

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

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

### 3.5.1 Social protection and the economy

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

Indeed, the UN Commission for Social Development finds that:

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

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

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

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

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

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

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

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

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

### 3.5.2 Social protection and institutional arrangements

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

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

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

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

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

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

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

### 3.5.3 Incorporating social mobilisation into social protection

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

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

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

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

## 3.6 Social protection and private social insurance

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

### 3.6.1 Mandatory cover

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

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

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

### 3.6.2 Lower earnings limits for mandatory social insurance

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

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

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

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

### 3.6.3 Articulation and means tests

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

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

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

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

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

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

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

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

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