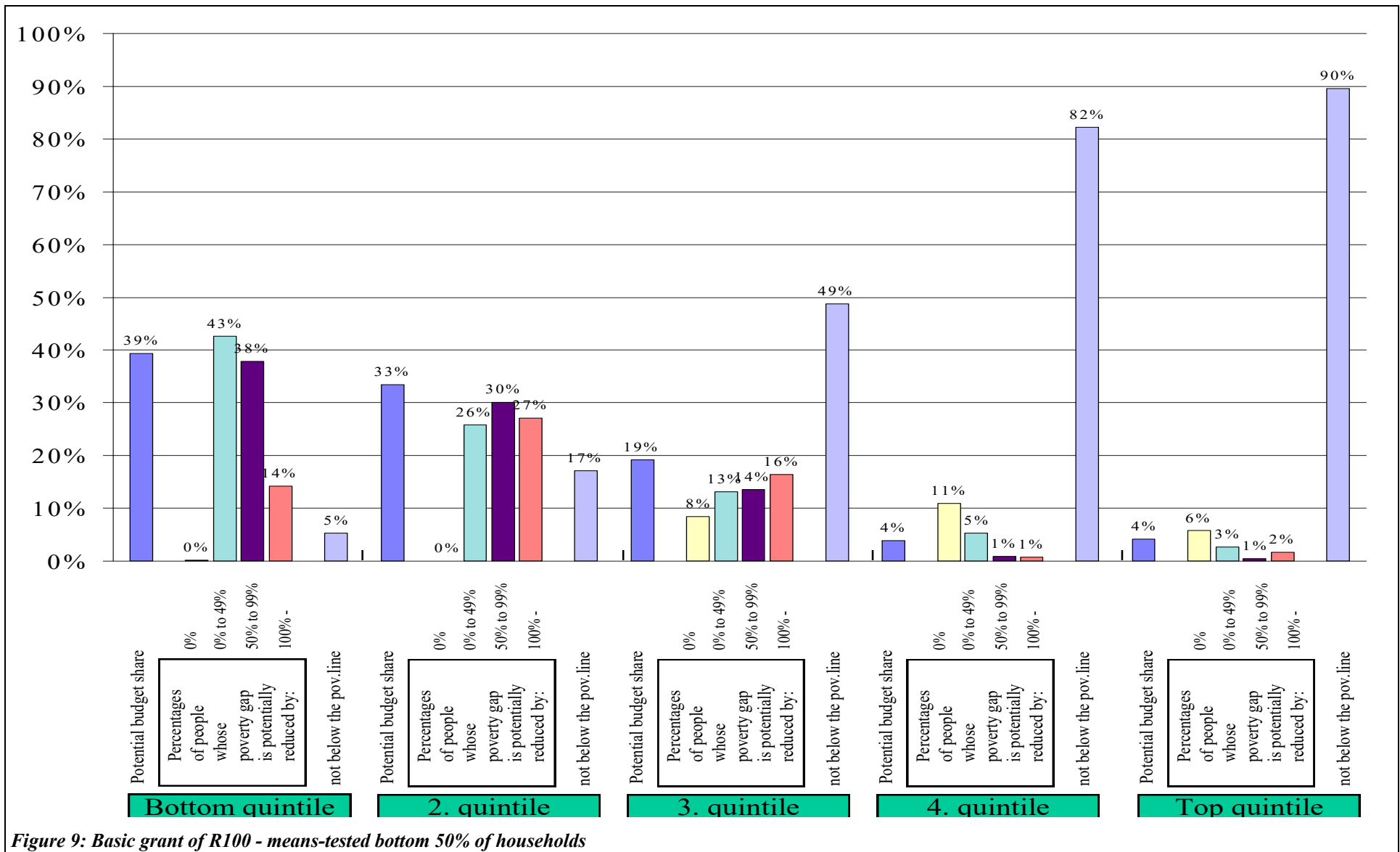
Programme chosen	Basic grant system
Level of benefit	
Children	R100
Working age adults	R100
Aged	R100
Means-test /Tax reclaim	People earning above R3,000 per month pay the amount received, people earning above R5,000 per month pay double the amount
Administration	No limitations because of administrative capacity



The results of this first option can be summarised as follows: The social implications demonstrate a clear improvement to the existing situation. Whereas at present a quarter of the people in the first quintile and one third in the second quintile receive no support at all, the introduction of a basic grant ensures that everybody receives at least a basic support to reduce poverty. Moreover, whereas the existing system could only close the poverty gap for about 5% in each of the first three quintiles, this figure raises to 14% in the first quintile, 27% in the second and 21% in the third quintile with the first option evaluated.

The next figure shows the implication of the second option - a basic grant system with a means-test

Programme chosen	Basic grant system
Level of benefit	
Children	R100
Working age adults	R100
Aged	R100
Means-test	Bottom two quintiles plus 10%
Tax reclaim	
Administration	No limitations because of administrative capacity



In the chosen example, the means-test has no negative social implications in the first two quintiles and only moderate impact on the third quintile in comparison to the first option. This is likely to be different in reality as means-tests by nature cannot target perfectly and therefore poor people are de facto often excluded.

Figure 10 indicate the change from a basic grant system to the support of unemployed people (third option/contingency approach). At the same time, the level of benefit is increased to R200. **Note that the definition of ‘unemployed’ is different from the commonly used definitions. This paper refers to the ‘unemployed’ as those without employment and those who are not in formal education. It was decided that for the purpose of this study this would be the most adequate definition as the gender implications of ‘job-seeker’ and ‘not job-seeking’ persons are avoided. Furthermore it still ensures simplicity of this kind of ‘means-test’. This results in higher numbers of ‘unemployed’ than in commonly used statistics.**

Programme chosen	Contingency approach
Level of benefit	
Unemployed	R200
Means-test (Target)	unemployed people
Administration	No limitations because of administrative capacity

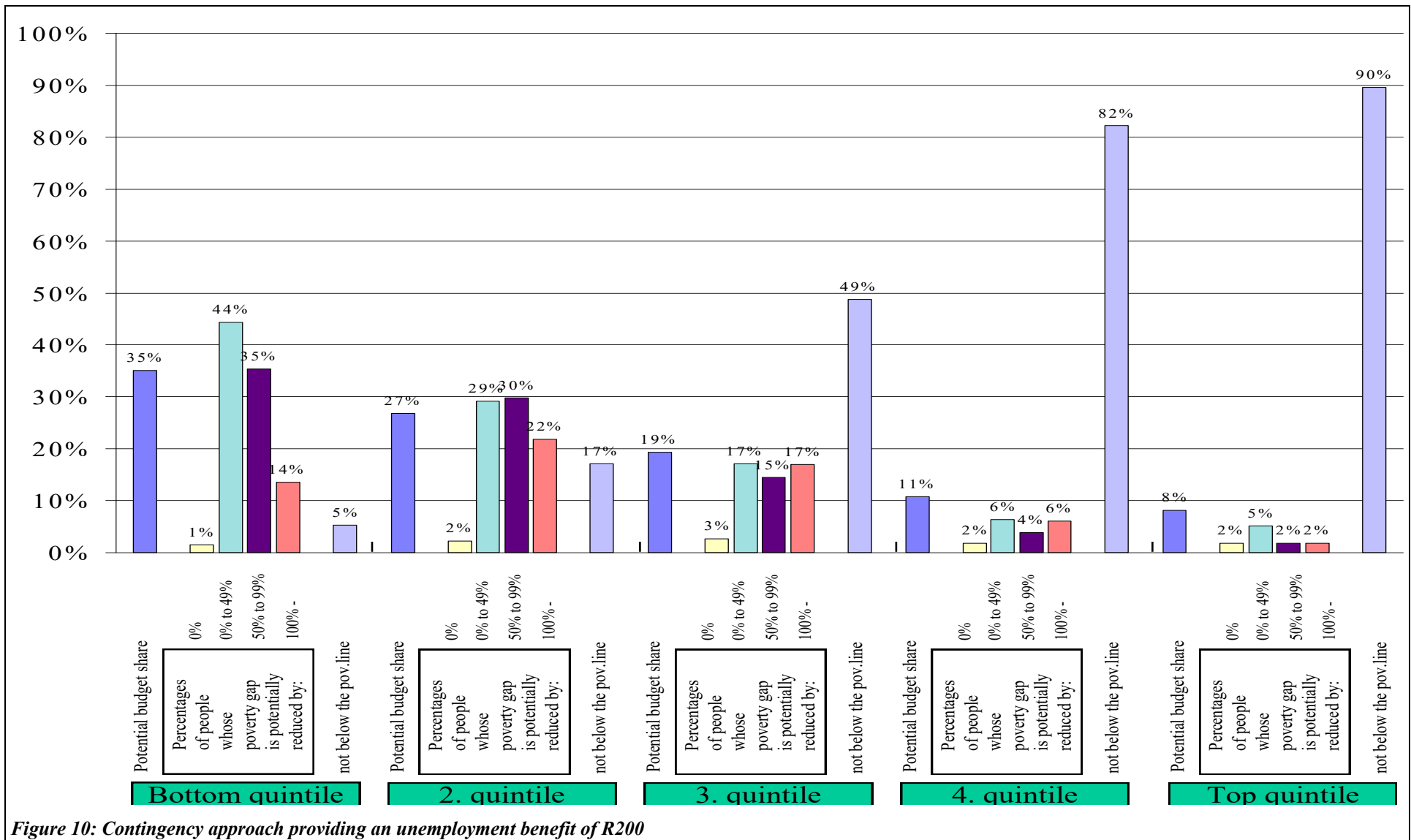


Figure 10: Contingency approach providing an unemployment benefit of R200

The most decisive impact of this third option is that a small percentage of people in all quintiles is not covered at all. The reduction of the poverty gap remains due to the increased amount the same.

Paper 4: Impacts and links of a comprehensive social security system

4.1.) Introduction

The third part of the research discussed three different options of extending social assistance in South Africa. It, furthermore, demonstrated the social implications of the different options and discussed some of the factors needed for the building of a microsimulation model.

This fourth part focuses on the positive social and economic impacts of social security in order to support the case for the development of a comprehensive system in South Africa at this point in time. The links to economic development are highlighted and the importance of the development of a social security system for successful and sustainable economic growth is outlined. Although the paper can only provide a preliminary discussion on the impacts and links, it should become clear how one can argue the case.

4.2.) Impacts and links of a comprehensive social security system

A social security system has broad implications for the context it is built into. Having or not having a comprehensive social security system has far-reaching consequences due to the impacts on social and economic development.

This part wants to highlight the important impacts and links of a social security system. By doing so, the kind of social security provided in the current situation has to be kept in mind as the impacts depend on the coverage and the level of benefit. While looking at the South African situation, the following overview has a focus on a comprehensive coverage, however with a 'relatively' low level of benefit.

4.2.1.) Impacts of a comprehensive social security system

One can identify three different levels on which social security measures have impacts.

1. Individuals and households
2. Economy
3. Society

It is obvious that this division is partly artificial as the impacts overlap. One also has to be aware that the effects or possibilities of choices which occur for individuals on the micro level are not always transferable to the macro level or, in other words, the macro level does not simply constitute the sum total of individual choices³².

1. Individuals and households

a) Alleviation of poverty and provision of economic security

Social security is an important instrument in alleviating poverty. It provides economic security - at least to a certain degree depending on the level of benefit. It gives individuals and households an income source they can count on. This is of particular importance for households which live mostly from income earned in the informal sector where no income security can exist and where the level of income varies greatly. In addition, a basic grant, for example, would give individuals, who are otherwise totally dependent on others, a certain degree of income security. It hence provides greater personal freedom.

b) Improvement in health status

Social security improves the health status, the nutritional well-being, reduces mortality and raises life expectancy: Von Braun (1991:400) pointed out that (...) *decreased rates of infant mortality, as the key determinant of life expectancy, are closely related to economic growth and the expansion of social security expenditure in developing countries in general.*

Moreover, he argues that economic growth is not necessarily a prerequisite for the accomplishment of a decrease in infant mortality:

A few outliers exist and are widely recognized, such as Sri Lanka, China, and the state of Kerala in India. They suggest that at low-income levels, a clear-cut trade-off does not necessarily exist between social security and economic growth, and that sustained public action in the context of low na-

³² This point was raised during the last workshop (November 1997). However, more thorough literature review is needed to explore the implications of it.

tion income can reduce mortality quite rapidly and sustainably. (Von Braun, 1991:400)

Sri Lanka, while ranked by the World Bank on place 45 according to income levels, had an infant mortality of 16 deaths per 1000 live births in 1994. The comparable number for South Africa, while on place 93 according to income levels, is 50 deaths per 1000 live births.

c) Incentives

It is argued that benefits reduce the incentive to seek work and to supply labour. Atkinson as quoted in Atkinson and Hills (1991:86) has argued that (...) *the great volume of empirical research in this field in the past decade has not led to robust or widely-accepted answers to the basic question as to how income support affects economic behaviour.*

However, one has to realise that the question of disincentives is important for governments and in the public policy debate, and hence it should be addressed. Regarding the situation in South Africa, one should be clear about the fact that the benefit provided will probably be so low that looking for work remains imperative. Moreover, even if there are disincentives to seek work, the high unemployment rate prevents any negative effects on the supply of labour.

2. Economy

a) Increase in productivity

The nutritional and health improvements have a positive impact on the overall productivity. The provision of social security is therefore not only a positive ‘side-product’ of economic growth or should go hand in hand with it, but there are strong arguments that social security measures are needed before economic development and economic growth can occur.

A comprehensive social security system would not only enhance productivity, but would start on a lower level by enabling people to become economically active as it addresses conditions of extreme poverty, degradation and diseases. This would enable people to either go and look for work or to start activities in the informal sector. The provision of a basic subsistence level is a prerequisite for participating meaningfully in the labour market.

b) Increase and stabilisation of demand

The provision of income increases the demand on the market and therefore fosters the local economy. By providing individuals and households with a

regular - even low - income source, the demand for commodities on the local market is stabilised.

c) Increase and stabilisation of consumption spending

By the same token, social security increases and stabilises consumption spending by providing households and individuals with a regular source of income. Again, it is the local economy which benefits.

d) Increase in savings

Social security can motivate people to save and such an increase in savings has positive effects on the economy. Although the amount will be limited community saving schemes cater for lower amounts.

e) Reduction of non-wage costs for employers

In general, the provision of social security reduces costs for the employers by socialising health care etc.

3. Society

a) Redistribution of wealth and reduction of inequality

Social security is an important instrument for governments to redistribute wealth and thereby it reduces inequality. The reduction of inequality is in general an important aspect of economic development, and this is in particular so in South Africa, given the high level of inequality.

b) Social stability

Social security promotes social stability. Thereby an enhancing environment is created to address problems of crime and violence which in turn supports economic development.

c) Social integration

Based on the former two points it can be argued that a comprehensive social security system fosters social integration in society. Taking a political perspective, it has been pointed out that this is much needed for a stable democracy. Moreover, e.g. during the post-war era in Europe, social security had also a strong influence on the nation-building process. Both aspects are of importance in the current situation in South Africa.

4.2.2.) The link to economic development

Taking account of the positive impacts of a comprehensive social security system, it becomes clear that such a system would not only enhance social development, but economic development as well. Even more, it has to be regarded as part and parcel of an economic growth strategy. Hence, a strong case can be made for the establishment of such a system in the current situation in South Africa.

The impacts as discussed above do not only unveil their importance for economic development, but they also correspond with and support the goals and objectives of many relevant policy documents, like the RDP, the report of the September Commission, even the Growth and Redistribution Strategy. Moreover, they underline the case for an increase in social spending, contrary to the claim of neo-liberal policy documents which argue that this would damage the economic development of the country, as pointed to in the ‘Growth for all’ strategy.

The **RDP** base-programme reiterates that the structural transformation of the past imbalances and the achievement of socio-economic stability is a prerequisite for democracy and must be an integrated part of any economic strategy. Again, social security has to be seen as supporting these objectives. (RDP, 1994:82)

Besides the aim of meeting the needs of all citizens through redistribution, the **September Commission** (1997:Ch4,p.6) refers to the significance of reducing inequality for economic development. Taking an international perspective, it is outlined that:

- *countries which are more equal in terms of wealth distribution tend to have higher growth rates*
- *countries which spend a lot on redistribution do better (in contrast, countries whose governments simply spend a lot tend not to grow)*
- *higher tax rates (if linked to redistribution) do not adversely affect economic growth rates.³³*

Social integration as another impact of social security provision is regarded by the September Commission as needed for a stable democracy. (September Commission, 1997: Ch4,p29)

³³ This last point in particular supports the idea to introduce a kind of ‘solidarity tax’ whereby part of the costs of the system is recovered by claiming more from people earning above a certain amount.

Even the **GEAR** strategy, which is being criticised for its neo-liberal approach towards economic growth, speaks out not only in favour of the current social security payments as a means of poverty alleviation, but also regards the strengthening of the redistributive thrust in Government expenditure as part of its strategy towards economic growth (GEAR; 1996:4). Given the redistributive character of social security, one has, within the GEAR framework, to argue for the establishment of a comprehensive social security system.

The only economic strategy which openly attacks the current social security system as well as any further development which aims at higher coverage is the ‘**Growth for all**’ strategy (South African Foundation, 1996). The strategy lays the main focus on the fiscal burden of such programmes and advocates a cutting back of Government expenditure in this sphere with a shift towards alleviating **absolute** poverty and subsidies for those who fall below an ‘appropriately-determined poverty line’. Without being able to discuss the arguments thoroughly, it needs to be said that the strategy assumes that the negative consequences of an extension in social security provision will outweigh any positive impact. This approach has to be severely criticised as it, in the end, advocates a growth strategy which will lead to growing inequality and poverty, which in turn will damage the economic base. By doing so, the strategy argues against international evidence which indicates that economic development and expansion of social security go hand in hand.

Hardly any developing country has failed to combine growth with a massive expansion of public-sector spending on social security. (...) The policy question is then less one of levels of social security expenditures in the long run, but rather one of setting priorities within social security spending in the process of economic development ... (Von Braun, 1991:398-399)

4.3.) Conclusion

This overview unveiled the positive impacts of social security for individuals and households, the economy and society as a whole. It has been shown that these impacts play an important role in social and economic development as well as in the development of a stable democracy. The impacts correspond with the goal and objectives of relevant South African policy documents.

Given these findings and looking at international experience, there is a strong case for an increase in social spending as a means for the development of a comprehensive social security system. Such a system must be regarded as a necessary part of a strategy for economic growth and development.³⁴

³⁴ In addition to the above discussed arguments, the role of social security in the realisation of the socio-economic rights as entrenched in the constitution and the idea of a social citizenship needs further exploration.

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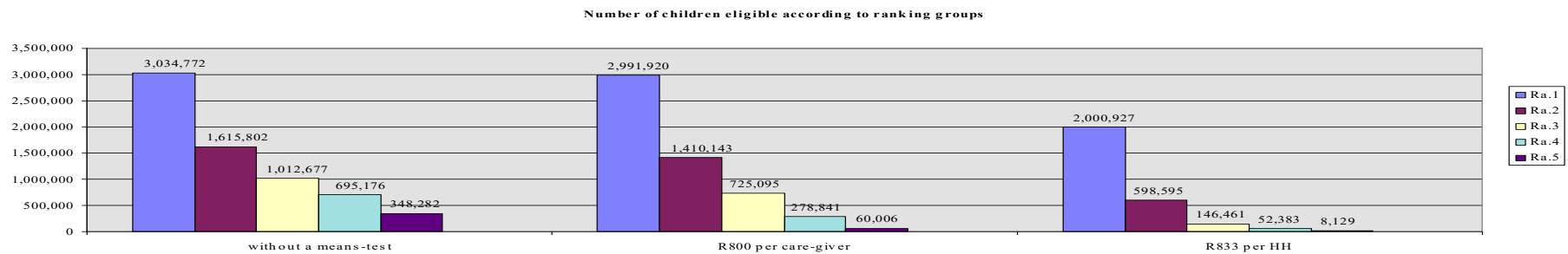
UNITED NATIONS: *Report of the world summit for social development.* Copenhagen 1995.

WORLD BANK: *Key indicators of poverty in South Africa.* Pretoria 1995.

Appendix

12

Income means-tests Two examples

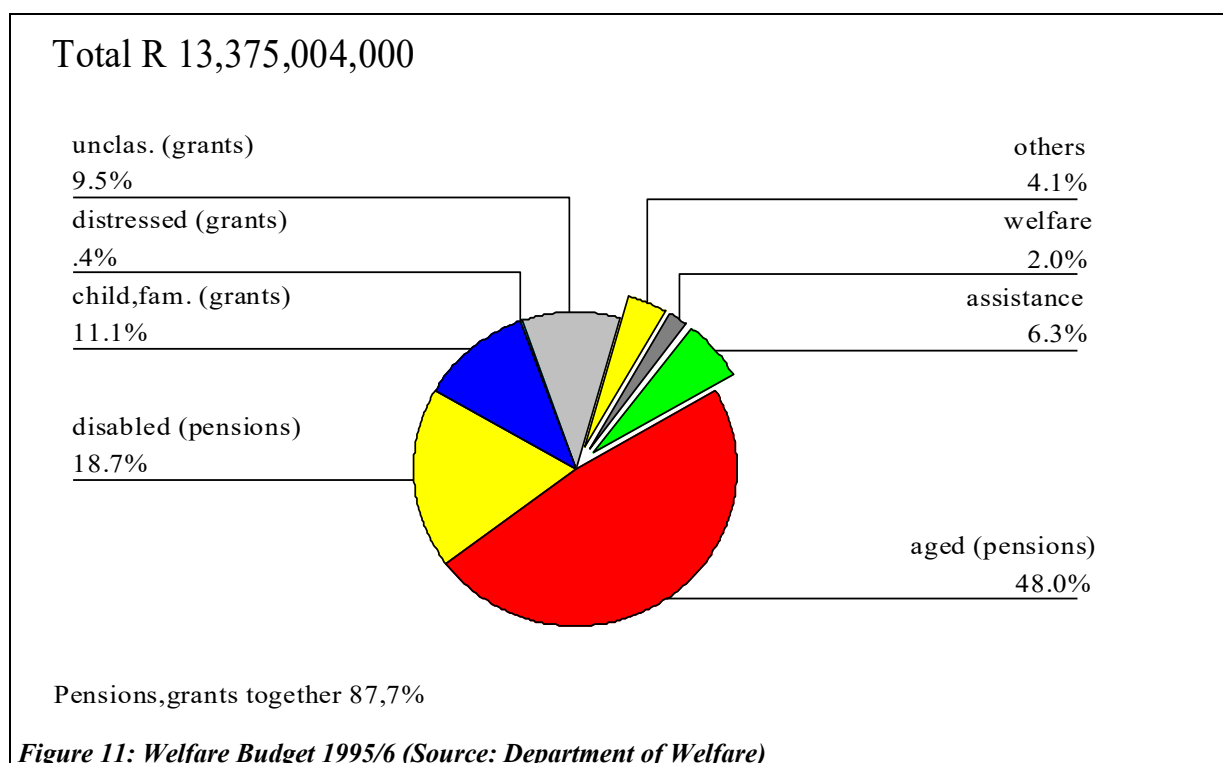


- A means-test of R800 *per care-giver* would ensure that 99% of the children in the first ranking group and 93% in the second are eligible.
- This means-test would - under realistic assumptions - define about 75% of all children as eligible.
- A means-test of R833 *per household* would exclude about 45% of the poorest two ranking groups as not eligible.

Paper 1 - The South African social welfare budget in comparison

In 1995 South Africa had a Social Welfare Budget of R13 billion. In 1993/94 still more than half (52%) of the budget was spent for 29% of the population ('whites', 'coloureds', and 'indians').

Between 1990/1 and 1994/5 the expenditure on social security and welfare services grew by 22,6%. This rapid growth can mainly be explained by the attempt to reduce racial discrimination in social grant pay-outs. (Le Roux, 1995) Of these the old age pensions received the biggest share and are now fully equalised.



In Figure 11 it becomes obvious that most of the budget is spent on direct transfers, in form of pensions and grants which together equal 87,7% of the whole budget. Only a very small component - 8.3% of the budget - is spent on social services (e.g. street children, rehabilitation, etc.). For accounting matters these two types should be strictly kept separate. Otherwise an increase in the transfer payments, which is required today to counteract the racial inequalities, would discriminate against the social service.

In terms of the GDP the total expenditure equalled an increase from 2.3% in 1989/90 (Calitz, 1992:82) to 2.7% in 1995 (Department of Social Welfare and Population Development, 1995:35). And still - including the budget 95/96 - South Africa spent less money on social welfare than other upper middle-income countries: Other upper middle-income countries spent more than three times the amount, namely 8.7% of the GDP 1989/1990 (Calitz,

1992:82). For education, on the other hand, South Africa spent 50% more than other?! (South Africa: 6.3% of GDP 1989/90 and other middle-income countries: 4.2%)³⁵

While massive increases in state transfer payments are out of the question during the 1990s, no matter who is in power, it is not unreasonable to contemplate a higher increase in these (child maintenance grant) payments than in expenditure on social services as a whole. Studies comparing South Africa with other semi-developed countries show that state expenditure on transfers is well below the international average. (Dlamini & Simikins, 1992:70-71)

Up to today there is some uncertainty about how much is actually spent in the present budget on child maintenance grants. The Lund report assumed that a budget of R1.2 billion was spent on the parent and the child grant. If one, however, calculates the budget according to the figures in the White Paper, one arrives at a budget of R1.65 billion. The FFC, in its latest calculations, then assumed a budget of R1.33 billion.

Paper 3 - Information about South Africa

Population in mill.	40.536
GNP average annual growth rate 1985-1994	-1.3%
Real GDP per capita (PPS\$)	4,291
Human Development Index	0.716
HDI ranking	90
Life expectancy	63.7
Infant mortality (per 1,000 live births)	50
Urban population growth rate 1990-94	2.9%
Gini-index	58.4
Spending on social services as % of total spending	not available

³⁵ These figures seem to be reasonable as also the NIEP and World Bank quote the same figures. (NIEP, 1995:9)

³⁶ This figure is now 38 mill. after the release of the preliminary results of the 1996 Census in June 1997