INTERNATIONAL SOCIAL SECURITY ASSOCIATION

Crisis country case study

South Africa

This country case study is one of the studies produced under the *ISSA Crisis Monitor* Project

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The International Social Security Association (ISSA) is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide.

The Crisis Country Case Studies are an integral part of the ISSA project to monitor and analyse the impact of the global financial and economic crisis on social security. These studies are based on data and research carried out between June 2009 and the first part of 2010. While every effort has been taken to ensure that the case studies are accurate, the situation in each country is constantly evolving.

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ISSA crisis case study: South Africa

Summary

Driven predominantly by a contraction in manufacturing, the crisis pushed South Africa into a recession in Q4 2008 when GDP fell 1.8 per cent quarter-on-quarter. In a context of already very high unemployment levels (over 20 per cent since 1994) unemployment increased by approximately 900,000 (2.5 per cent) between Q4 2008 and Q3 2009. This led to a significant rise (49 per cent) in benefit claims and demand for unconditional social assistance programmes. In response, President Zuma introduced a package of counter-cyclical expansionary measures in June 2009, valued at 1.2 per cent of GDP. Direct social security represented 24.2 per cent (the fight against HIV/AIDS, welfare grants and school feeding programme) and this was complemented by other measures such as income tax breaks.

Yet, apart from extending a public works programme, focus on improving labour demand has been relatively weak. Given the sheer scale of poverty and unemployment in South Africa, it has become increasingly clear that a jobless recovery will make it difficult to lower poverty in the long run and cushion future downturns, and to develop a society that is job-rich and which operates with well-coordinated macroeconomic policies.

Social security institutions covered

The South African Social Security Agency (SASSA) administers the application, approval and payment of social grants. SASSA is monitored and evaluated by the Department for Social Development (DSD).

Overview of the social security system

Historically, social security provision ran along racial lines, accommodating the needs of the white minority whilst excluding black South Africans. As early as 1928, the Old Age Pensions Act provided grants in the form of social (non-contributory) pensions for whites, excluding Africans on the grounds that their rural kinship ties were sufficient to protect them in old age.

With the introduction of a disability grant in 1937, social security was extended to include Africans and Indians by 1947. Yet racially differentiated benefit levels remained in place until 1994 when South Africa's first democratically elected government introduced social security provision for all.

Today there are five major (targeted) social grants: the State Old Age Pension for men over 65 and women over 60; the Disability Grant for adults with disabilities; the Child Support Grant for families with children under the age of 14; the Foster Child Grant for families with children below the age of 18 in foster-care; and the Care Dependency Grant for families with children below the age of 18 with disabilities. Grants are financed through general tax revenue and payments have increased significantly in real terms since 2001 to more than 5 per cent of total GDP.

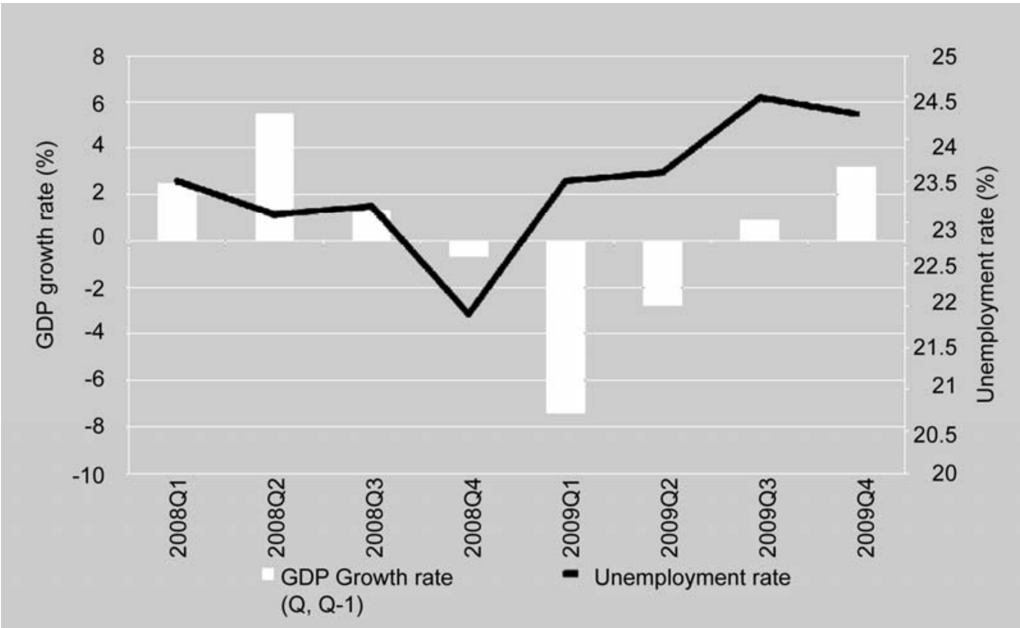
Impact of the crisis

Pre-crisis South Africa was buoyant, experiencing GDP growth rates of 5.5 per cent (2004–8) thanks to high commodity prices. Mining (e.g. platinum and coal) was and still remains a vital foreign-exchange earner and accounts for roughly one-third of exports though the economy is gradually shifting towards greater manufacturing and financial services.

However, low commodity prices and structural changes in the global economy since 2007 have undermined the manufacturing basis of South Africa's industrial policy which lies at the centre of economic strategy. Driven predominantly by a contraction in the manufacturing sector, along with a sharp fall in exports (20.3 per cent in 2009), South Africa slipped into a recession in Q4 2008 when GDP fell 1.8 per cent quarter-on-quarter. Due to greater openness of the economy, the downturn was more pronounced in South Africa than among its neighbours.

As indicated in Figure 1, GDP growth was -7.4 per cent in Q1 2009.

Figure 1. ***South African unemployment and GDP growth, 2008–2009***



Source: Verick (2010).

Lay-offs increased as firms adjusted their workforce to changed demand. For example, in the manufacturing sector 132,000 jobs were lost in the first three quarters of 2008 compared to 2009. In a context of already very high unemployment levels (over 20 per cent since 1994) unemployment increased by approximately 900,000 (2.5 per cent) between Q4 2008 and Q3 2009.

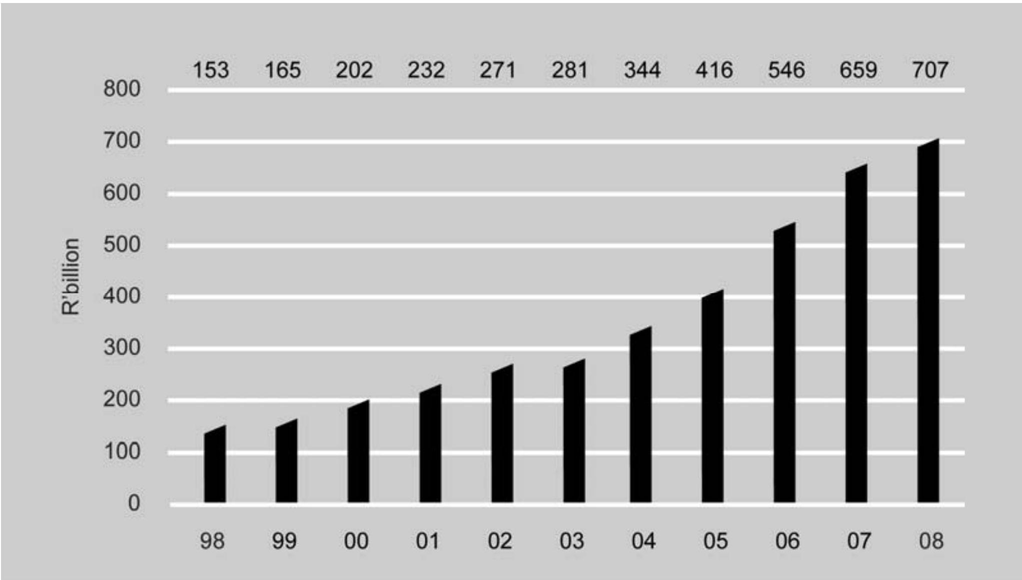
Investment performance

South Africa maintained positive pension fund returns during the crisis owing mainly to the conservative nature of the government's investments which limited the country's exposure to international financial markets. As seen in Figure 2, even during the height of the crisis, Africa's largest pension fund – the Government Employees Pension Fund (GEPF) –

accumulated funds worth US-dollar (USD)90 billion in 2008. The GEPF is managed by a Board consisting of equal employer and member representation, including a member employed by the South African National Defence Force, National Intelligence Agency and the South African Secret Service.

The fact that the GEPF's fund had limited international exposure seems to support International Social Security Association (ISSA)'s general findings that international diversification of fund investment actually worsened the situation and generated deeper losses.

Figure 2. ***GEPF accumulated funds and reserves, 1998–2008***



Source: GEPF (2009).

Although growth of the Fund in 2009 (7.3 per cent) was modest compared to previous years (31.3 per cent in 2007 and 20.8 per cent in 2008), it fared better than private (defined contribution) pension funds which experienced negative growth due to their more volatile holdings (e.g. equities). It is important to note that public pension performance was predominantly due to weak diversification/exposure to risky investments.

Administrative capacity

With a significant rise (49 per cent) in benefit claims and increasing demand for unconditional social assistance programmes since January 2008, the DSD found itself short of funds in 2009 and requested additional resources in order to cope with the situation.

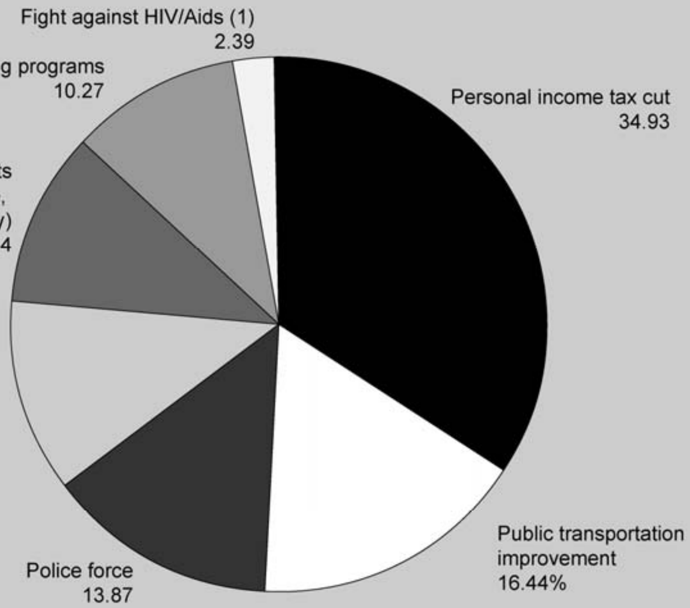
Irrespective of these shortcomings, delivering social security commitments remains a policy priority and the African National Congress (ANC) government has earmarked an unprecedented amount of funds for the Accelerated and Shared Growth Initiative for South Africa (ASGISA) which aims to halve unemployment and poverty by 2014 through the development of business, education, infrastructure and tourism.

Consistent and prudent fiscal policy also dampened the budget deficit and created a platform for sustainable social development expenditures. This included the extension of public services such as health care and education and provision of welfare payments mainly to youth, the disabled and the elderly. In addition to having the reserves to sustain social security payments, the government also has well-organized cash transfer infrastructures in place (e.g. the Child Support Grant) that can be ratcheted up in times of need.

Responses to the crisis

In his State of the Nation Address in June 2009, President Zuma introduced a package of counter-cyclical expansionary measures designed to mitigate the impact of the crisis. The stimulus package is valued at 1.2 per cent of GDP and is the largest in the region in absolute terms (USD4.2 billion). Direct social security (for the fight against HIV/AIDS, welfare grants and the school feeding programme) represented 24.2 per cent of the stimulus package although this was of course complemented by other measures such as income tax breaks (see Figure 3).

Figure 3. ***The composition of South Africa's stimulus as a percentage of total package (USD4.2 billion)***



(1) This includes only the new spending from the Feb. 09 budget

Source: Johannesburg-based the Times

Source: Khatiwada (2009).

Measures included:

- Extension of an "Expanded Public Works Programme" to create 2 million full-time equivalent jobs for poor and unemployed people through the delivery of public and community services. One million unemployed youths, women and disabled people were targeted for services such as home-based care, crèches, school cleaning and renovation, community gardens, tree planting and USD520 million was set aside for school feeding programmes alone.

- Emergency Food Relief to the worst-affected communities supported through partnership with the private sector, NGOs and community-based organizations.

- USD780 million put aside by the Industrial Development Corporation (IDC) to help companies in distress. This included production subsidies for the automotive industry.

- USD310 million for a training lay-off scheme to allow workers the option of a period of training instead of retrenchment.

- A youth wage-subsidy and skills development scheme to expand the number of young people studying vocational subjects. Roughly USD860 million was earmarked for the National Skills Fund, which together with the Skills Education and Training Authority (SETAS), formed part of the National Skills Development Strategy. The recapitalization of about 200 technical schools, through a new conditional grant in 2010/11, aimed to ensure that the technical skills in these schools are linked to workplace requirements.

- Tax reliefs for low- and middle-income earners to stimulate consumer spending.

- USD120 million set aside to fight HIV/AIDS and increase the number of people on anti-retroviral treatment from 630,000 to 1.4 million by 2012.

- Extension of child support grants to continue to the age of 18. In the next three years, an additional 2 million children will benefit from this publicly funded unconditional cash transfer programme.

- Increases in the state old age pension and disability grants.

Protecting the poor and employment creation were quoted as core objectives of the economic and budgetary policy, together with investment in infrastructure, promotion of competitiveness and fiscal sustainability.

Through unprecedented budget allocations, South Africa made a concerted effort to scale up social grant schemes by increasing the coverage of households with children, people with disabilities and the elderly, easing the eligibility criteria and raising benefit values (currently more than 13 million people receive social benefits from the government). In total, USD11 billion will be spent on social grants in 2010/11 – though much of this is part of a longer-term development strategy and not simply a reaction to the crisis. The largest single item percentage increase in spending in the coming three years will be on housing and community amenities with investment planned to rise from USD9 billion in 2009 to over USD10 billion by 2012.

Lessons learned

Although a 2.5 per cent increase in unemployment can be attributed to the crisis it was less than the figure most commentators expected from the decline in output. However, it exacerbated an already dire job situation in South Africa. The National Treasury expects approximately 1 million jobs to be created over the next five years as a result of the stimulus package and related investments but this will only lead to a marginal decline in unemployment. To substantially reduce unemployment, the country needs economic growth to be more labour-intensive.

For example, since 2007 passive and active labour market programmes for the existing unemployed both in the formal and informal sectors have been sparse. A large proportion of the population falls outside the economic mainstream and given their limited employment prospects, they are unlikely to benefit from economic growth and new employment opportunities. Moreover, measures such as fuelling aggregate demand via tax breaks in export sectors such as mining are limited in their reach to the poor.

The government has learned that for the large impoverished portion of society, welfare grants are an important source of income. The recent expansion of the social grant schemes (worth 3.4 per cent of GDP in 2009) is illustrative of this and is likely to have an effective impact on poverty in South Africa. In addition to greater spending, social security fund reserves have been built up in order to sustain social security provisioning for an economy where a small portion of the population finances welfare payments for the majority. In fact, in face of high unemployment, the government's unemployment insurance fund actually recorded a budget surplus valued at USD2 billion in 2009. The government is now considering a move towards a defined pension benefit regime to ensure that the interests of contributors are protected and the government could act as final guarantor of benefits.

Conclusion

Despite having unemployment and pension fund surpluses, South Africa displays the hallmarks of a developing country in its lack of a basic mandatory pension and poverty affecting 47 per cent of the population.

Though a 2.5 per cent unemployment increase and short-lived recession in Q4 2008 is unspectacular when compared to most crisis-hit countries, South Africa's performance masks deeper structural problems within the economy. Forecasters expect the economy to rebound in 2011 (3.7 per cent GDP growth) on the back of a rise in global demand for minerals and tourism spin-offs from the World Cup (estimated to add a full percentage point to GDP growth), although whether this will be pro-poor growth is a much debated point. However, commentators also point out that the country's over-reliance on (volatile) commodity prices for jobs and wealth creation, and persistent skills shortages will render any rebound fragile.

Arguably, the crisis did create a unique opportunity for South Africa to extend social security coverage as exemplified by the extended Child Support Grant and augment the adequacy of some benefits. The crisis represented both a danger and an opportunity for social security and clearly in this case, the special conditions thrown up by the crisis paved the way for the extension of coverage that in another historical juncture might not have been permissible.

Indeed, the stimulus package was solid in terms of social protection yet relatively weak in improving labour demand in the private sector. Given the sheer scale of chronic poverty and unemployment in South Africa, a jobless recovery will make it difficult to lower poverty in the long run and cushion future downturns, and to develop a society that is job-rich and which operates with well-coordinated macro-economic policies.

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