

MTBPS 2007: Selected Issues

IDASA

Political Information & Monitoring Services (PIMS)

**Len Verwey
Kate Lefko-Everett
Pablo Friedmann**

26 October 2007

**Enquiries: Len Verwey (084) 479 0619, lverwey@idasa.org.za
Kate Lefko-Everett (083) 287 4089, klefkoeverett@idasa.org.za**

CONTENTS

1. Introduction
2. Growth, Development & ASGISA
3. The Debate on Poverty Lines
4. Towards Comprehensive Social Security?
5. Departmental Expenditure Performance in 2006/2007
6. Summary of Issues and Concluding Questions
7. Bibliography

TABLES

- Table 1: Shares of Total Fixed Capital Formation, 1999-2006
- Table 2: Real Annual Growth in Social and Economic Infrastructure Expenditure and Private Business Enterprise Capital Expenditure, 1999-2006
- Table 3: Poverty lines in use in South Africa
- Table 4: Current Spending by National Departments by Quarter
- Table 5: National Department Capital Spending: Spending as Share of Allocation
- Table 6: Capital Budget and Spending of Overspenders in Rands
- Table 7: Capital Spending by Selected National Departments as a Percentage of ENE and Adjustment Allocation
- Table 8: Current Spending at End of 3rd and Fourth Quarter as Share of Adjusted Allocation
- Table 9: Capital Spending at End of 3rd and Fourth Quarter as Share of Adjusted Allocation
- Table 10: Allocations and Outcomes for Provincial Departments
- Table 11: Departments in which spending outcomes deviated from original allocation by more than 10% (capital / current)
- Table 12: Capital Spending Percentage for Selected and All Functions in Three Provinces

FIGURES

- Figure 1: Fixed Capital Formation by General Government, Public Corporations and Private Business Enterprises (Constant 2000 Rands)
- Figure 2: Percentage of Adjusted Current Allocation Spent by End of 3rd and 4th Quarter
- Figure 3: Percentage of Adjusted Capital Allocation Spent by End of 3rd and 4th Quarter
- Figure 4: Total 4th Quarter Spending

ACRONYMS

ABET	Adult Basic Education and Training
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BPO	Business Process Outsourcing
CASASP	Centre for the Analysis of South African Social Policy
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Programme
ICT	Information and Communications Technology
JIPSA	Joint Initiative for Priority Skills Acquisition
MDG	Millennium Development Goals
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
RDP	Reconstruction and Development Programme
SOE	State-Owned Enterprises
SOI	Statement of Intent
SPII	Studies in Poverty and Inequality Institute
UIF	Unemployment Insurance Fund
SOAP	State Old Age Pension
BIG	Basic Income Grant
ILO	International Labour Organization
NHI	National Health Insurance
SARB	South African Reserve Bank
SASAS	South African Social Attitudes Survey
SASSA	South African Social Services Agency
SHI	Social Health Insurance

1. INTRODUCTION

The annual Medium Term Budget Policy Statement (MTBPS) sets out indicative allocations for the upcoming three fiscal years, and has in recent years become entrenched as a critical component of South Africa's overall fiscal and policy environment. It is easy to forget that not all fiscal authorities provide a mid-year articulation of assumptions and benchmark allocations for the medium-term period in an accessible manner, and the fact that South Africa has done so is commendable. Engagement with the MTBPS by Parliament as well as civil society has, however, been uneven and is to some extent still a work in progress. Civil society has not necessarily taken advantage of South Africa's medium-term expenditure framework (MTEF) to take a medium-term approach to influencing policy articulations and resource allocations.

Aside from the opportunity provided by the MTBPS for participation in public budgeting, the MTBPS has almost certainly contributed to the perception that budgeting in South Africa is transparent and predictable. Although many commentators still enjoy gazing into their crystal balls in the week before the MTBPS release, the event is no longer preceded by the kind of intense and anxious speculation associated with a non-transparent, non-systematic approach to budgeting.

MTBPS 2007 will therefore present a broad picture of where additional resources are to be allocated for the fiscal years 2008/2009, 2009/2010 and 2010/ 2011. As with any set of medium-term financial and economic estimates, the "outer years", that is in this case 2009/2010 and 2010/2011, are inherently shrouded in more uncertainty. There are simply too many significant variables which are beyond the control of the South African authorities, such as the general health of the world economy.

Notwithstanding such uncertainties, the MTBPS does provide benchmark information on prioritisation over the medium-term, together with government sense of global and domestic economic trends, as well as some of the *assumptions* from which these medium-term estimates derive. Thus the MTBPS provides forecasts up to 2011 of variables such as the expected rate of economic growth and inflation, as well as the amount of revenue government expects to generate through taxation and borrowing activities.

There are strategic reasons why any government might, at a particular point in time, tend towards overly cautious or overly optimistic assumptions regarding future trends of key variables.¹ Underestimating growth typically means that revenue collected will be more than budgeted for. This enhances the administrative credibility of the tax authority and provides the Minister of Finance with additional "fiscal space" which can be used for popular, equity-orientated adjustments to the structure of personal income tax, for example. Overestimating growth, which has not been a feature of the South African context in recent years, can amongst other things enhance the ability of fiscal authorities to borrow on favourable terms and can also represent an attempt to shore up support in an election year.

Part of stakeholder engagement with the MTBPS should thus be concerned with the realism of the MTBPS assumptions and the technical as well as political aspects of how they are determined. It is not necessary to duplicate the macroeconomic modelling of National Treasury in order to assess the credibility of forecasts and estimates provided in the MTBPS. A simple comparison of forecasts, estimates and outcomes will identify systemic tendencies towards, for example, overestimating some variables and underestimating others.

The MTBPS is a discussion document in that it is not voted on by Parliament as the *Estimates of National Expenditure* and *Division of Revenue* are. Its proposals are an early sketch of what the Minister of Finance will present to Parliament for enactment in February 2008. Even then, Parliament will only vote on the 2008/2009 allocations, with the “outer years” of 2009/2010 and 2010/2011 functioning as indicative or benchmark values to guide further refinement in the course of the year. Thus, the MTBPS is above all an opportunity for non-executive stakeholders in public budgeting to engage with the broader trends of the budget and to ask broader questions concerning the extent to which budgeting is aligned with the policies of government and is achieving the objectives of those policies. Too often civil society itself is guilty of last-minute, *ad hoc* responses to the budget, rather than adopting the more focused medium-term approach which the MTBPS helps to make possible.

This document is intended as a resource for the engagement of civil society, the media and legislatures with the MTBPS, which will be released on the 31st of October this year. It is a background document in which a number of topical issues are identified and discussed using existing research and policy articulations, with a view to enhancing the quality of stakeholder engagement with the MTBPS itself. These topics include: growth, development and ASGISA (Section 2); the debate on a national definition of poverty and the setting of a poverty line (Section 3); proposals for a system of comprehensive social security (Section 4); and, an assessment of expenditure performance in some government departments during 2006/2007 (Section 5). In Section 6, we also identify challenges which will have to be engaged with and addressed further over the medium-term, both in the 2007 MTBPS and beyond.

The document is thus both descriptive and evaluative. Discussions on the topics addressed have deliberately been kept fairly brief and non-technical, and detailed endnotes and a bibliography have been included to refer readers to a broader pool of available resources.

2. GROWTH, DEVELOPMENT & ASGISA

The inability of the Growth, Employment and Redistribution (GEAR) programme to achieve real improvements in the welfare of significant numbers of South Africans has been widely accepted, together with the regressive incidence of GEAR's austerity measures on the living standards of the poorest and most marginalized. This is one of the underlying reasons for the introduction of a new developmental framework in the form of the Accelerated and Shared Growth Initiative for South Africa (ASGISA).

Another factor behind the "unveiling" of ASGISA must surely be the increase in real resources available to South African policy makers since 2001, partly as a result of a reduced debt servicing burden stemming from GEAR's "fiscal consolidation", and partly as a result of more favourable global economic conditions. It would be only a slight exaggeration to say that the fiscal authorities now have more resources than they are able to efficiently and effectively spend. The tax burden as a share of the Gross Domestic Product (GDP) stood at more than 27% in 2006/2007, and looks set to remain at this historically high level. Certainly by developing country standards the South African economy is a powerful one.

However, assertions remain that government has not always successfully achieved the right mix of resources, leadership and administrative performance in its programmes. Evaluating the performance of government in this respect is difficult and perhaps futile: what can be said, however, is that failures have occurred, and that the problems of poverty, unemployment and inequality still largely remain. Against this backdrop ASGISA represents an attempt to rigorously identify and address key constraints. As discussed below, these include wholly economic variables, but also the performance of the state itself.

ASGISA: Goals and Approach

Re-affirming South Africa's commitment to achieving the millennium development goals (MDG's), President Thabo Mbeki pledged in his 2004 State of the Union address to halve poverty and unemployment rates by 2014.² In order to attain these objectives, it is estimated that growth in real GDP would have to average 4.5% from 2005 to 2009 and 6% from 2010 to 2014. Public measures to enhance growth would have to continue to be supplemented by a redistributionary fiscus that addresses the plight of the large percentage of the population who will remain unemployed, even if the most optimistic growth scenario prevails.³

A real GDP growth rate of 5% was achieved in 2006. From 2000 to 2005, growth averaged 4.7%. ASGISA growth targets, at least for the period up to the end of 2009, therefore appear realistically attainable. There are nevertheless indications that the growth spurt, partly based on a global upturn, may be slowing. Noting the easing of growth in 2007, the Reserve Bank states in its most recent *Quarterly Bulletin* that the real economic growth rate of between 4.5% and 5% is "probably well-aligned with the country's current growth potential, although structural changes that may raise the potential growth rate further are in progress".⁴ The attempt to use public resources to actively generate such structural change in the South African economy, in combination with a budget which ensures shares benefits to such growth through targeted social spending and investment in human capital, is at the heart of what ASGISA seeks to achieve.

The operational emphasis of ASGISA is on identifying and addressing binding constraints to higher rates of economic growth.⁵ As confirmed in the ASGISA *Background Document*, the first formal report on ASGISA, and the 2006 *Annual Report*, six such binding constraints have been identified. These are:

- The relative volatility of the currency;⁶

- The cost, efficiency and capacity of the national logistics system;
- Shortages of suitably skilled labour, and the spatial distortions of apartheid affecting low-skilled labour costs;
- Barriers to entry, limits to competition and limited new investment opportunities;
- The regulatory environment and the burden on small and medium enterprises; and
- Deficiencies in state organisation, capacity and leadership.

The *Annual Report* emphasises that many of the required actions now associated with ASGISA are not new, but notes that ASGISA has created a “new system of priorities and a new set of mechanisms to enforce decisions”.⁷ What is furthermore required, the *Report* emphasises, is that ASGISA must not be regarded as just another government programme, but as an initiative supported by and owned by all stakeholders, including business, organised labour, state-owned enterprises, entrepreneurs and so forth.⁸

ASGISA and Infrastructure Investment

A key aspect of the long-term trajectory followed by the South African economy has been the decline of capital expenditure (including network capital, i.e. infrastructure) as a share of total expenditure by the public and private sector.

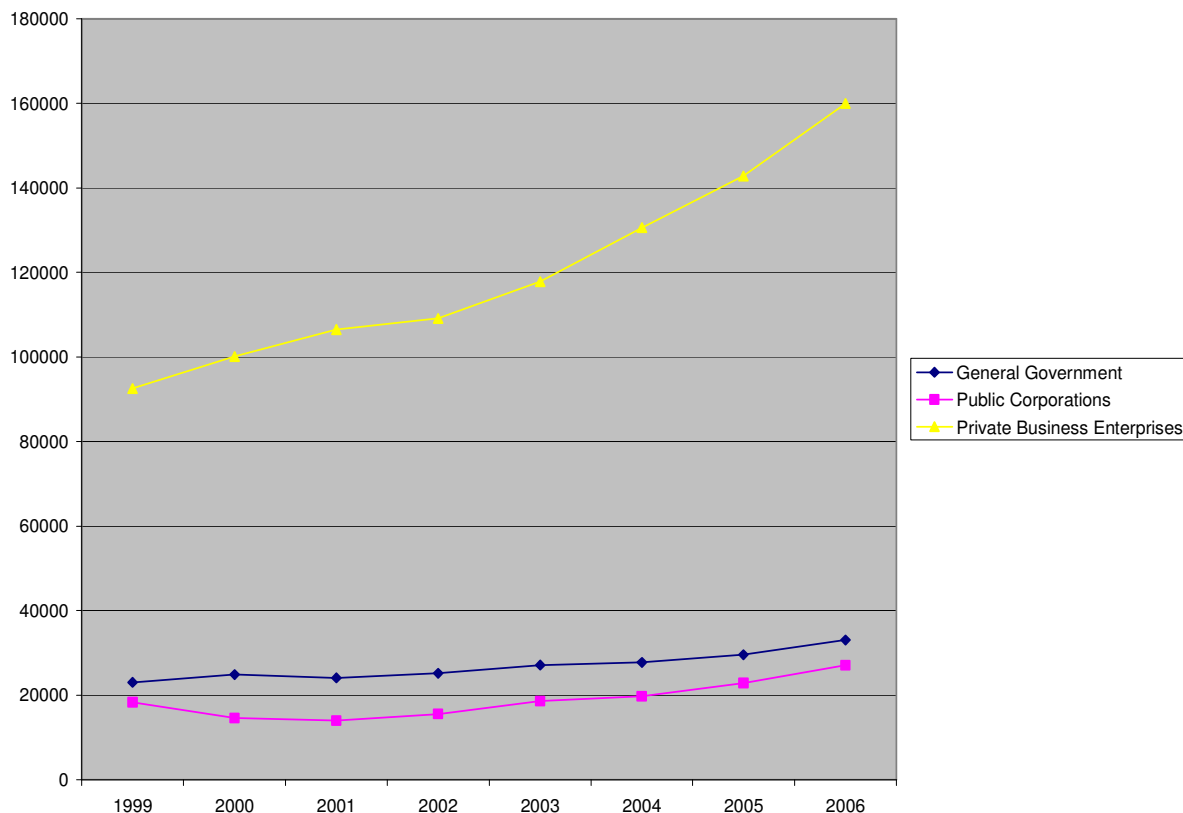
Gross fixed capital formation decreased from high levels of GDP in the late 1970s to a low of 4% of GDP by the early 2000's. A significant decline in the rate of capital formation occurred during the 1980's as a result of fiscal reprioritisation aimed at shoring up the apartheid state, mounting public debt, uncertainty over the future, and significant capital flight. A further dip occurred in the late 1990's⁹ and stemmed primarily from the economic contagion associated with the East Asian financial crisis.

The ASGISA target is for gross fixed capital formation to equal 25% of GDP: a percentage in line with many newly industrialised countries in East and Southeast Asia.¹⁰ Although the exact determinants of the spectacular developmental success of these economies in recent decades is disputed, there is some degree of consensus that a high savings rate and a corresponding high rate of investment, together with an effectively managed active industrial policy, a highly motivated and educated workforce, and fairly high levels of social capital, were key aspects in their success. The experience of these economies has clearly influenced the development of the ASGISA paradigm.¹¹

Higher levels of investment will, it is argued, generate the higher levels of growth which are needed for improvements in poverty and unemployment outcomes. As the ASGISA *Annual Report* notes, fixed investment reached an annualised rate of 18.7% of GDP in the third quarter of 2006, the highest rate since 1991.¹² This figure does not reflect the rate of *public* sector or general government capital formation, but is the total of both public and private sector investment.

The SARB *Quarterly Bulletin* of September 2007 provides data on fixed capital formation by 'type of organisation'. Figure 1 below represents this information.

Figure 1: Fixed Capital Formation by General Government, Public Corporations and Private Business Enterprises (Constant 2000 Rands)¹³



It is quite clear that the private sector remains by far the most significant capital spender in the South African economy. This should not be surprising, given that the private sector contributes three quarters of GDP expenditure. But the private sector has in fact also accelerated its own capital expenditure at a faster rate than government over the period from 1999 to 2006. As the table below shows, whilst in 1999 private capital formation constituted 69% of total capital formation, it constituted almost 73% in 2006. The share of the total represented by the public corporations, though increasing in absolute terms, declined from 13.7% in 1999 to 9.7% in 2001, before increasing up to 12.3% in 2006.

Table 1: Shares of Total Fixed Capital Formation, 1999-2006¹⁴

	1999	2000	2001	2002	2003	2004	2005	2006
General Government	17.2	17.8	16.7	16.8	16.6	15.6	15.1	15.0
Public Corporations	13.7	10.5	9.7	10.4	11.4	11.1	11.7	12.3
Private Business Enterprises	69.1	71.7	73.7	72.8	72.0	73.3	73.1	72.7

Source: South African Reserve Bank Quarterly Bulletin, September 2007

Table 1 confirms the shift (associated with ASGISA) towards using the public corporations as significant mechanisms for accelerated expenditure on economic infrastructure. To some extent this is occurring at the expense of general government, whose share of total capital expenditure has declined fairly consistently from 2000 onwards.

Regarding trends in economic and social infrastructural expenditure by general government, this increased at a very slow real rate over most of the period from 1999 to 2006. Table 2 below shows the rate of real annual growth for social and economic infrastructure by general government as well as capital expenditure by private business enterprises.

Table 2: Real Annual Growth in Social and Economic Infrastructure Expenditure and Private Business Enterprise Capital Expenditure, 1999-2006¹⁵

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	AVG
Economic Infrastructure	0.1	-7.4	6.1	9.9	1.8	6.7	15.0	4.6
Social Infrastructure	2.4	3.2	4.0	14.3	1.6	3.7	12.4	5.9
Private Business Enterprises	8.1	6.4	2.5	8.0	10.9	9.3	12.0	8.2

Source: South African Reserve Bank Quarterly Bulletin, September 2007

Table 2 illustrates that investment in social and infrastructure prior to 2006 by general government increased at quite a slow real rate, but also shows a significant acceleration in such expenditure in 2006, again illustrating the ASGISA claim that infrastructural expenditure is now being prioritised.

A large share of intended public infrastructural expenditures have been earmarked for Eskom and Transnet. In the case of Eskom the priorities will be the construction of additional power generation capacity and the improvement of transmission and distribution networks. In the case of Transnet, priorities will be the upgrading of ports and the expansion of rail lines, all of which fall under ASGISA's focus on enhancing economic infrastructure.¹⁶ The objectives set by ASGISA are clearly heavily dependent on the expenditure of these and other non-financial public enterprises. The *Annual*

Report indicates in this regard that infrastructure expenditure by the public sector will increase from 5.1% of GDP in 2005/2006 to 6.5% in 2009/2010. The non-financial public enterprises play a key role in this regard: their contribution rises from 16.9% of public sector infrastructure in 2005/2006 to 24.4% in 2009/2010.

The challenges pertaining to public sector capital expenditure generally, and infrastructural expenditure specifically, are familiar, and are all relevant to an assessment of ASGISA over the next few years.¹⁷ They include:

- Getting the right balance between social and economic infrastructure;
- Ensuring viable linkages between infrastructure projects and the local and regional economies of the first and second kind;
- Budgeting adequately for the maintenance of existing and new infrastructure;
- Addressing information challenges, especially at the municipal level, to ensure that the right infrastructure is provided in the right places, and at the right price and time; and
- Capacity within departments, municipalities and state-owned enterprises (SOE's) to identify and implement infrastructural projects efficiently and effectively

Assessing ASGISA's success in meeting its objectives for infrastructure will require close monitoring of projects, as the *Annual Report* indicates, and as is enabled by the National Treasury's National Infrastructure Project Register. National and provincial Departments will also have to ensure that they spend their capital budgets well. Capital spending information for 2006/2007, discussed in more detail in Section 5 on departmental performance, suggests that some departments with important capital spending roles to play do still struggle in this respect.

Regulation and Intervention

ASGISA further emphasises sectoral and industrial strategies aimed at promoting parts of the economy with high growth and labour absorption potential. More specifically, priority sectors for more targeted support and intervention are selected on the basis of:

- An industry's potential contribution to the ASGISA targets of growth, investment, employment creation and poverty alleviation; and
- The capacity of the state and other stakeholders, especially business, to implement programmes to develop an industry.¹⁸

Aside from challenges associated with coordinating departmental activities, addressing capacity deficiencies and the like, there are some fundamental concerns emanating from this emphasis of ASGISA which remain unresolved. It is firstly not clear on what basis an industry's potential contribution is assessed. If this is done on the basis of past performance, then new industries are unlikely to be supported. If it is done on the basis

of the claims of the industries themselves regarding as-yet unrealized potential, then the way is open to exaggerated statements of the growth and employment potential of such industries.

Currently business-process outsourcing (BPO), tourism and biofuels are the sectors which have been prioritised within the ASGISA framework. It is, however, not entirely clear what “developing an industry” entails. Clearly more is required than the mere articulation of a “sectoral policy framework”. It is also not clear precisely what role “ASGISA mechanisms” are to play in instances where programmes of other departments are already in place. Thus, for example, although clearly the success of the tourism sector requires improving safety and security for tourists (a requirement identified by ASGISA), ASGISA can play only a marginal role in promoting this and would also be only marginally responsible for any successes achieved in this regard relative to a number of government departments.

A central question may well concern the extent to which South Africa should pursue a more active industrial policy, as opposed to vaguely defined “support”, and measures to improve market efficiency by promoting competition and more investment. It is therefore instructive to assess the degree of concreteness of the Department of Trade and Industry’s (DTI) recently released *National Industrial Policy Framework* and the *Industrial Policy Action Plan*. The *Industrial Policy* is fairly closely aligned with ASGISA in that a number of its thirteen strategic programmes harmonise with the binding constraints identified by ASGISA, such as sector strategies, skills and education, and competition policy and regulation.¹⁹

There is, however, a clear ambivalence about the appropriate degree of sectoral and industry-specific intervention. The DTI document states that “from time to time...government will single out sectors for particular focus where substantial potential exists for growth, employment generation and the diversification and growth of exports.”²⁰ Subsequently it indicates that regulatory changes and industrial financing would be the two primary forms of potential support to industries. But, if industrial financing were to be employed, it would be tied to tight conditions: “it should be focused on new as opposed to existing activities and wherever possible have spillover and demonstration effects. It must operate for a specified period of time and be dependent on the achievement of measurable benchmarks by firms.”²¹ As with all such proposals, however, the key question remains as to why government, as representative of collective needs, should be involved. If sectoral opportunities are so clear, it should be possible for entrepreneurs to obtain financing commercially; if they are not, then industrial policy becomes a means of shifting risk to tax payers in the aggregate and away from entrepreneurs.

ASGISA and Skills

It has become something of a truism that the labour needs associated with the higher recent growth rates of the South African economy are quite strongly concentrated in the secondary and tertiary sectors, and that the jobs that have been created are mainly medium- and high-skilled positions.²² Anecdotal evidence suggests that the labour market has become quite “tight” in this regard, with both the public and private sector

competing for a limited supply of high-skilled individuals and the remuneration of such individuals increasing as a result.

Inadequate education and skills together constitute the human capital pole of the broader capital shortage associated with muted growth rates in South Africa. It is not only a matter of providing individuals with more skills so that they stand a better chance of being employed. Higher skills are also crucial to the successful implementation and administration of ASGISA itself, and as such the skills concern is a cross-cutting one.

ASGISA has established the Joint Initiative for Priority Skills Acquisition (JIPSA), which has identified key skills shortages in areas such as:

- Planning and engineering in the network industries
- Town and regional planners
- Artisans
- Engineers and technologists
- Maths, Science and ICT in schools
- Skills to support biofuels, BPO and tourism development through ASGISA
- Cross-cutting skills in project management, ICT, finance and ABET

A progress report on JIPSA was released in March 2007 which includes discussion of the challenges experienced and progress made in the priority areas identified by the initiative. These are summarised briefly below:

Engineering: This shortage will, in the short-term, have to be met by importing skills. In the longer term JIPSA seeks to increase both the number of engineers graduating, and the percentage of these who go on to work as engineers.²³

Artisans: A severe shortage of artisans exists. Through a variety of measures JIPSA will try to increase the number of artisans produced from current rate of 5,000 per year, to the estimated 12,500 annually for the next four years to meet the needs of the economy.²⁴

Town and Regional Planners: The third priority area is that of town and regional planners, where there was a lack of clarity about the competencies required by planners as well as their professional registration. JIPSA is seeking to fast-track measures to address these challenges.

To date it is difficult to assess the success of JIPSA given its newness. It appears to have done well in identifying priority skills shortages and linking these to the broader emphasis of ASGISA on binding constraints to higher growth. The medium-term expenditure framework (MTEF) will have to contain significant allocations to the measures proposed in the progress report if the skills shortages referred to are to be eliminated in the time periods given.

3. THE DEBATE ON POVERTY LINES

One of the most significant challenges faced by government in post-1994 South Africa has been the development of policy and programming that will lead to the effective reduction and elimination of poverty. However, to date South Africa has not adopted a standard official measure of poverty, or a national poverty line. This has arguably frustrated efforts to quantify the extent of poverty, develop and implement targeted anti-poverty programmes, and assess the impact of these programmes over time.

As a result, the push to develop a national poverty measure has been building for some time, both internationally and at the national level. In 1995, soon after the transition to democracy, South Africa signed the Copenhagen Declaration, which called on governments to develop policies aimed at reducing poverty and inequality, and set target dates for the eradication of absolute poverty, preferably by the following year.²⁵

Subsequently, also at the international level, South Africa adopted the MDG's, and in doing so committed to halving poverty and unemployment rates by 2014. Without a national poverty line, this would imply the use of the conservative US\$1/day international poverty line, which would give an extremely limited and conservative picture of the extent of poverty in South Africa. In reporting on progress towards achieving the MDG's, states are encouraged to make use of national poverty lines where these exist, as they give a "more accurate estimates of poverty consistent with the characteristics and level of development in each country".²⁶ This provides further impetus for South Africa to develop a national poverty measure.

Beyond international commitments, there have been calls at the national level for the development of a South African poverty line, perhaps most notably in 2002 from the Committee of Inquiry into a Comprehensive System of Social Security for South Africa, known as the "Taylor Committee". In its report *Transforming the Present – Protecting the Future*, the Committee called for the development of both "nationally agreed poverty measures" and a "minimum poverty line".²⁷

Three years after the release of the Taylor Committee's report, Minister of Finance Trevor Manuel announced in his 2005 Budget Speech that he planned to "seek advice" on the design of a national poverty line.²⁸ In the most recent Budget Speech, the Minister confirmed that Statistics South Africa would be piloting a national poverty line during 2007.²⁹

Notwithstanding some critical voices, there has been general consensus that a standard poverty definition and national poverty line will be analytically useful and could be used alongside other in-depth measures of poverty and deprivation. Many suggest that a national poverty line will bring consistency to poverty assessments and reporting, allow for tracking and evaluation over time, and serve as a point of reference for programming and resource allocation.³⁰ Ingrid Woolard and Murray Leibbrandt, for example, have described poverty lines as "extremely useful for descriptions of poverty", in that by "defining a line that is regarded as some kind of minimum living level, one is able to ascertain the number of poor people, as well as the depth and severity of poverty".³¹

Similarly, the Studies in Poverty and Inequality Institute (SPII) suggests that poverty lines can “bring a great deal of concreteness and specificity into discussions that could otherwise be ungrounded”.³²

Current Poverty Measures in Place

In the absence of an official national line, a wide range of varying, and sometimes contradictory measures are currently used to assess the extent of poverty in South Africa. These include both “absolute” measures, which are generally money metric and are based on household income and/or expenditure, as well as “relative” measures that take into account factors including income distribution, standards of living, resources required to participate in society, and social exclusion.³³ This variety of measures has produced widely-differing, and often incongruent, conclusions about the extent of poverty in South Africa.

For example, in the *Development Indicators Mid-Term Review* released by the Presidency earlier this year, poverty is reported on in terms of annual per capita real income of the poorest 10% and 20% of the population, as well as the richest. The report also uses a poverty headcount index of the percentage of the population living below R3,000 per annum in 2000 constant rand, which stood at 43.2% in 2006. The same income “poverty line” of R3,000 is used in the Poverty Gap Analysis, which reports on the depth (Poverty Gap Index) and severity (Squared Poverty Gap Index) of income poverty.³⁴ This amount is ostensibly comparable to the US\$1/day international poverty measure, amounting to only about R250 per month.

Measures used in the *Development Indicators Mid-Term Review*, however, give an indication of only the most extreme shades of poverty in South Africa. The *de facto* “poverty line” used by the Department of Social Development to determine eligibility for social assistance grants is somewhat higher than that used by the Presidency. As of April 2007, the social assistance asset threshold is R313,200 for a single person or R626,400 for a married couple, and income-based eligibility for specific social grants is determined according to the following means:

- Old age, disability and war veteran grants: annual income of R21,612 for a single person or R40,092 if the recipient is married;
- Child support grant: R9,600 in urban areas and R13,200 in rural areas or for persons living in informal dwellings;
- Foster care grant: R14,800;
- Care-dependency grants: to R48,000 for parents and R20,880 for foster children.³⁵

Internationally, poverty lines are often based on the cost of a minimum “basket” of essential food and non-food items. StatSA has also attempted to estimate minimum monthly expenditure, placing this at about R211 per capita on food and R111 for non-food items, yielding an expenditure-based “poverty line” at R322 per capita per month in 2000 prices, or R431 in 2006 (equalling R5,172 per annum).³⁶

Woolard and Leibbrandt (2006) provide a useful assessment of the differing findings produced by various money metric measures of poverty in use in South Africa. The rand value of the lowest measure – the \$1/day line, set at US\$370 in 1985 prices – is a mere R116 per capita in 2007 Rands, and in 2000, according to the 2000 Income and Expenditure Survey (IES), only 8.1% of South Africans lived below this poverty line. In contrast, a line set at 50% of mean national per capita expenditure would suggest that 68.1% of people are poor, while an “upper bound” developed by Statistics South Africa raises this percentage to 70.4.³⁷ (See Table 3 below)

Table 3: Poverty lines in use in South Africa		
Poverty Lines (Per Capita)	Rand amount* (2007)	% individuals below the line**
Line set at per capita expenditure of the 40 th percentile of households	R494	54.9%
Line set at 50% of mean national per capita expenditure	R769	68.1%
Stats SA (reported by Hoogeveen and Ozler) lower bound	R460	52.6%
Stats SA (reported by Hoogeveen and Ozler) upper bound	R847	70.4%
August 2004 Household subsistence level (HSL): metro average of 6 person African households, converted to per capita scale	R409	48.5%
August 2004 Household effective level (HEL): metro average of 6 person African households, converted to per capita scale	R613	61.8%
US\$1/Day international poverty line of US\$370 (1985 prices) per capita per annum	R116	8.1%
US\$2/Day international poverty line of US\$370 (1985 prices) per capita per annum	R232	27.0%
Means test for married persons eligible for the Old Age Pension, assuming a household of 5 persons and no non-elderly income earners	R649	63.4%
“Indigence” line of R800 per household per month (2006 prices)	R164	11.7%
“Indigence” line of R1600 per household per month (2006 prices)	R329	38.1%
“Indigence” line of R2400 per household per month (2006 prices)	R492	55.1%
<i>Source: Woolard and Leibbrandt, 2006, p 26.</i>		
<i>*Converted from 2000 Rands used in source.</i>		
<i>**Derived from 2000 Income and Expenditure survey.</i>		

Studies of relative poverty provide even more variation to the composite picture of how many people are poor in South Africa, and what their lived experiences are. The Centre for the Analysis of South African Social Policy (CASASP) at Oxford University has suggested that defining poverty should be a participatory and consensual process, and developed a module included in the South African Social Attitudes Survey (SASAS) in

2005 which asked participants to indicate whether or not they felt a range of items and activities were “essential to have in order to enjoy an acceptable standard of living in South Africa today”. The ten items that the highest percentage of respondents agreed were essential were: someone to look after you if you are ill (91%); a house that is strong enough to stand up to the weather (91%); street lighting (90%); mains electricity in the house (90%); a fridge (89%); clothing sufficient to keep you warm and dry (85%); separate bedrooms for adults and children (85%); tarred roads close to the house (85%); a flush toilet in the house (84%); and, for parents or other carers to be able to buy a complete school uniform for children without hardship (83%).³⁸ The value of many of these essentials is only captured in a limited way in the basket of minimum goods defined by Statistics South Africa (StatsSA).

Proposals for a New National Poverty Line

In proposing to pilot a national poverty line, as announced in the 2007 Budget Speech, StatsSA and Treasury have usefully taken the merits of both absolute and relative measures into account. The two departments suggest, in a scoping document released alongside the Budget in February, that an absolute poverty line should be developed based on the per capita cost of a basket of minimum food requirements and non-food essentials, including electricity, education, transport and medical services.

Two additional “threshold” lines will be developed above and below the poverty line, which will measure “extreme poverty” as well as “a broader level of household income adequacy” and provide a wider, more relative indicator of income distribution. Both the poverty line and thresholds will be updated annually to take price changes into account, and will be subject to review on a five-yearly basis. Further consideration will also be given to the prospect of developing separate lines for different geographic areas.³⁹

Additional Considerations

While the development of a national poverty line has been widely welcomed, and the inclusion of both absolute and relative approaches (to a limited extent) is positive, it is nonetheless important to recognise some of the contested aspects of this process.

The first word of caution coming from many analysts relates to the importance of understanding that definitions and measures of poverty are intensely and inherently political, although, as the SPII suggests, they may have the “appearance of technical neutrality”.⁴⁰ The way in which South Africa ultimately decides to identify “the poor” has enormous implications for social and economic policy and programming in years to come.

Further, in keeping with the political nature of processes of defining and measuring poverty, some commentators have raised questions as to whether the technical process of setting the line is ultimately a valuable exercise, or whether it is merely a distraction from the hard work of getting on with poverty alleviation. Proponents of this argument, the SPII suggests, have viewed debate over definitions and measures of poverty as “splitting hairs”, when the extent and presence of poverty is so obvious in South Africa.⁴¹

Firoz Kahn (2007), citing Vishnu Padayachee's (2006) discussion on the consequences of an "obsession with measurement, data and definitions", also suggests that this has deflected discourse and "paralysed public action". Kahn also observes that other analysts "questioned the utility of these endeavours in situations/contexts where meeting basic needs and reducing absolute poverty are (and remain more so now than before) of immediate and paramount strategic priority".⁴²

Given that government plans to go ahead with the setting of the poverty line, the question of where the line should be set is also contested. In spite of all of the calculations and analysis involved, this is inherently a normative decision because, as Richard Anker (2006) points out, "every society has its own view of what constitutes an acceptable minimum standard of living".⁴³ As such, the level at which a poverty line is set also reflects both "political and ideological assumptions"⁴⁴ about the causes of poverty, appropriate responses, and the rights and entitlements of the poor. Further, the point at which a line is drawn is often regarded as "arbitrary"⁴⁵ in addition to failing to account for those living just above the line. This issue is likely to be problematic even with the threshold lines proposed by StatsSA and National Treasury. Possible consequences, Steven Friedman (2007) suggests, are the "unjust distribution" and disproportionate targeting of resources for those who live below the line.⁴⁶

An additional source of debate is who should be involved in the setting of the poverty line, with Friedman, SPII and CASASP, amongst others, calling for participatory and democratic processes that involve citizens and "poor people themselves" in definitions and measurement.⁴⁷ To date, while public comment and consultation have been invited on the process of developing the national poverty line, little has been said about the indicators and measures that will be used by StatsSA during the piloting process. Transparency in this process is particularly important to ensure that the poverty line is accepted as a credible and accurate measure, rather than one that appears only to function as an endorsement of the progress of anti-poverty measures, or to effectively reduce the numbers of people counted as "poor".

Finally, the setting of the poverty line raises a number of critical questions about how South Africa, and government in particular, will respond to a new official "headcount" of the poor. What are the implications for future social and economic policy? Relevant questions to pose as the poverty line is piloted include:

- Social grants: If the poverty line is set at a level incongruent with social grants means tests, will this be adapted accordingly? If this means that more people will qualify to receive grants, can government afford this?
- Minimum wages: Similarly, depending on where the poverty line is set, will this potentially influence minimum wages, particularly if minimum wage earners are found to have an income below the poverty line?⁴⁸ This may, for example, be the case in sectors such as domestic work, where annual minimum wages during 2006-2007 averaged R12,802 or R10,386, depending on geographic area of employment.⁴⁹ This annual income is less than the means test eligibility threshold for some social grants.

- Social wage: How is the social wage taken into account when setting the poverty line, and how will government ensure that the poor are accessing the benefits of the social wage?⁵⁰
- MDG's: When reporting on progress in implementing the MDG's, will South Africa utilise data on persons below the national poverty line, or those below the lower threshold?

4. TOWARDS COMPREHENSIVE SOCIAL SECURITY?

Since South Africa's transition to democracy, social policy of the ANC-lead government has been fundamentally driven by the aim of implementing comprehensive social security for citizens. This aim has been reflected in political discourse, legal reform processes, policy and programming. However, thus far developments in bringing about comprehensive social security have been relatively uneven, with a disproportionate emphasis on social assistance, and less done towards the provision of social protection and insurance.

This is beginning to change. Earlier this year, in his State of the Nation Address, President Thabo Mbeki announced that over the course of 2007 government aimed to "complete the work already started to reform our system of social security so that phased implementation can start as soon as possible".⁵¹ Several weeks later in the 2007 Budget Speech, Minister of Finance Trevor Manuel elaborated on the "earnings-related contributory social security system" introduced by Mbeki, and foreshadowed a number of other changes to come, including significant reforms to the regulation, governance, and taxation of retirement funds.⁵²

However, while it is clear that the pace of development and implementation has quickened, comprehensive social security as currently envisaged mainly targets formal sector workers, while continuing to provide a limited "safety net" for vulnerable groups eligible for social assistance through the current grant system. Significant questions still remain around how government plans to support persons of working age who are so-called "structurally unemployed", and have few prospects for work in the future. There is also a great deal of work remaining to determine how proposed social security systems will be extended to casual and informal sector workers. And a number of broader policy proposals aimed at improving living standards - including the extension of child support grants to children between the ages of 14 and 18, and the introduction of a National Health Insurance (NHI) system – appear to have been shelved.

Foundations of Social Security Reform in SA

Both the right of access to social security, as well of that of access to social assistance for all persons "if they are unable to support themselves and their dependents", are guaranteed in Section 27 of the Bill of Rights of the 1996 South African Constitution. The Bill of rights also compels the state to take "reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights".⁵³

Efforts to develop a national social security system, and ensure progressive realisation of the rights guaranteed in Section 27, began soon after the transition to democracy. Emerging social policy emphasised the need for broad-based social security and protection, linked to the aims and principles of the Reconstruction and Development Programme (RDP).⁵⁴

In 1997, the *White Paper for Social Welfare* pronounced that government was “committed to the provision of a comprehensive national social security system”, and recognised “the importance of a broad social security net comprising social payments and targeted welfare services”. The *White Paper* proposed a two-tiered approach to social security transformation: first, it called for comprehensive social assistance to for “those without other means of support”, which has translated into the current system of social grants in place today. Second, the *White Paper* called for the restructuring of social insurance systems, including the retirement industry, unemployment insurance, and health insurance. These reforms were underpinned by a central policy principle that “every South African should have a minimum income, sufficient to meet basic subsistence needs, and should not have to live below minimum acceptable standards”.⁵⁵

Subsequently, an inter-departmental Task Team convened by the Department of Social Development was established, and was charged with identifying gaps and weaknesses in existing social security infrastructure. The findings of the Task Team, released in 1999, identified a number of issues of crucial concern. These included: the very limited coverage of the Unemployment Insurance Fund (UIF) within the national workforce; problems in social assistance related to the old age pension system, and disability provisions; the lack of assistance for vulnerable children over 7 years old no longer qualifying for child support grants; financial vulnerability in relation to the cost of health care; and broadly, the “large numbers of South Africans [who] remain vulnerable to harsh poverty with limited means of advancement”.⁵⁶

The Task Team also recommended that a committee should be established to develop proposal for a new national system of social security. This Committee of Inquiry into a Comprehensive System of Social Security for South Africa, known as the “Taylor Committee” after Chairperson Professor Vivienne Taylor, then conducted an in-depth analysis of the objectives and targets for the social security system, options for practical implementation, and the viability and implications of the options considered.⁵⁷

Scope and Findings of the Taylor Committee Inquiry

The scope of the work conducted by the Taylor Committee was wide-ranging, and included in-depth assessments of the efficacy of social assistance and protection systems already in place. These included: social grants and social assistance programmes; employment and social insurance, including labour programming and the UIF; social assistance for children; reform of the healthcare system; retirement and insurance; provisions for disability; the Road Accident Fund (RAF); and, coverage in place against work-related injuries and diseases.⁵⁸

The Taylor Committee’s recommendations were released in March of 2002 in the report *Transforming the Present – Protecting the Future*, and over the last five years, have been definitive in shaping social security planning and policy. From a conceptual and

strategic point of view, the Committee recommended that South Africa should adopt a “social protection” approach, which would aim to ensure a “minimum acceptable living standard for all citizens” as first proposed in the 1997 *White Paper for Social Welfare*, in addition to including measures to provide social insurance, social assistance and social services.⁵⁹ This social protection approach, the Committee envisaged, should address the multi-faceted aspects of poverty, including income poverty, service/capability poverty, and asset poverty, as well as special needs and social insurance.⁶⁰

Within the context of a social protection approach, the Taylor Committee proposed a number of direct and practicable social assistance changes, despite acknowledging the significant budgetary implications of these for government. Proposed changes included simplification of the process for accessing foster support grants, and special attention to the needs of child-headed households. The Committee also proposed that the age of eligibility for child support grants be increased to from 7 years: currently, child support grants are available to children up until age 14, but have not been extended to 18 as the Committee originally proposed. Arguably the most contested of the Committee’s recommendations was that a universal Basic Income Grant (BIG) should be introduced, primarily to “relieve the income poverty of the many who will not be rescued by policies designed to stimulate gainful labour market insertion.”⁶¹ Despite years of active lobbying by civil society, this proposal has never been adopted, and earlier this year President Mbeki firmly announced that “as government, we have said we don’t support this idea of a basic income grant”.⁶²

Beyond wider-reaching social assistance measures, the Taylor Committee also proposed a number of institutional reforms related to improving social insurance. These included both the need for mandatory insurance cover for formal sector employees, and additional mechanisms to cover employees falling outside the ambit of such a scheme. The Committee also recommended a move towards an NHI system that would provide mandatory, universal healthcare coverage. Related to retirement, the Committee proposed “an integrated approach to retirement provision, based on mandatory participation, preservation of benefits, improved fund administration and governance, simplification of the tax structure and improved consumer protection”. Finally, the Committee recommended improvements and greater cohesion in disability insurance and compensation for work-related injury and disease, in addition to reform of road accident benefits.⁶³

Social Security Five Years on from the Taylor Committee

In the five years following the release of the Taylor Committee’s report, much work has been done in planning and development towards a comprehensive social security system, but much work also remains.

The architecture of comprehensive social security is envisaged by policy-makers in terms of three pillars:

- (1) Social assistance and the social wage;
- (2) Compulsory social insurance; and
- (3) Treatment of private discretionary contributions for benefits beyond those offered through the national social security system.⁶⁴

Pillar One: Social assistance and the social wage

In the context of the first pillar of the social security system, government has undoubtedly made significant progress in social assistance and the social wage, albeit in the face of enormous backlogs and need.

In the *Mid-Term Development Indicators* released earlier this year, the Presidency reported that the percentage of populations living in extreme poverty has declined over time: a trend attributed to “strong overall income growth” and “the expansion of social grants”, resulting in rising incomes amongst the poorest 10% and 20% of the population. While in 1996, 53.1% of the population lived with means below R3,000 per capita per annum (in 2000 constant rands), this decreased to 43.2% in 2006. However, this poverty measure – close to the international US\$1/day poverty line – is extremely conservative, and does not reflect the full extent of poverty in South Africa. Further, during the period from 1996 to 2006, the Gini coefficient also indicates rising levels of inequality.⁶⁵

While the child support grant has not been extended to include children between 14 and 18 years old, there has been an enormous deepening of grant uptake overall. Numbers of grant recipients have more than quadrupled between 1999 and 2007, from about 2,6 million to more than 12 million. The largest percentage increase has been in the uptake of the child support grant, which as of this year is paid to more than 7,8 million people, but there have also been significant increases in the care dependency, foster care, and disability grants, as well as grants-in-aid.⁶⁶ Social assistance payments through grants currently comprise 3.2% of GDP (R62,6 million), with relatively consistent and significant increases from 2.9% in 2003 (R36,9 million).⁶⁷

In addition, following the passing of enabling legislation in 2004, the South African Social Security Agency was established, and has assumed centralised responsibility for delivery of social grants.⁶⁸

Pillar Two: Compulsory social insurance

Until recently, less appears to have been achieved in the introduction of a compulsory social insurance system, aside from ongoing research and planning undertaken by National Treasury and the Department of Social Development in particular. However, this does appear to be changing, with plans tabled to introduce social insurance schemes over the next few years. Coupled with resistance from government to institute a BIG and to extend the child support grant, this may also be indicative of a shift away from binding the budget to future social assistance commitments, and continuing the ongoing fiscal policy trend of risk aversion.

As discussed above, in the State of the Nation Address in February President Mbeki unveiled plans for the phased implementation of an “earnings-related contributory social security system”. The system, he explained, will be underpinned by the “principle of social solidarity”, and will aim to finance “basic retirement savings, death, disability and unemployment benefits”. For low-income earners, the system will allow for the continuation of minimum benefits through social grants, and incorporate a wage subsidy, particularly for protecting first entrants into the job market. Higher-income earners with

the means to do so will also be able to continue contributions to private retirement and insurance schemes.⁶⁹ These additional contributions would fall under the “third pillar” of the overall social security system.

Further details of the system were announced by the Minister of Finance in his Budget Speech several weeks later. According to the Minister, the contributory social security system will be financed by a tax administered by SARS that will accrue in individual accounts in the name of every contributor. Government aims to have implemented this system by 2010.⁷⁰

Documents released by National Treasury alongside Budget 2007 further elucidated the proposals currently on the table. Universal social security contributions will be required of all formal sector employees, but as discussed by President Mbeki, contributions of low-income workers will be covered by a wage subsidy. Treasury has proposed that out-of-earnings contributions should be structured as follows:

- First, formal sector employees will be required to make mandatory contributions to a national social security fund, up to an earnings threshold. This, in addition to the current grants system, will contribute to a broader social “safety net”.
- Second, government will require additional supplementary contributions to occupational pension funds or individual retirement funds for earnings beyond the threshold, up to a ceiling in terms of tax deductibility. This will particularly target higher-income earners to ensure retirement insurance coverage and a higher level of income replacement than available through the national social security fund.
- Third, government will encourage additional voluntary contributions to occupational or individual retirement funds for those with the means to do so.⁷¹

Treasury suggests that this proposed system will create “a bridge across the poverty trap”, in which low-income earners face perverse incentives against retirement savings in order to maintain eligibility for old age pensions, while high-income earners enjoy tax-privileged savings and other forms of social insurance and protection. If successful, Treasury predicts that this system will reward employment and savings, and substantially improve household income security for contributors.⁷²

Although South Africa still has a few years to wait before the proposed systems are in place, it will indeed be a positive development if social insurance is broadly accessible, and provides support during times of income loss due to unemployment or injury, and during retirement. However, it is also important to note that very little has been said thus far about extending social security to those working outside of the formal sector: only that consideration should be given to “encouraging voluntary participation by those working in the informal sector”, possibly through a National Savings Fund. Treasury has also been fairly vague about how government plans to phase in compulsory contributions for household workers and the self-employed.⁷³ And precious little has been said about social security for those who work only casually, or are in fact “structurally unemployed” over the long-term. Therefore, government still has work to do to ensure that comprehensive social security includes the millions of South Africans

engaged in non-secure and non-decent forms of work, or who face long-term unemployment.

Pillar Three: Private discretionary contributions

Although all formal sector workers will be compelled to make mandatory social security contributions in the new proposed system, government will continue to encourage voluntary contributions to retirement funds and pensions schemes beyond minimum requirements. This is because in the case of high-income earners in particular, the mandatory contributions required to both the national social security fund and an occupational or individual scheme are still unlikely to provide a sufficiently high level of retirement income replacement, or adequate insurance coverage.⁷⁴

However, both National Treasury and Social Development have identified a myriad of problems in the private pension sector. These include poor governance in pension schemes, a lack of equity, unfair practices and conflicts of interest: all against a backdrop of high product charges. According to Social Development, high profile cases illustrating these problems include “conflicts of interest and questionable business practices on the part of high profile pension fund administrators such as Alexander Forbes”, as well as “serious mismanagement of pension fund money, for example by Fidentia”.⁷⁵

Because private pension contributions form an integral part of the overall public social security system, government has proposed that a range of reforms are required in the pensions sector, as well as in tax treatment of retirement funds and savings.

In terms of pension sector reforms in particular, a number of legislative and regulatory changes are already underway. The Minister of Finance has signed a Statement of Intent (SOI) with life industry companies, and Treasury has released a *Discussion Paper on Contractual Savings in the Life Industry* in 2006. The Financial Services Board has also initiated investigations into a number of pension funds administrators, and the Pension Funds Amendment Bill [B11-2007] was approved earlier this year. But more work remains before the goals of effective competition, greater transparency, and cost-effectiveness are achieved in the sector.⁷⁶

These reforms have been coupled with changes in taxation treatment of retirement savings, with the aim of encouraging long-term savings, and eliminating perverse incentives.⁷⁷ Treasury’s vision for taxation reforms will “see a shift towards an expenditure tax treatment of retirement fund savings, including a uniform and more equitable tax treatment of contributions to pension, provident and retirement annuity funds, to be phased in over time”. Tax on retirement fund contributions will be approached through:

- “Tax encouragement of mandatory contributions to the national social security fund and private retirement funds;
- Limited tax-encouragement of a supplementary, voluntary component; and,
- No special tax treatment above a certain ceiling”.⁷⁸

Taxation on lump sum benefits will also be simplified, and as of March of this year, retirement fund tax has been abolished.⁷⁹

Also related to general improvement in retirement conditions and the savings environment, both Treasury and Social Development have discussed eliminating the means test for the existing old age grant. This proposal is explored in more detail in a series of feasibility studies released by Social Development last month, which also examine benefit design options in provisions for the elderly, provider accreditation in the mandatory social security system, and measures to provide post-retirement protection for healthcare coverage.⁸⁰

Social Development has recommended that the current old age grant be replaced with a universal State Old Age Pension (SOAP), which the Department contends would be relatively inexpensive to administer, would promote equity, and would significantly reduce old age poverty. Social Development has also proposed that the “size of the benefit be increased by an amount higher than the annual inflation-indexed adjustments”, in order to broaden its impact on poverty.

In the absence of a BIG, the SOAP may be the only form of universal social assistance South Africans see in the near future.⁸¹ Increasing the value of the SOAP, as well as abolishing the means test, may in particular provide better support for retired and elderly persons experiencing insufficient retirement income, but who are not currently eligible for the old age grant, for example due to assets above the current threshold. This could be a particularly important source of support over the next period, while the mandatory contributions social security system is being put into place.

Gaps Remaining in Social Security Infrastructure

Although a long time in coming, South Africa appears to have made progress in implementing a comprehensive social security system. Particular successes are in the broadening of social assistance infrastructure and uptake for children, and in some aspects of delivery of the social wage. Over the last few years, there has been a distinct escalation in research, policy development, legislative reform and programming related to: first, social insurance and protection through a contributory social security system; and second, the retirement finance environment, including regulation of private pension schemes, new taxation arrangements, and the possible introduction of a universal SOAP. Reports from government suggest that these efforts will come to fruition over the next few years.

However, it is also important to note that a number of gaps still remain in emerging systems of social assistance and protection, which challenge the “comprehensive” nature of South Africa’s future social security system.

Revisiting the BIG

Perhaps foremost among these gaps is that still no provision has been made for basic support to unemployed people of working age, and in particular the “structurally unemployed” persons whom the Taylor Committee predicted “will not be rescued by policies designed to stimulate gainful labour market insertion”.⁸² Broadly speaking, the

proposed framework for a social security system as it currently stands caters largely for working South Africans, employed in the formal sector. Although the State of the Nation Address spurred speculation that government was the verge of introducing a BIG⁸³, these claims were quickly dismissed by the President, who likened the offering of a BIG to government effectively “abandoning” citizens through adopting a “blanket” approach, rather than a targeted one.⁸⁴

And yet, in the five years since the Taylor Committee recommended the phased introduction of broader social assistance through a BIG, unemployment has remained high. In September of 2006, 25.5% of the population was unemployed, according to a narrow definition including only those actively seeking work in the previous two weeks. When job-seekers discouraged from actively seeking employment are included in a broader definition, this figure rises to 37.3%.⁸⁵

The reality that the exercise of job-seeking – beyond day-to-day survival - itself requires some minimal disposable income still remains. Therefore, while the need for broader social assistance still exists, South Africa appears to have moved away from the policy principle that “every South African should have a minimum income”⁸⁶, as articulated in the 1997 *White Paper for Social Welfare*.

The Taylor Committee warned that there could be a “cost to not acting” to finance social protection measures, noting that “it is not always economic to defer important interventions and preventative steps for primarily short term cost reasons” when “the social backlog and accumulating challenges present a barrier both to social and economic development”.⁸⁷ At a time when national discourse is focused on the upcoming elections and future leadership, it may be time to re-look at the merits of the BIG debate.

Protection for Workers Outside the Formal Sector

Next, as discussed above, the social security system as currently proposed is relatively inaccessible for many of the most vulnerable workers in South Africa, and those most in need of social insurance. While some thinking has been done about how to permeate the household labour and the self-employed, it is clear that far more concrete plans need to be developed. Concurrent planning must go into the even more challenging task of modelling comprehensive social security to include casual and informal sector employees. Both security and social protection are key features of decent work, as defined by the International Labour Organisation (ILO).⁸⁸

National Health Insurance

One of the Taylor Committee’s recommendations that has arguably received the least attention in social security policy was the call for mandatory, universal healthcare coverage through a National Health Insurance (NHI) system. Since the Committee’s finding that households suffered financial vulnerability as a result of health care costs, public healthcare coverage has been extended to include free care for pregnant and lactating women, children under 6 years old, and persons with disabilities.⁸⁹ Free primary health care is also available for all, and older persons in receipt of social grants can receive secondary health care services free of charge at public hospitals.⁹⁰

However, analysts also observe that the “health status of the South African population has often been viewed with concern”, and that “although welfare expenditure has been increasing since 2001, there has been a reduction in the share of spending allocated to health as a percentage of the total social services budget”.⁹¹

The Department of Health has rejected calls for an NHI, instead agreeing to a contributory Social Health Insurance (SHI) strategy that it suggests will strengthen the public health care system through increased revenue, will reduce inequities in health care finance, and improve access to quality health care for lower income earners.⁹² According to government, progress towards an effective SHI system will require a broader range of available low-income medical schemes, provisions for post-retirement medical benefits, and the operation of the newly-established Risk Equalisation Fund (REF), which will “equalise the cost of providing the minimum benefits between schemes”.⁹³

The proposed SHI, however, will only benefit contributors, while an NHI as originally envisaged would also benefit non-contributors, through cross-subsidies and a dedicated health tax.⁹⁴ The People’s Budget Campaign has rejected SHI proposals, on the grounds that they will mean “effective privatisation of health care”, leading to limited access “on the basis of income”. The Campaign has also denounced SHI’s “potential burden on low-income workers and on the economy overall, which could lead to higher unemployment and slower economic growth”.⁹⁵

Questions to ask as discussions continue around SHI are whether the proposed system will in fact reduce financial insecurity related to healthcare costs for low-income non-contributors, who may still face high healthcare costs beyond the scope of free treatment that is currently available.

Extending Child Support

Finally, gaps still remain in social assistance for children. In terms of the current child support grant, while the age of eligibility has increased to 14 years, there has been very little adjustment of the income threshold of the means test, meaning that with rising inflation fewer children effectively qualify today.

In addition, there is a major gap in support for adolescents between the ages of 14 and 18 years old, both in terms of limited social assistance and a leaner cut of the social wage. Children in this age group still are not eligible for child support grants, and no longer have access to free health care. At the same time, adolescents should be a key target group for programmes to increase school enrolment levels, which appear to wane at the secondary school level. Supporting children at this age is also enormously important in ensuring educational achievement and adequate preparation for entry into the workforce, as well as for mitigating the “inter-generational” features of unemployment and poverty.

5. DEPARTMENTAL EXPENDITURE PERFORMANCE IN 2006/07

Oversight of public finances can entail looking at a variety of things. A basic question that can be asked concerns the extent to which the money spent by departments for various functions corresponds to the initial amounts allocated to them in the budget and/or to the adjustment made to that allocation in the middle of the fiscal year. In this section we look at the following national and provincial departments and assess some of their spending trends for 2006/2007:⁹⁶

- Education
- Sports and Recreation
- Transport
- Housing
- Public Enterprises
- DPLG
- Agriculture
- Land Affairs

National Departments

With regard to current spending by national departments, Table 4 below shows which of the spending within the eight selected departments diverged significantly from February 2006 budget allocations and/or the adjusted allocations made in October 2006. In each case the value reported is the percent of the budget spent at that point. For the third and fourth quarter this shows the percent of the *adjusted* budget spent.

Table 4: Current Spending by National Departments by Quarter					
Department	End 1 st quarter	End 2 nd quarter	Adjustment (% initial allocation)	End 3 rd quarter	End 4 th quarter
Sport and Recreation	9	22	100	35	62
Transport	20	54	135	57	66
Education	12	32	101	47	89
Agriculture	14	34	107	54	88

In the case of capital spending, shown in Table 5 below, a simple glance at the percentage scores for the fourth quarter, reported in the final column, already suggests that challenges associated with capital spending remain more pervasive than those associated with current spending. The concern here is not only significant underspending, but also significant overspending. The general sense is of *erratic* spending, at least when compared to initial allocations.

Department	1 st quarter	2 nd quarter	Adjustment allocation (%)	3 rd quarter	4 th quarter
Education	27	45	143	42	56
Sports and Recreation	3	8	262	6	26
Transport	2	8	100	76	33
Housing	13	24	141	30	75
Public Enterprises	50	243	394	87	149
Provincial & Local Government	8	18	126	50	165
Agriculture	50	107	159	105	189
Land Affairs	4	27	315	73	206

Some of the Transport Department's expenditure was reclassified from capital to current expenditure, resulting in a *decrease* from the third to the fourth quarter.

Only one of the selected national department's (Housing) spending outcomes was within 25 percentage points of the adjusted allocation! However, a very large share of the Department of Housing's spending occurred in the last quarter, which prompts the familiar question of whether some form of "fiscal dumping" occurred: that is, whether spending was efficient and effective or whether there was a significant degree of fruitless or wasteful expenditure simply to ensure that budget and spending outcomes were more closely aligned.

In the case of the underspenders, the general trend appears to be that insufficient capital spending occurs in the first two quarters (this is the case for all these departments except Education), followed by a consequent inability to "catch up" in the last two quarters. As discussed further below, this is exacerbated by *upward* adjustments in allocations mid-year.

Public enterprises, the Department of Provincial and Local Government (DPLG), Agriculture and Land Affairs emerge as the capital overspenders. It is worth asking of what kind of *base* this overspending occurred:

Department	Allocation ENE 2006	Adjustment Budget 2006	Unaudited Expenditure Outcome
Public Enterprises	466 000	1 835 000	2 739 000
DPLG	6 058 000	7 616 000	12 571 000
Agriculture	33 059 000	52 503 000	99 341 000
Land Affairs	55 359 000	174 480 000	359 694

For Public Enterprises and DPLG these changes are from low bases. For Agriculture and Land Affairs, however, the initial allocations are already quite substantial. It is also clear that capital allocations for all four of these departments were adjusted upward appreciably in the adjustments budget. In the case of public enterprises and agriculture this in a sense followed spending in the first and second quarters, which was outpacing the allocations. In the case of DPLG and Land Affairs, budgets were adjusted mid-year even though these departments spent very small percentages of their allocations in the first two quarters.

In the case of the underspenders, their spending outcomes, in three of the four cases, were in fact quite close to the *initial* February 2006 allocation, but not to the much larger increase after the Adjustments Budget. Table 7 shows this for the three relevant Departments.

Table 7: Capital Spending by Selected National Departments as a Percentage of ENE and Adjustment Allocation		
Department	% of ENE Allocation	% of Adjusted Allocation
Education	79.7	55.8
Sport and Recreation	68.2	26.0
Housing	105.9	75.3

A final question on national capital and current expenditure trends concerns whether any general suggestion of “fiscal dumping” can be identified. Although not all instances where 4th quarter spending is high are necessarily problematic, such results suggest that further probing is required. A simple way to assess whether problems may exist is to compare the share of the total adjusted allocation spent by the end of the third quarter with that at the end of the fourth quarter. The results are provided below for both current and capital spending.

Table 8: Current Spending at End of 3rd and Fourth Quarter as Share of Adjusted Allocation		
Department	End 3rd quarter	End 4th quarter
Education	47	89
Sports and Recreation	35	62
Transport	57	66
Housing	56	96
Public Enterprises	70	99
Provincial & Local Government	63	95
Agriculture	54	88
Land Affairs	60	88

Table 9: Capital Spending at End of 3rd and Fourth Quarter as Share of Adjusted Allocation		
Department	End 3rd quarter	End 4th quarter
Education	42	56
Sports and Recreation	6	26
Transport	76	33
Housing	30	75
Public Enterprises	87	149
Provincial & Local Government	50	165
Agriculture	105	189
Land Affairs	73	206

Provincial Departments

We begin, as with the national departments above, by looking at the extent to which allocations and outcomes were aligned for the various departments. Table 10 firstly indicates the average percentage of the budget allocation spent by each department in 2006/2007.

Table 10: Allocations and Outcomes for Provincial Departments		
Provincial Departments	Current Allocation / Outcome	Capital Allocation / Outcome
Education	97.8	95.1
Housing	95.3	62.5
Agriculture	84.9	127.3
Roads and Transport	99.3	106.2
Sport and Recreation	97.3	89.1

There are simply too many departments for all results of provincial performance to be provided here. Below potential areas of concern are identified by indicating departments where outcomes deviated from the original allocation by more than 10%.

Table 11: Departments in which spending outcomes deviated from original allocation by more than 10% (capital / current*)

Province	Education	Housing	Agriculture	Roads & Transport	Sports & Recreation
Eastern Cape	78.9	29.7			28.1
Free State		35.4 / 77.2	123.7	173.1 / 118.3	
Gauteng	112.6	84.6	68.2		
KwaZulu-Natal		44.1			
Limpopo		84.4	89.1	75.6	
Mpumalanga	85.5				
Northern Cape			392.2 / 75.5		88.3
North West	89.6	9.7			40.5
Western Cape	87.4	82.6	83.5		142.6

** In several places, deviations in both capital and current spending are highlighted, and reported in terms of capital overspend / current overspend.*

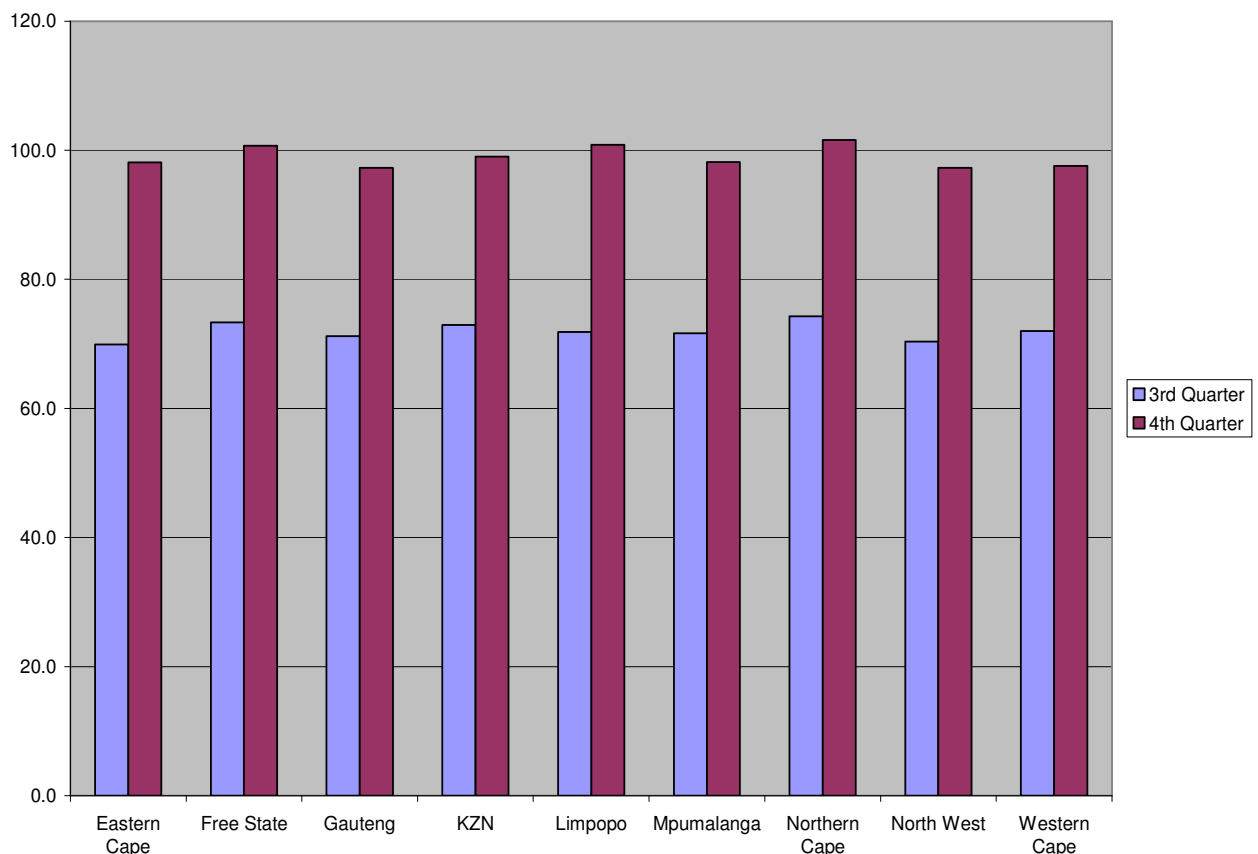
Some of the budgets cited here are quite small, both in absolute terms and as a percentage of provincial and national total expenditure. Some, however, are not. These numbers also confirm that problems tend to be on the capital side of the budget. The Housing and Local Government Department spending results (clustered together in the case of most of the provinces) are particularly worrying because of radical under-expenditure (less than 50% spent) in the case of four provinces, and underspending to some degree for all nine provinces. This is worrying especially given the apparent discontent of many communities with the pace of housing backlog eradication and local service delivery more generally.

A natural question arising from these results is whether the instances of underspending seen here are attributable primarily to the general inability of the provincial administrations to spend their capital budgets, or whether it is due more to the failure of *some* provincial departments to spend on capital formation. In the former case one would expect to see that total capital spending is a fairly low percentage of the total capital allocation. In the latter case, total capital spending may in fact be a high percentage of the allocation, if funds are, for example, shifted in-year or virement occurs. Table 11 below suggests an answer to this question by looking at three provinces where capital outcomes diverged markedly from capital allocations. The problems do appear to be less of a general problem across all departments, and more that some departments in many provinces struggle with their capital spending.

Table 12: Capital Spending Percentage for Selected and All Functions in Three Provinces		
Province	Average: Selected 5 functions	Average: All Capital Spending
Eastern Cape	67	90.7
North West	68	93
Northern Cape	153.5	97.5

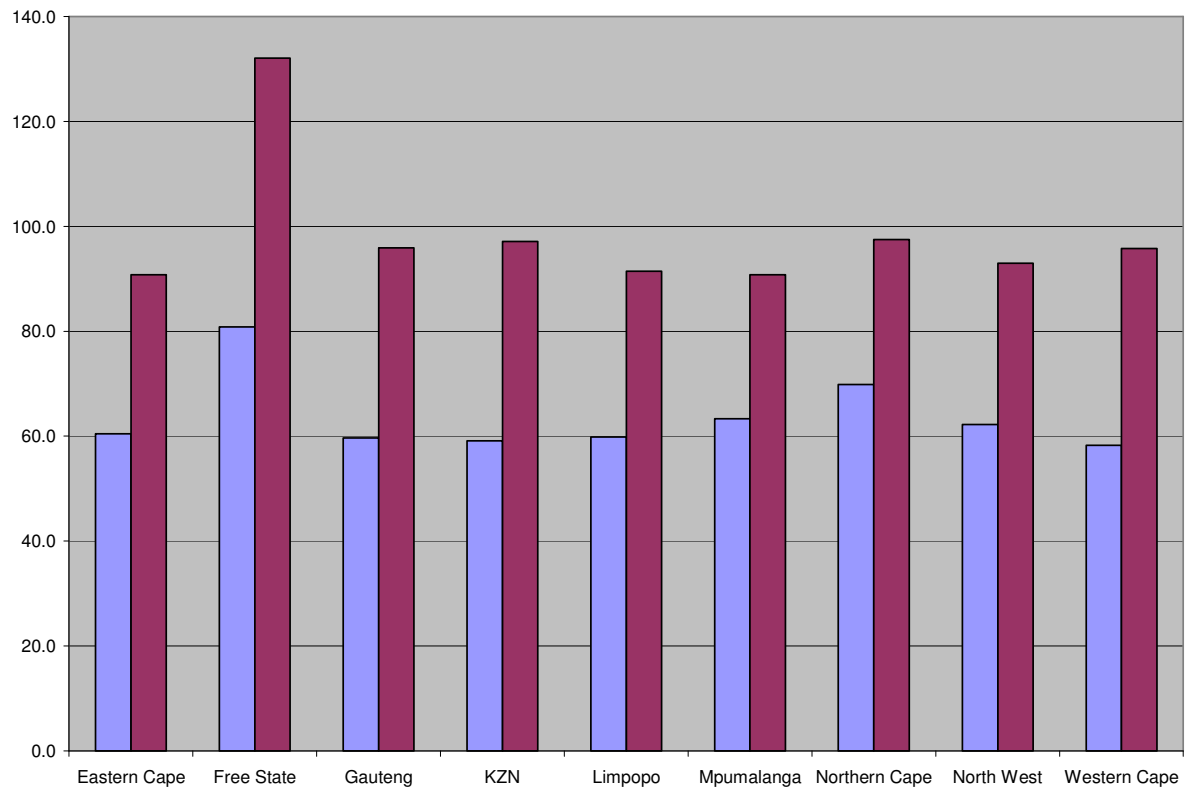
The question of fiscal dumping at provincial level, whether on the capital or current budget, is discussed by looking at large jumps in total provincial current and capital expenditure from quarter 3 to quarter 4. Figure 2 shows the percentage of the adjusted budget spent by the end of the third and the end of the fourth quarter, by province and for all current spending (that is not just the selected departments). Figure 3 does the same for capital spending.

Figure 2: Percentage of Adjusted Current Allocation Spent by End of 3rd and 4th Quarter



This result is fairly healthy, in the sense that most departments came fairly close to the 100% score by the end of the fourth quarter, and did so from a position of having spent a sizeable portion of their funds by the end of the third quarter.

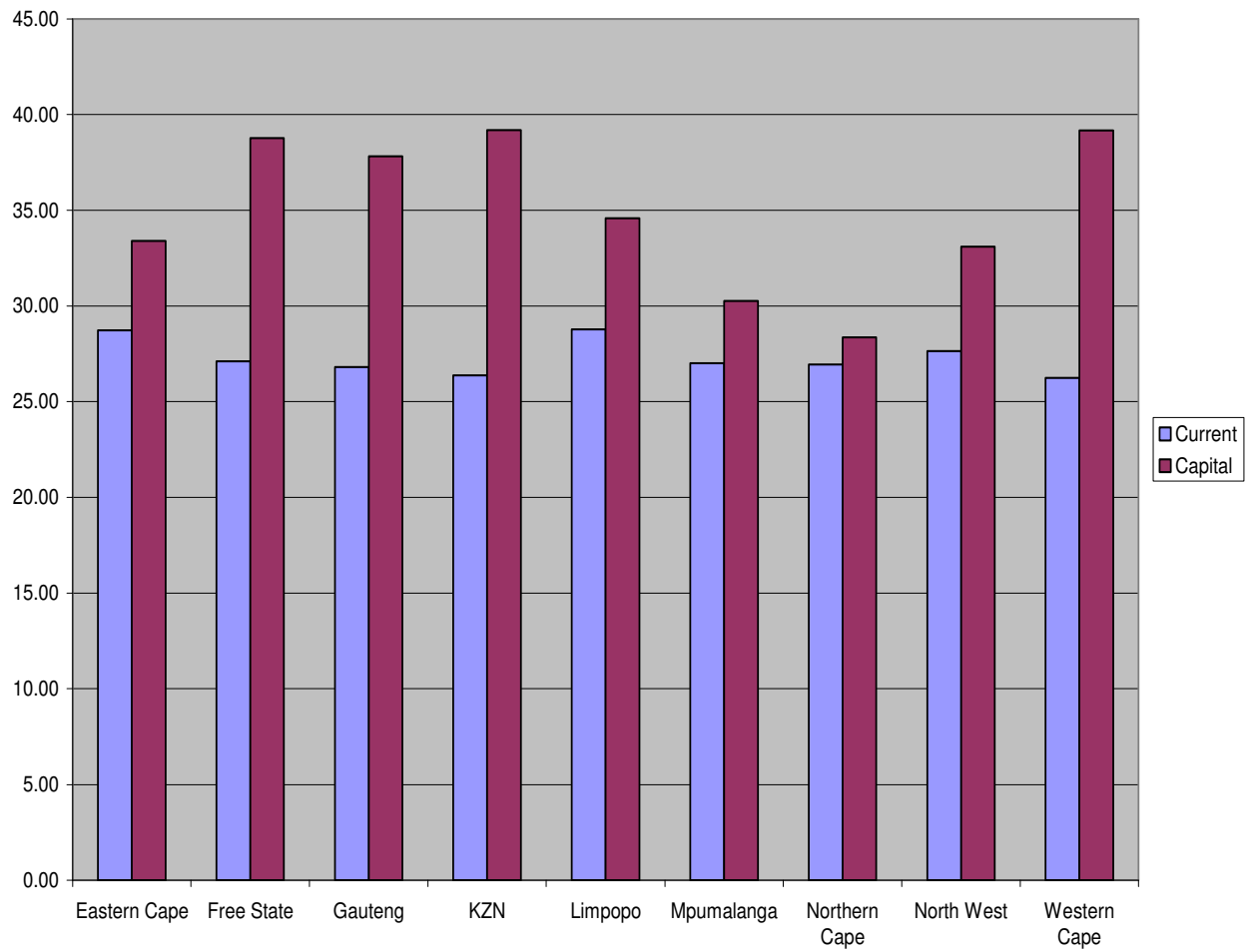
Figure 3: Percentage of Adjusted Capital Allocation Spent by End of 3rd and 4th Quarter



As figure 3 shows, in the case of capital spending there is a clearer tendency for spending in the first three quarters to fall below the benchmark value of 75%, requiring either excessive expenditure in the fourth quarter, or in fact an outcome significantly lower than the allocation.

It is also interesting to combine current and capital spending and, by province, look at the percentage of a department's total spending which takes place in the last quarter. This is shown in figure 4 below.

Figure 4: Total 4th Quarter Spending



6. SUMMARY OF ISSUES AND CONCLUDING QUESTIONS

Summary of Issues: Growth, Development & ASGISA

The following issues need to be further considered and may be challenges to the success of the initiative over the medium-term:

- 1) It is difficult to determine the degree of consensus between the various ASGISA stakeholders, as to the relative priority accorded to "growth" measures and "sharing" measures: currently tensions are muted because the economy has been booming; they may resurface if a global downturn occurs or external shocks require even more restrictive monetary policy.
- 2) Challenges remain when it comes to efficient and effective infrastructural spending.
- 3) There is still ambivalence about the extent to which the ASGISA "developmental state" should be conceived as an actively interventionist industrial player, or play the more conservative role of creating enabling conditions for private transactions to generate growth and opportunities.
- 4) The JIPSA initiative, and the need to "import" scarce skills in response to shortages that hamper growth is valid, but the long-term solution must entail improving education and training in South Africa. And yet, this still seems difficult to get right: in secondary schooling, a greater degree of resource convergence between richer and poorer schools has not meant convergence of outcomes. Similarly, the first National Skills Development Strategy has not achieved success in all sectors.
- 5) The fact that the South African economy has been growing, and could well grow at faster rates over the next few years, should not blind us to the plight of the large share of South Africans who will remain left behind nonetheless, and who will require a meaningful social wage if Constitutional aspirations are to be met.

Summary of Issues: The debate on poverty lines

- 1) Prospects for measuring poverty, and assessing the impact of anti-poverty interventions, have been frustrated by the lack of an official definition of poverty or a national poverty line.
- 2) Currently, a number of indicators are used to describe the extent and experiences of poverty and deprivation, but this has led to a wide range of sometimes-conflicting conclusions.

- 3) National Treasury announced in the 2007 Budget that StatsSA would be piloting a national poverty line based on the per capita cost of a minimum basket of goods, in addition to two threshold lines above and below the national line.
- 4) The processes of defining poverty and setting a national poverty line are intensely political, and some have questioned whether they are in fact valuable in light of the enormous work that remains in “getting on” with poverty alleviation. However, there is general consensus across many sectors that an official poverty measure and national poverty line will be useful analytical tools.
- 5) Any definition of poverty that is chosen, and the level at which a poverty line is set, will have particular implications in terms of both numbers of people who are included and excluded, and consequently, the potential budgetary effects of broadening or paring down social assistance accordingly.
- 6) One contested feature of the poverty line proposal is that it may result in the targeting of resources disproportionately to the “very poor”, possibly at the expense of persons living in relative poverty but who fall just above the national line or upper threshold. An alternative solution would be to adjust resource transfers so that more is transferred to the “very poor” and less to the “quite poor”, but this would be administratively very difficult to achieve.
- 7) If the poverty line is set at a level incongruent with social grants means tests, will these be adapted accordingly? If this means that more people will be eligible to receive grants, can government afford this?

Summary of Issues: Towards comprehensive social security

- 1) The development of a comprehensive social security system has been a policy priority for government since 1994. Strategies for the implementation of such a system are principally drawn from the findings of the Taylor Committee in 2002.
- 2) Government has envisaged comprehensive social security in terms of three pillars: (1) social assistance and the social wage; (2) compulsory social insurance; and, (3) private discretionary contributions to occupational/individual pension and retirement funds.
- 3) Social assistance: government has achieved an enormous rate of uptake of social grants, and social assistance payments comprise a substantial and consistently increasing portion of the GDP (currently 3.2%).
- 4) Social insurance: earlier this year, government announced the introduction of new social insurance system, which will require mandatory contributions to a national social security fund up to an earnings threshold, and additional

- supplementary contributions for earnings above this threshold. Contributions from low-income workers will be covered by a wage subsidy.
- 5) Private discretionary contributions: government will continue to encourage additional contributions to occupational/individual schemes through removing perverse incentives that discourage savings, improving transparency and governance in the pensions sector, and introducing new tax treatments on retirement savings.
 - 6) Although the proposed social security system will likely go a long way in extending South Africa's social "safety net", very little has been proposed in terms of support for the so-called "structurally unemployed", or those working casually and in the informal sector. However, government has summarily dismissed calls for a BIG as proposed by the Taylor Committee.
 - 7) Little has been done towards the proposal to implement mandatory, universal healthcare, and critics suggest that the proposed SHI system may effectively limit access to quality healthcare, and increase the fiscal burden to low-income workers and the economy overall.
 - 8) Serious gaps still exist in the provision of social assistance for vulnerable children.

Summary of Issues: Departmental expenditure performance in 2006/07

The 2006/2007 spending performance by selected national and provincial departments, as far as can be gathered from this data, shows many departments doing very well and some doing poorly. The following issues can be identified:

- 1) Fiscal dumping: fourth quarter spending is invariably greater than the average of the preceding three quarters, suggesting some wasteful expenditure.
- 2) The adjusted budget in many cases, at least in 2006/2007, increased allocations to departments which spent poorly in the first six months; in most cases this led to an underspending outcome at the end of the year.
- 3) At a provincial government level, the departments of Housing and Local Government did especially poorly in their capital spending, which is of concern given tensions over service delivery.
- 4) Capital spending results, even where they are not too bad, are invariably worse than current spending results: clearly issues of capacity continue to adversely impact spending in this instance

7. BIBLIOGRAPHY

AIDS Law Project (2004). "Social Health Insurance Policy Direction". Presentation, 10 February 2004. Available at: www.tac.org.za.

Anker, R. (2006) "Poverty lines around the world: A new methodology and internationally comparable estimates", *International Labour Review* Vol 145 No 4.

Bhorat, H. and Kanbur, R. (Eds)(2006). Poverty and Policy in Post-Apartheid South Africa, Cape Town: HSRC Press. Available at: www.hsrcpress.ac.za/product.php?productid=2178

Committee of Inquiry into a Comprehensive System of Social Security for South Africa (2002). "Transforming the Present – Protecting the Future, Consolidated Report", Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa, March 2002. Available at: www.sarpn.org.za.

Council for Medical Schemes. "Annual Report 2006-7". Available at: www.medicalschemes.com/publications/publications.aspx?catid=7

da Costa, W.J. (2007) "Blanket grant for poor not envisaged", *The Star*, 11 February 2007.

Department of Health (2004). Strategic Priorities for the National Health System, 2004-2009. Department of Health. Available at: www.doh.gov.za/docs/policy/stratpriorities.pdf.

Department of Labour Online. www.labour.gov.za.

Department of Social Development. (2007) "Reform of Retirement Provisions: Feasibility Studies", Department of Social Development. Available at: www.dsd.infospoor.com/.

Department of Trade and Industry (DTI)(2006). "National Industrial Policy Framework". Available at: www.thedti.gov.za/nipf/NIPF_r2.pdf.

Department of Welfare (1997). White Paper for Social Welfare. Available at: www.welfare.gov.za/Documents/1997/wp.htm.

du Preez, L. (2007) "Retirement reforms could help make social health insurance a reality", *Personal Finance*, 28 July 2007. Available at: www.persfin.co.za/index.php?fSectionId=&fArticleId=3956520

Economic Policy Research Institute (2004) "The Social and Economic Impact of South Africa's Social Security System". Report Commissioned by the Economics and Finance Directorate, Department of Social Development. Available at: www.epri.org.za/rpSOCDEV.htm .

Faull, J. (Ed)(2005). "Tracing the 'Two Economies': the politics, policy and practice of pragmatism," *ePoliticsSA* Edition 1, IDASA, pp 1-11.

Friedman, S. (2007) "In SA's fight against poverty, we must be careful of drawing a line", *Business Day*, 04 April 2007. Available at: www.businessday.co.za.

Frye, I. (2005). "Constructing and Adopting an Official Poverty Line for South Africa: Some Issues for Consideration", National Labour and Economic Development Institute (NALEDI). Available at: www.naledi.org.za.

Government Communication and Information Services (GCIS)(2007). "Interview with President Mbeki following the State of the Nation Address", SABC, 11 February 2007. Available at: www.dfa.gov.za/docs/speeches/2007/mbek0220.htm.

Hirsch, A. (2004). "Government's plan to combat poverty," *Focus*, Helen Suzman Foundation, pp 6-12.

Hoogeveen, J. and Ozler, B. (2004). Not separate, not equal: poverty and inequality in post-apartheid South Africa. Mimeo: World Bank.

IDASA (2006). "MTBPS 2006: Parliament, ASGISA and Infrastructure", *EconSA* No 1, 2006. Available at: www.idasa.org.za/gbOutputFiles.asp?WriteContent=Y&RID=1721

International Labour Organization Online. Available at: www.ilo.org.

Joffe, H. (2007a). "Social security plans clash with treasury", *Business Day*, 10 September 2007, pp 1-2.

- (2007b). "SA needs clarity on social security", *Business Day*, 11 September 2007, p 15.

Johnson, C. (1992). MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975. Stanford, CA: Stanford University Press.

Khan, F. (forthcoming, 2007) "Poverty, Policy, Politics and Power: Working Notes for the Provisional Framing of 'Pragmatic Pro-Poor Politics'". Paper presented at the for Institute for Global Dialogue and Africa Institute of South Africa Helsinki Process workshop for Poverty Eradication, Pretoria, March 29-30, 2007.

Madonsela, V. (2007) "Framework of comprehensive social protection and social programmes", Department of Social Development. Presentation delivered at the Human Sciences Research Council (HSRC) Policy Analysis Unit Colloquium on "Health within a comprehensive system of social security", 31 July – 2 August, 2007. Available at: www.hsrc.ac.za/Document-2317.phtml.

May, J. (2006). "Conceptualising and Measuring Poverty in the SADC Region: What are the debates and implications?" Paper presented at the for Institute for Global Dialogue and Africa Institute of South Africa Helsinki Process workshop for Poverty Eradication, Pretoria, March 29-30, 2007.

May, J. (Ed)(1998). "Poverty and inequality in South Africa", Report prepared for the Office of the Executive Deputy President and the Inter-Ministerial Committee for Poverty and Inequality, 13 May 1998. Pretoria: Department of Social Development. Available at: www.welfare.gov.za/Documents/1998/Pov.htm.

National Treasury (2007a). "2007 Budget Review", National Treasury. Available at: www.treasury.gov.za.

- (2007b). "Budget Speech 2007 by Minister of Finance Trevor A Manuel, MP". National Treasury, 21 February 2007. Available at: www.treasury.gov.za.

- (2007c). "Social Security and Retirement Reform: Questions and Answers". National Treasury, 21 February 2007. Available at: www.treasury.gov.za.

- (2007d). "Social Security and Retirement Reform: Second Discussion Paper". National Treasury, 21 February 2007. Available at: www.treasury.gov.za.

National Treasury (2005). "Budget Speech 2005 by Minister of Finance Trevor A Manuel, MP". Available at: www.treasury.gov.za.

Noble, M., Ratcliffe, A. and Wright, G. (2004). "Conceptualising, Defining and Measuring Poverty in South Africa: An Argument for a Consensual Approach", Centre for the Analysis of South African Social Policy, University of Oxford. Available at: www.treasury.gov.za/povertyline/SPII%20document.pdf.

Noble, M., Wright, G., Magasela, W. and Ratcliffe, A. (forthcoming, 2007), "Developing a democratic definition of poverty in South Africa", *Journal of Poverty*, forthcoming 2007.

Padayachee, V. "Development discourses in post-apartheid South Africa", in Padayachee, V. (2006)(Ed) The Development Decade? Economic and Social Change in South Africa 1994-2004, Cape Town: HSRC Press.

Pauw, K. and Mncube, L. (2007) "Expanding the Social Security Net in South Africa: Opportunities, Challenges and Constraints", *International Poverty Centre Country Study No 8*, July 2007. Available at: www.commerce.uct.ac.za/research_units/dpru/WorkingPapers/PDF_Files/WP_07-127.pdf

People's Budget Campaign (2005). "2006-2007 People's Budget: Proposal from COSATU, SANGOCO and SACC". Johannesburg: NALEDI. Available at: www.naledi.org.za/peoples_budget.pdf.

Polin, R., Epstein, G., Heintz, J. and Ndikumana, L. (2006) An Employment-Targeted Economic Program for South Africa. United Nations Development Programme (UNDP). Available at: www.undp-povertycentre.org/publications/reports/South%20Africa.pdf

Ricci, L.A. (2006) "Bringing Inflation Under Control," in Nowak, M. and Ricci, L.A.(Eds). Post-Apartheid South Africa: The First Ten Years. International Monetary Fund.

Rodrik, D. (2006). "Understanding South Africa's Economic Puzzles". Draft paper from the Harvard University Center for International Development Project on South Africa. Available at:
<http://ksghome.harvard.edu/~drodrik/Understanding%20South%20Africa.pdf>

Republic of South Africa (1996). "Constitution of the Republic of South Africa". Available at: www.info.gov.za/documents/constitution/1996/96cons2.htm

SAPA (2007). "Retirement industry needs a 'revolution'", *Business Day*, 11 September 2007, p 2.

Sen, A.K. (1981) Poverty and Famines: An Essay on Entitlement and Deprivation, Oxford: Clarendon Press.

Skweyiya, Z.S.T. (2004) "Towards a South African Developmental State: Challenges Ahead", *Service Delivery Review (SDR) Vol 3 No 3*, 2004. Available at:
www.dpsa.gov.za/.../vol3ed3/Towards%20a%20South%20African%20Developmental%20State%20Challenges%20Ahead.pdf

South African Human Rights Commission (SAHRC)(2004). "The Right to Social Security: 5th Economic and Social Rights Report Series, 2002/2003 Financial Year". South African Human Rights Commission. Available at:
www.sahrc.org.za/old_website/5th_esr_socialsecurity.pdf

South African Reserve Bank (SARB)(2007). *Quarterly Bulletin* No 245, September 2007. Available at:
www.reservebank.co.za/internet/Publication.nsf/WCEV/BACEB93C429ACC8F4225735400458A89/?opendocument

South African Social Security Agency (SASSA) Act (Act 9 of 2004).

South African Social Security Agency (SASSA) Online. Available at: www.sassa.gov.za.

Statistics South Africa and National Treasury (2007). "A national poverty line for South Africa". Available at: www.treasury.gov.za.

Streak, J. and van der Westhuizen, C. (2004). "Fitting the pieces together: A composite view of the government's strategy to assist the unemployed in South Africa, 1994-2004", IDASA Budget Information Services (BIS) Occasional Papers, 12 October 2004. Available at: www.idasa.org.za/gbOutputFiles.asp?WriteContent=Y&RID=1091.

Studies in Poverty and Inequality Institute (2007). "The Measurement of Poverty in South Africa Project: Key Issues". Johannesburg: Studies in Poverty and Inequality Institute. Available at: www.treasury.gov.za/povertyline/.

Terreblanche, C. (2007a) "Basic income grant on the cards", *Cape Argus*, 11 February 2007, p 2.

The Presidency (2007a). “Development Indicators Mid-Term Review”. Available at: www.info.gov.za/otherdocs/2007/developmentindicator/index.html.

- (2007b). “Joint Initiative on Priority Skills Acquisition Report Mar – Dec 2006”. Available at: www.info.gov.za/speeches/2007/07020911001001.htm.

- (2007c). “State of the Nation Address 2007”. Available at: www.info.gov.za/speeches/2007/07020911001001.htm.

The Presidency (2006a). “A Catalyst for Accelerated and Shared Growth-South Africa (ASGISA).” Background Document released on 6 February 2006. Available at: www.info.gov.za/speeches/briefings/asgibackground.pdf

- (2006b). “Annual Report 2006: Accelerated and Shared Growth Initiative for South Africa”. Available at: www.gov.za.

The Presidency (2004). “State of the Nation Address 2004”. Available at: www.info.gov.za/speeches/.

The Presidency (1998). “Statement of Deputy President Thabo Mbeki”, speech delivered at the Opening of the Debate in the National Assembly on “Reconciliation and Nation Building” on 29 May 1998. Available at: www.info.gov.za/speeches/1998/98602_0x2189810390.htm.

United Nations Children’s Fund (UNICEF)(2006). The State of the World’s Children 2007. New York, NY: The United Nations Children’s Fund. Available at: www.unicef.org/sowc07/.

United Nations Development Group (2003). “Indicators for Monitoring the Millennium Development Goals: Definition, Rationale, Concepts and Sources”, New York: United Nations. Available at: <http://millenniumindicators.un.org/unsd/mifre/Metadain30.pdf>.

van den Heever, A. (2007) “National Health Policy Past and Future Trajectory”. Presentation delivered at the Human Sciences Research Council (HSRC) Policy Analysis Unit Colloquium on “Health within a comprehensive system of social security”, 31 July – 2 August, 2007. Available at: www.hsrc.ac.za/Document-2323.phtml.

van der Berg, S., Burger, R., Louw, M. and Yu, D. (2005). “Trends in poverty and inequality since the political transition,” *Stellenbosch Economic Working Papers*, 30 September 2005, pp 1-40. Available at: www.commerce.uct.ac.za/Research_Units/DPRU/DPRUConference2006/Papers/VandenbergTrends_in_Poverty.pdf.

Woolard, I. and Leibbrandt, M. (2006). “Towards a Poverty Line for South Africa: Background Note”, Southern Africa Labour and Development Research Unit, University of Cape Town. Available at: www.treasury.gov.za/povertyline/Treasury%20StatsSA%20poverty%20line%20discussion%20paper.pdf.

End Notes

¹ In recent years the systemic underestimation of revenue collection, stemming both from growth-exceeding forecasts and greater than anticipated improvements in tax compliance, has led to much smaller budget deficits, if any, than those budgeted for. IDASA argues (IDASA 2007a: 4-7) that this is a mixed blessing from the point of view of good governance.

² The Presidency, 2004

³ See Polin *et al*, 2006; Streak and van der Westhuizen, 2004.

⁴ SARB, 2007, p 1.

⁵ This approach stems from the work of a number of Harvard economists, pre-eminently Dani Rodrik. The National Treasury website (www.treasury.gov.za) contains a number of papers by the larger panel of experts who have contributed to articulating and refining the "growth diagnostic" approach to government's developmental role.

⁶ In the Background Document, the constraint was given as both the volatility and *level* of the currency; engagement with the level of the currency is clearly no longer on the cards.

⁷ The Presidency 2006b, p 4.

⁸ *Ibid*, p 4.

⁹ Hirsch, 2004, p 7.

¹⁰ *Ibid*, p 7.

¹¹ The currently much-heard phrase "developmental state" is usually attributed to the seminal work "MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975" by Chalmers Johnson on the actively interventionist role played by the MITI in the post-World War II reconstruction of Japan.

¹² The Presidency 2006b, p 6.

¹³ SARB, 2007, S -115, own calculations

¹⁴ *Ibid*.

¹⁵ *Ibid*.

¹⁶ The Presidency 2006b, p 6.

¹⁷ IDASA, 2006, p 31.

¹⁸ The Presidency 2006b, p 21.

¹⁹ DTI, p 2.

²⁰ *Ibid*

²¹ *Ibid*

²² See for example Borat and Kanbur, 2006.

²³ The Presidency, 2007b, p 12.

²⁴ *Ibid*, p 13.

²⁵ See www.un.org/esa/socdev/wssd/.

²⁶ United Nations Development Group, 2003, pp 7-8; Studies in Poverty and Inequality Institute, 2007, p 20.

²⁷ Committee of Inquiry into a Comprehensive System of Social Security for South Africa, 2002, pp 56; 62.

²⁸ National Treasury, 2005.

²⁹ National Treasury, 2007.

³⁰ Statistics South African and National Treasury, 2007, p 2.

³¹ Woolard and Leibbrandt, 2006, p 17.

³² Studies in Poverty and Inequality Institute (SPII), 2007, p 7.

³³ Statistics South African and National Treasury, 2007, p 5; Frye, 2005, pp 3-4;

³⁴ The Presidency, 2007a, pp 21-24.

³⁵ South African Social Security Agency (SASSA) online.

³⁶ Statistics South African and National Treasury, 2007, p 2.

- ³⁷ Woolard and Leibbrandt, 2006, p 26.
- ³⁸ Noble *et al*, forthcoming 2007, pp 8-9; 25.
- ³⁹ Statistics South African and National Treasury, 2007, p 10.
- ⁴⁰ SPII, 2007, p 7.
- ⁴¹ *Ibid*, p 20.
- ⁴² Kahn, forthcoming 2007, p 5.
- ⁴³ Anker, 2006, p. 282.
- ⁴⁴ SPII, 2007, p 7.
- ⁴⁵ Woolard and Leibbrandt, 2006, pp 17-18; Friedman, 2007
- ⁴⁶ Friedman, 2007
- ⁴⁷ Friedman, 2007; See also SPII, 2007; Noble *et al*, 2004.
- ⁴⁸ Frye, 2005.
- ⁴⁹ Department of Labour online.
- ⁵⁰ SPII, 2007, p 28.
- ⁵¹ The Presidency, 2007c.
- ⁵² National Treasury, 2007b.
- ⁵³ Republic of South Africa, 1996: Section 27. See also South African Human Rights Commission, 2004.
- ⁵⁴ National Treasury, 2007a, pp 99-100.
- ⁵⁵ Department of Welfare, 1997.
- ⁵⁶ Committee of Inquiry into a Comprehensive System of Social Security for South Africa, 2002, p 9.
- ⁵⁷ *Ibid*, p 9.
- ⁵⁸ *Ibid*.
- ⁵⁹ *Ibid*, p 41.
- ⁶⁰ Madonsela, 2007
- ⁶¹ Committee of Inquiry into a Comprehensive System of Social Security for South Africa, 2002, p 71.
- ⁶² da Costa, 2007, p 1.
- ⁶³ National Treasury, 2007a, p 100.
- ⁶⁴ Madonsela, 2007.
- ⁶⁵ The Presidency, 2007a, p 21.
- ⁶⁶ *Ibid*, p 25.
- ⁶⁷ *Ibid*, p 25.
- ⁶⁸ National Treasury, 2007a, pp 109-110. See also South African Social Security Agency (SASSA) Act (Act 9 of 2004); South African Social Security Agency online, www.sassa.gov.za.
- ⁶⁹ The Presidency, 2007c.
- ⁷⁰ *Ibid*.
- ⁷¹ National Treasury, 2007d, p10.
- ⁷² *Ibid*, p 11.
- ⁷³ *Ibid*, p 14.
- ⁷⁴ *Ibid*, p 18.
- ⁷⁵ Department of Social Development, 2007, p viii.
- ⁷⁶ National Treasury, 2007d, pp 19-20.
- ⁷⁷ National Treasury, 2007d; Department of Social Development, 2007.
- ⁷⁸ National Treasury, 2007d, p 35.
- ⁷⁹ National Treasury, 2007d, pp 36-37.
- ⁸⁰ See Department of Social Development, 2007.
- ⁸¹ Department of Social Development, 2007, pp iii-v.
- ⁸² Committee of Inquiry into a Comprehensive System of Social Security for South Africa, 2002, p 71.
- ⁸³ Terreblanche, 2007, p 2; See also GCIS, 2007.
- ⁸⁴ da Costa, 2007, p 1.

⁸⁵ The Presidency, 2007a, p 19. (2007).

⁸⁶ Department of Welfare, 1997.

⁸⁷ Committee of Inquiry into a Comprehensive System of Social Security for South Africa, 2002, pp 44-45.

⁸⁸ See International Labour Organization Online.

www.ilo.org/public/english/bureau/integration/decent/index.htm.

⁸⁹ Madonsela, 2007.

⁹⁰ Pauw and Mncube, 2007, p 26.

⁹¹ *Ibid*, p 27

⁹² AIDS Law Project, 2004

⁹³ du Preez, 2007.

⁹⁴ AIDS Law Project, 2004

⁹⁵ People's Budget Campaign, 2005, p 31.

⁹⁶ We use the spending information which can be found on the website of the National Treasury. These figures are unaudited and should therefore be treated with a degree of caution. Regrettably audit results were not available to us at the time of writing.