ACCELERATED AND SHARED GROWTH INITIATIVE FOR SOUTH AFRICA (ASGI-SA)

An Integrated National Strategy for Social Development[1]

1. INTRODUCTION

The purpose of this document is to present a framework and strategy for the role and contribution of social protection as part of broader social development in support of growth, employment and poverty reduction.

Current practices regarding social spending patterns and programmes raise concerns with respect to the sustainability of future increased social spending, as well as the levels of dependency that it creates.

A paradigm shift regarding the role and contribution, but more specifically the design and implementation of social security practices have become imperative to ensure the sustainability of these programmes by facilitating employment creation as the main thrust in poverty reduction and output growth. The notion of social spending as an expense item needs to be replaced by one of investment in human capital, targeted at mobilising and empowering the untapped and poverty stricken workforce. The approach demands an integrated strategy amongst all social partners in government, supported by clear guidelines and incentives from government to facilitate the contribution of business, labour and civil society.

The paper is structured by building a case for a new approach in social development policies, based on the lessons from South Africa's past growth performance in section 2. Section 3 deliberates on the contribution of social development towards ASGI-SA. It starts with a contextualisation of the initiative, followed by a presentation of an integrated national strategy on social development: a conceptual framework. The framework is supported by empirical evidence, which leads to the design of a programme on building human capital targeted at the unemployed and extreme poor, which will require a microeconomic reform of Social Security. Section 3 also touches on issues pertaining to the funding of expansion of social grants and the extent to which the proposed programme for Social development is aligned with the ASGI-SA initiatives. The conclusions are presented in section 4.

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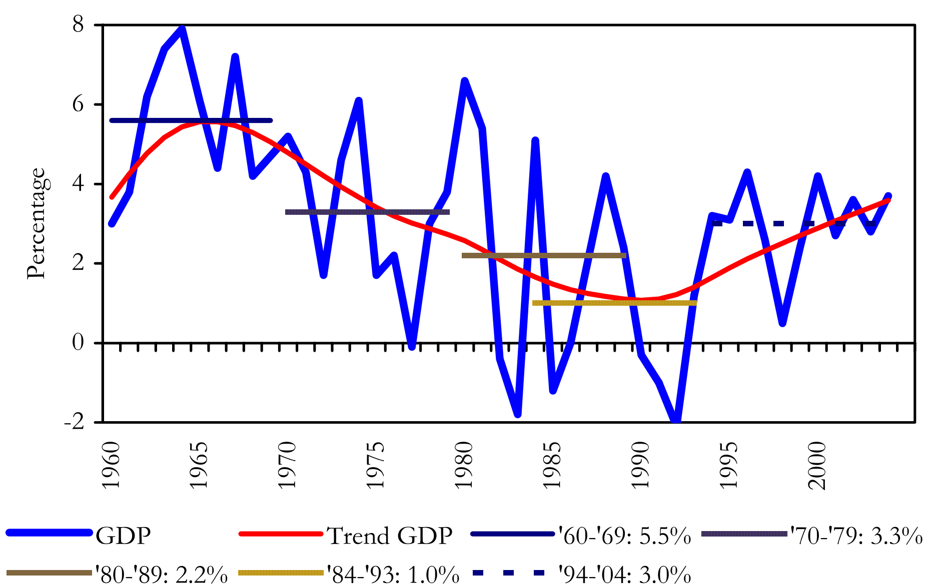
2. LESSONS FROM SOUTH AFRICA'S PAST GROWTH PERFORMANCE

2.1 Growth towards employment: a dismal performance

By analysing South Africa's past growth performances, a number of inferences can be drawn in guiding a strategy on sustainable high levels of growth, employment and poverty alleviation.

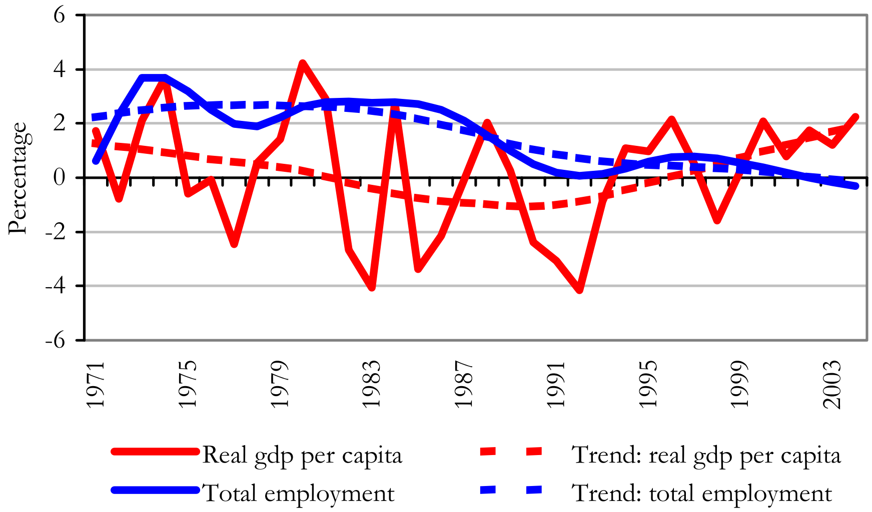
Over the past decade the policies of macroeconomic stabilisation and trade liberalisation have contributed significantly to improved economic growth performance in South Africa. The growth strategies in the past, with reference to the RDP programme and the GEAR strategy, have been successful in supporting accelerated economic growth on the back of a stable economic environment. The GDP growth has notably been driven by demand-side stimuli, fuelled by lower interest rates, tax rates and accessibility to credit and financial markets.

Figure 1: Output growth



However, despite the increases in economic growth rates, economic growth has been unsuccessful in significantly eradicating poverty through resolving the unemployment, redistribution and associated socio-economic problems in the economy.

Figure 2: Jobless growth



Much of the research conducted on household survey data collected by Statistics South Africa has shown increasing poverty and inequality during the second half of the 1990s (see for instance Hoogeveen & Özler 2004; Leibbrandt, Levinsohn & McCrary 2005; UNDP 2003).

Table 1: Poverty alleviation

	Population below $2 a day (%)		Population below $1 a day (%)	
	1995	2002	1995	2002
National	24.2	25.3	9.4	10.5
African	30.4	28.7	12.0	12.8
Coloured	10.1	11.2	2.8	3.6
White	0.3	1.4	0.2	0.4
Indian	1.2	6.1	0.7	3.1

Source: UNDP (2003)

An analysis by Van der Bergh *et al.*. (2005) indicates that since 2002 poverty has been on a declining trend. However, the reduction in poverty levels has been primarily through external intervention, courteous of an expanded social grant system. During the past four years, government has increased grant payments by R22 billion in 2000 Rand values: an increase of more than 70 per cent in real terms. While this is commendable, social assistance is nearing the boundaries of its ability to alleviate poverty. Unimpressive job creation, as an alternative poverty reduction device, still remains the major impediment to poverty alleviation.

An analysis from Du Toit *et al.* (2005a) demonstrates that the labour market has been unresponsive to the increasing unemployment trends, thereby hampering the labour absorption capacity of the economy. This phenomenon further emphasises the predominance of structural rather than cyclical impediments to employment and consequently output growth.

Cyclical factors or the lack of GDP growth are contributing very little to the current high and irresponsive rates of unemployment.

According to Du Toit et al. (2005b), structural unemployment in South Africa has been upward trending since the 1970s and has reached levels of 25 per cent.

A number of reasons can be offered to substantiate this increasing trend, which, to a large extent is the inheritance of the apartheid regime and relates to a lack of human capital investment:

- Rigid labour market conditions, inhibiting the access of certain population groups to the market;
- Mismatches between skills supplied and demanded;
- Insufficient access to effective education and skills development opportunities;
- Prolonged periods of unemployment may lead to a deterioration of skills and motivation of individual job seekers;
- No opportunities for the unemployed to learn-by-doing or on-the-job-training;
- Lack of labour mobility, exacerbated by high and increasing transport costs on the back of the rising fuel prices and the lack of infrastructure maintenance and development;
- High dependency rates, again exacerbated by health and socio economic conditions, impacting on the demand for social security grants;
- Unproductive and unmotivated labour force on the back of low living and health conditions; and
- The influx of illegal immigrants, distorting the wage bargaining and national income processes, to mention but a few.

Supporting evidence for the above analysis is that the relationship between economic growth and employment creation does not hold. The past decade (1994 – 2004) since the first democratic election has seen an average GDP growth of 3 per cent. Given the assumption of a 0.6 elasticity of employment creation relative to GDP growth[2], employment growth had to average 1.8 per cent since 1994. However, formal employment has only been created at an average rate of about 0.7 per cent for the decade. Almost 1.1 per cent of potential employment growth has not realised, supporting the notion of "jobless growth" and structural rigidities within the labour market.

The lack of output growth to significantly translate into employment creation and poverty reduction has created a dualistic economy with opposing and unstable fundamentals. The stable and healthy first economy lays the foundation for an "era of hope" by exhibiting high levels of output growth, low inflation and fiscal debt, buoyant financial markets and strong consumption spending. However, the crumbling foundation, or second economy, with high and sticky unemployment, unacceptable levels of extreme poverty associated with poor socio-economic conditions for the larger part of the population, have all contributed to a poverty trap, which demands innovative and targeted external interventionist programmes. A GDP growth of 6 per cent will not significantly translate into poverty reduction unless growth is

[2] Various estimates of the current elasticity of employment growth relative to GDP growth vary between 0.6 and 0.75 per cent.

supply-side fuelled by mobilising and empowering the potential productive population. This call for an integrated strategy on social development to address the imbalances and structural impediments of the past, however, designed and implemented to empower and mobilize the untapped society rather than awarding handouts. Only then will external programmes of intervention be successful in achieving their objectives and become sustainable by contributing to GDP growth through employment creation.

2.2 The other side of the coin: unemployment constraining growth

In addition to higher growth rates not translating into lowering unemployment and poverty, the high and sticky levels of unemployment furthermore hamper South Africa's ability to grow sustainable at levels of 6 per cent.

An analysis of South Africa's growth potential by Du Toit (2005) indicates that South Africa's growth potential is limited to 4.1 per cent. The implication is that if actual GDP growth rates exceed 4.1 per cent, that is, if actual output exceeds the potential of the economy, the economy is "overheated" and production prices and wages will start rising. Given the subsequent impact on consumer prices, monetary policy will ultimately have to intervene by deflating the economy with increased interest rates.

It is important to note that a growth potential of 4.1 per cent does not imply that the economy can indeed grow at levels exceeding this rate, but actual growth rates in excess of 4.1 per cent will be unsustainable in the medium and longer run. If growth in "supply" through employment, productivity and investment growth, does not meet growth in "demand" fuelled by low tax and interest rates, it will erode the balance of payments, the exchange rate and ultimately give rise to increased domestic inflation.

The analysis has demonstrated that the impediments to higher and sustainable output growth in support of poverty alleviation are predominantly supply side in nature. These have critical implications for policy makers in their objective of increasing the productive capacity and future growth of the South African economy, which will effectively translate into employment creation and poverty alleviation.

Notably the most important challenge for government is a redesign and redirection of expenditures away from operational expenses towards the investment in human capital, which will improve productivity levels, increase the labour absorption capacity of the economy and generate sustainable, productive output growth. Such an environment, with an abundance of skilled and productive labour force will attract foreign investment; thereby generate additional growth and employment opportunities.

Policy making in South Africa has to enter a new paradigm, where employment creation and resultant poverty alleviation is not considered as a by-product of growth, but employment creation through addressing the socio-economic impediments is targeted as the key accelerator of growth.

3. THE CONTRIBUTION OF SOCIAL DEVELOPMENT TOWARDS ASGI-SA

3.1 ASGI-SA: a contextualization

In his latest State of the Nation's address, President Thabo Mbeki focussed on government's new growth initiative with the core objective of halving poverty and unemployment by 2014.

The objective is targeted in two phases; the first phase (2005 – 2009) aims at an average GDP growth of 4.5 per cent per annum and the second phase (2009 – 2014) aims at a minimum of 6 per cent GDP growth per annum.

In principle, ASGI-SA portrays the same set of objectives as its predecessors, the Redistribution and Development Plan (RDP) as well as the Growth, Employment and Redistribution Strategy (GEAR). However, government aims at utilising the existing buoyant economic environment as a spring board to achieve its social objectives.

The challenges government therefore face is to improve the impact of its programmes through an innovative redesign of implementation modalities and frameworks; to extend its capacity through incentive guidelines for business and civil society collaboration; and to improve its service delivery by amongst other things, dealing with fraud, etc.

The key challenge is to ensure that the impact and implementation of policies and programmes are indeed supply-side in nature, which is the only way to ensure that higher growth levels are sustainable and effective in alleviating unemployment and poverty.

Admittedly, government have identified a number of key constraints that are downside risks for the attainment of said goals, i.e. halving poverty and unemployment by 2014:

- Level and volatility of the rand exchange rate with the primary risks for exports;
- Role of public infrastructure in lowering costs of economic activity;
- Regulatory environment and the burden on small, medium and micro enterprises;
- Deficiencies in state organisation, capacity and leadership;
- Shortage of suitably skilled labour, amplified by the cost effects on labour of apartheid spatial patterns – i.e. the lack of appropriate, efficiently administered labour market institutions and empowerment policies; and
- Barriers to entry, limited competition and hence limited new investment opportunities.

In an attempt to address the potential risks, ASGI-SA has identified six sets of initiatives:

- Macroeconomic issues;
- Infrastructure programmes;
- Sector investment strategies (or industrial strategies);
- Skills and education initiatives;
- Second economy interventions; and
- Public administration issues.

Against this background and in an attempt to share the responsibility of attaining the ASGI-SA objectives, the Department of Social Development, in collaboration with all social partners, proposes a *programme on the development of human capital, targeted at mobilising and empowering the unemployed and extreme poor through an integrated national strategy on social development and innovative redesign and redeployment of social grants.*

3.2 An integrated national strategy on social development: a conceptual framework

As government embarks on the Accelerated and Shared Growth Initiative, the expectations are that jobs will be created. However, based on the preceding analysis, little evidence exists that these employment opportunities will be sufficient. Furthermore, no guarantees exist whether the most destitute will share in the growth benefits nor that the most vulnerable will gain opportunity. Social development must build human capital with the aim to ensure inclusivity for all.

Several departments and some state institutions will spend in excess of R372 billion over the next three years on capital infrastructure and engage in a number of initiatives to grow the economy, there remain limited guarantees that all South Africans will benefit. The most glaring observation made in an analysis of growth over the last three decades is that human capital has played little or a limited role in growth of the gross domestic product (Du Toit *et al.*., 2005b). An integrated social development strategy proposes expansion of the social safety net, within a sustainable environment, while deliberated efforts are made by all stakeholders to move beneficiaries to enjoy the dignity of work and not become dependent on the state.

The objective of this document primarily to propose measures to ensure that through expansion of the social safety net, within the limited resources, growth is accelerated and shared.

A great proportion of vulnerable referred to here include people who face particular barriers to entering, remaining in and progressing in employment, including educated youth, the disabled, people with certain health conditions, single parents and persons over 50 years of age. Lack of skills and poor proximity to work remains serious challenges.

The poorest of the poor and those who have given up hope of employment need support to become gainfully employed. For the poor, the dignity, self confidence and respect that comes with work are important. The objective of the new framework is to redesign the role, responsibilities and contribution of social grants in alleviating poverty but predominantly in providing better opportunities for the poorest of the poor, to generate their own income through self-employment or at least pursue job opportunities. The poor needs to be given the necessary support to achieve either self-employment of to secure skills and/or employment.

Making a broad distinction between 3 groups of people traditionally eligible for social protection, being (1) children, (2) the unemployed and low income or poverty stricken working force population, as well as (3) pensioners and the incapacitated population, government need to design its growth strategies to mobilise and empower the potentially employable, thereby enabling them to move from poverty and welfare support to employment. The redesign features must provide for significant expansion of coverage of the vulnerable and link benefits to economic activity. Policies and programmes need to be designed with the acknowledgement of the untapped potential of the unemployed or low income groups as a productive engine of the economy. Social development targeted at mobilising and empowering the unemployed component of the economically active population need to be considered as the backbone of growth, employment and redistribution.

The design of the strategy (figure 3) need to encompass the following elements:

- Mobilising and empowering individuals require an approach that targets not only the individual, but the household and community, in an attempt to lower the dependency and subsequent impediment or constraint that children and pensioners pose on the economically active poor.
- Based on the specific needs and characteristics of the community, which will directly be linked to their geographical location, attempts need to be made to identify socio-economic packages, consisting of nominal wages, social wages, *in kind* compensation, infrastructure and services needs. The effectiveness of the programme will therefore encompass geographic, community and household targeting.
- This will require an integrated national strategy amongst all social partners such as
    - Health;
    - Education (skills development programmes are predominantly targeted at the employed);
    - Infrastructure development: housing, schools, clinics, day-care centres, old-age homes, parks, roads;
    - Transport;
    - Sanitation, water and electricity; and
    - The effective utilisation of expanded public work programmes.
- While the Department of Social Development provides grants to those in need, it will have to support the beneficiary in exiting the system by working with collaborating departments to secure an off-ramp from the system. The success of the approach would be measured by setting performance indicators for all departments.
- A "shared" initiative between government (policy), business, labour and civil society, with government providing clear guidelines and incentives in support of the clearly defined social development objectives. This should be done, however, while also allowing for industry and society specific interventions.
- Need to redefine the role of fiscal and monetary policy with respect to social development, e.g. in stead of tax reductions across the board, generate tax incentives for business to support the "family" or "community" context through medical schemes, pension fund contributions, school fees, travel allowances, etc.

Successful implementation of the strategy will reap the following benefits and/or deal with the following impediments:

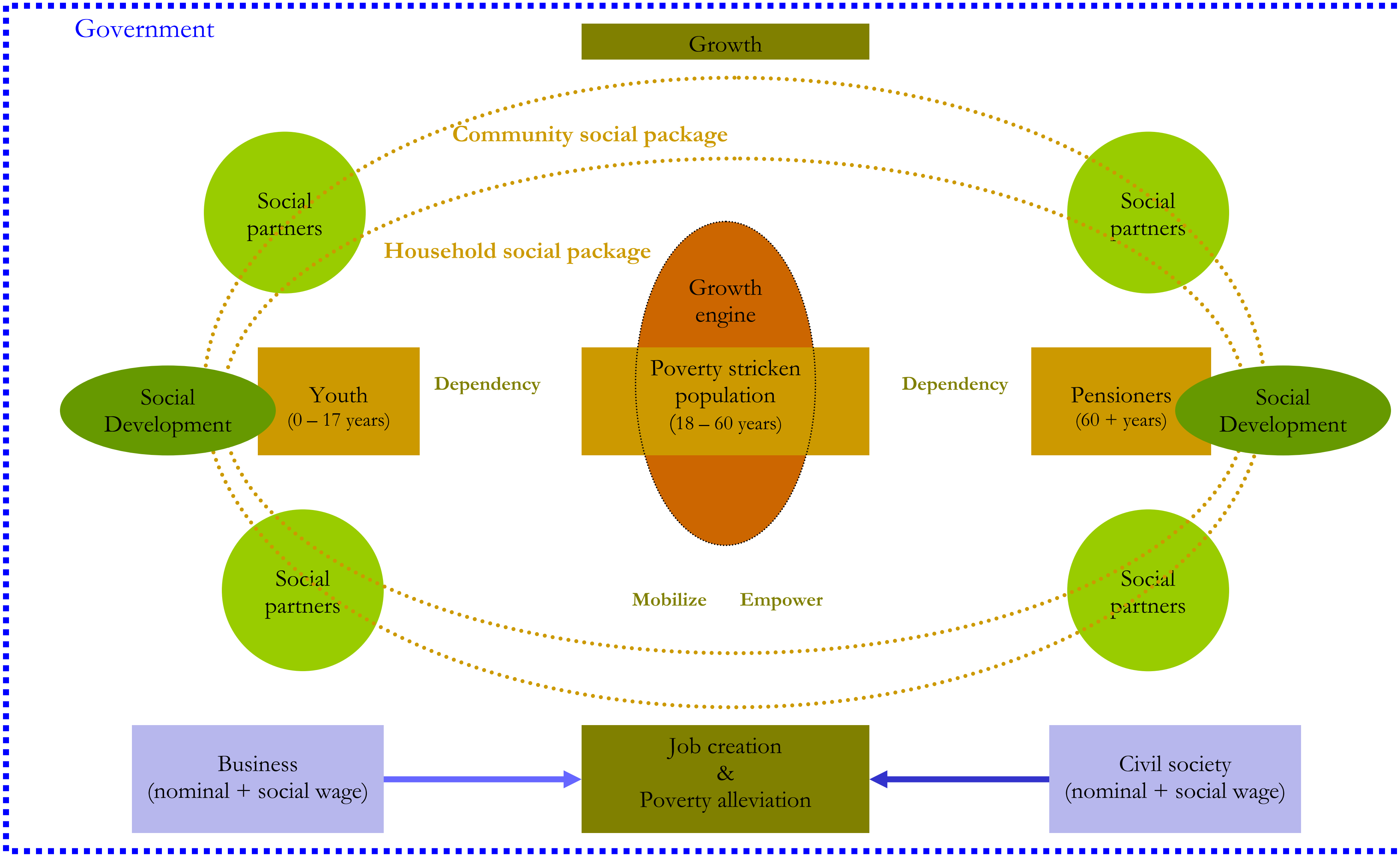
- Policies and programmes will be targeted at the extreme poor;
- Programmes can be geographical and community specific;
- Job creation is not dependent on GDP growth or skill-specific job openings – individuals can become self-employed;
- Expanded public work programmes (EPWPs) will facilitate "on-the-job training" opportunities;

- If utilised for the provision of expanded and improved service delivery in rural and less developed areas, EPWPs will make a useful contribution to service delivery and infrastructure development;
- Rural development will alleviate the pressures associated with urbanization;
- Improved social development will significantly contribute to GDP growth, primarily through employment creation;
- Employment creation will lower the dependency of society on social grants and ensuring the sustainability of the programmes; and
- The contributions from business, labour and civil society, on the back of incentive guidelines, will establish the "shared" responsibilities and will augment government's capacity in the provision of socio-economic services.

Designing unique and targeted programmes will require:

- A more in-depth analysis of job-generating industries; and
- A profile and backlog analysis of the poverty pockets in terms of infrastructure and services needs.

Figure 3: An integrated national strategy for social development – a conceptual framework



3.3 Empirical evidence

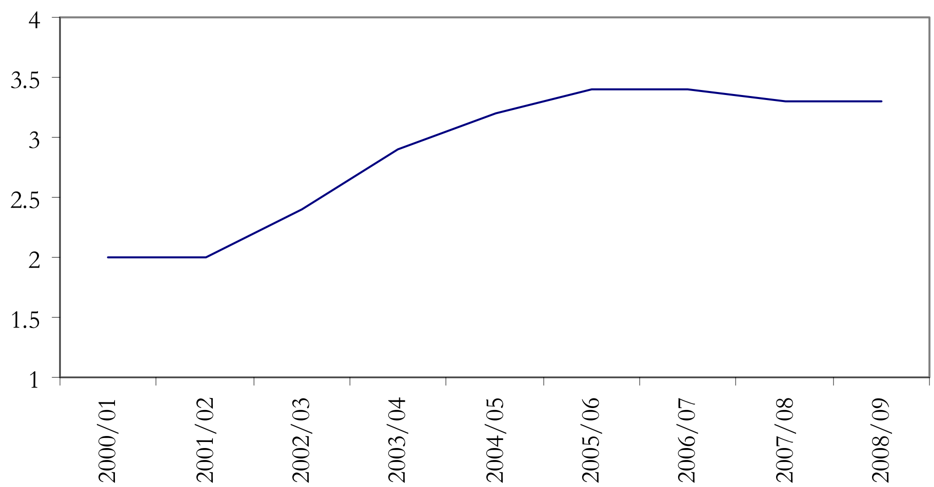
The impact of social grants and social development

Social grants expenditure has been exerting pressure on spending patterns of the provinces over the last 15 years. The budget has been growing steeply at an average rate of more than 15 per cent per annum, constituting close on 3.5 per cent of gross domestic product and 20 per cent of total government expenditure.

The expenditure for social grants and the administrative component thereof will decline over the medium term to longer term. Figure 4 depicts the trends over the last four years and reflect the fact that the growth has been close on exponential.

The projection indicate that as a share of total government expenditure, social grants spending will decline to 3.3 per cent as a share of GDP.

Figure 4: Social grants as a percentage of GDP



Notwithstanding the growth in demand and pressure placed on the fiscus, research indicates that the provision of social grants have been and continue to be government's most effective poverty alleviation programme. Although the extent of poverty reduction is contested by Meth (2005), both he and Van der Bergh *et al.*. (2005) provide evidence of the impact of grants having been effective in reducing poverty. A strong case therefore needs to be made to at least keep the social grants at 3.4 per cent of GDP.

From a macroeconomic perspective, research also provides evidence that social spending have in the past contributed to some employment creation and therefore output growth.

Employing the macro-econometric model of the University of Pretoria, which follows a supply-side approach and distinguishes between skilled and unskilled employment, renders the following empirical results.

Given the current structure of the South African economy, a 10 per cent increase in spending on social security and welfare, housing, education, order and safety, and health results in a 3.6 per cent increase in the employment of unskilled workers, which relates to a 1.3 per cent increase in total employment and generates an additional 0.3 per cent GDP growth.

However, an innovative and skilful redesign of existing policies will significantly impact on the returns of social spending on employment and growth.

An accelerated growth scenario

Once again the macro-econometric model of the University of Pretoria is employed to generate a scenario whereby the South African economy becomes more competitive as measured in terms of the average performances of other emerging economies. Emerging economies are broadly defined as all developing economies with a gross national income (GNI) per capita of US$9,265 or less, falling into the low-to-middle per capita income category[3].

The growth potential results for the emerging market benchmark scenario are presented in table 2.

Table 2: Emerging market benchmark potential growth scenario

Assumptions and targets	Results		
	Real potential output growth	Investment/GDP	New jobs in 10 years
• UER = 12% • FDI/GDP = 4% • S/GDP = 25% • TFP, proxied by openness = 0.55	6.5%	26.5%	6.5 million

Given an unemployment rate (UER) of 12 per cent, a foreign direct investment to GDP (FDI/GDP) ratio of 4 per cent, a saving-to-GDP (S/GDP) ratio of 25 per cent and a 5 per cent growth in the level of South Africa's openness as a proxy for desired levels of total factor productivity growth, South Africa's growth potential increases to 6.5 per cent. The resultant investment-to-GDP ratio is 26.5 per cent and an additional 6.5 million jobs in 10 years can potentially be created.

These results clearly highlight the importance of job creation as an accelerator of growth. Given the structural impediments to job creation in South Africa, GDP growth will not be successful in lowering unemployment, but growth strategies need to be targeted at mobilising and empowering the untapped workforce as a potential source of growth.

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3 http://www.sustainability.com/developing-value/definition-emerging.asp

3.4 A microeconomic reform of Social Security: a programme on building human capital targeted at the unemployed and extreme poor

Moving from the conceptual framework to the required microeconomic reform of Social Security, a couple of suggestions are presented towards the design and implementation of a development plan with tangible outcomes.

The programme design will encompass geographic, community and household targeting. Within these groups age cohorts will be targeted for social grants and job opportunities. Table 3 outlines the age cohorts and the proposed interventions to those who are vulnerable.

Table 3: A microeconomic reform of social security

Age cohort	Proposed intervention
<14 years	Child support grant, foster care and care dependency grant
14 to 17 years	Education support
18 to 22 years	Education and training support
23 to 40	Training and skills development
41 to 50 years	Training, job placement and self-employment support
50 to 59 years	Job placement in services industry
60 to 65 year males	Old age pension
>60 year females >65 year males	Old age pension

After a classification of the poor, vulnerable and socially excluded, the Department will need to redesign policy to provide income support in line with the need as well as diversion objective for each of the age cohorts. The Social Security Agency, whose mandate it is to manage, administer and pay social grants, will have to work with beneficiaries, to profile and shape the services it will provide.

Through the Agency, a new class of client service agent must be deployed, such that after the award of a social benefit, the service agent works with beneficiaries to enhance their chances of entering the labour market.

It is proposed that for vulnerable groups in the age cohort of 14 to 17, income support is provided to ensure that schooling is completed. The collaboration between the Departments of Social Development and Education would be essential for this targeting and policy implementation.

For the age cohort 18 to 22, support is broadened to ensure higher education at technical or further education institutions. In the case where no further education is pursued, skills development and job placement becomes the objective. Income support should be provided.

For the age cohort 23 up to under the age of 50 years the proposed interventions should be skills development opportunities and job placement. Limited income support should be provided while active work with the beneficiary is a priority. This could be deemed a jobseeker's support in the form of three-month financial support.

For the age cohort 50 years to 59 years, job placement could be pursued in relevant service industries such as the hospitality industry, care for the infirm, aged, children, etc. The rationale being that sophisticated skills development may not be appropriate.

It is proposed that for the vulnerable groups of males older than 60 years but under 65 years of age, government could consider the provision of an old age grant since it may be more cost effective to provide a pension that to pursue job placement or skills development.

3.5 Funding the expansion of social grants

The improvement of the social grants system has been initiated and will over the medium term generate savings. The improvement initiatives will continue to take place in respect of ensuring the appropriate grant amount is paid to the right person; that fraud, leakage and corruption are reduced and that the operational cost as a proportional share of the total budget of social grants is reduced.

It is significant to note that for the first time in the last 9 years expenditure on social grants reflects savings generated, while over-expenditure is only projected for two provinces. At a national level, government will for the first time not exceed the projected budget.

Non-expenditure of social relief of distress should be addressed and marketed more widely. These funds could be put to use with the conditionality of training and/or employment.

The primary source of funding for the expansion of social grants will be generated through the contributions of the increased productive population, thereby lowering the dependency of existing beneficiaries, enabling the broadening of the social safety net.

However, a more in-depth costing analysis will be required regarding the following:

- How much cash assistance to provide recipients?
- Whether recipients could enroll in education and job training programs to fulfill their work requirement.
- Whether to provide child care and transportation assistance to working recipients.
- Whether to provide state-funded assistance to immigrants who were losing eligibility for federal assistance.

3.6 Social development alignment with ASGI-SA

The proposed programme on the development of human capital, targeted at mobilising and empowering the unemployed and extreme poor through an integrated national strategy on social development and innovative redesign and redeployment of social grants, supports the ASGI-SA initiatives in a number of ways:

- General: the design and implementation of the programme will be built on an alignment with existing initiatives and programmes, but targeted at the unemployed and extreme poor communities;
- Infrastructure: community based skills development and training programmes will require infrastructure development in terms of schools in rural and less developed areas, which again will require an integration and collaboration between social partners;
- Sector strategies: Community based programmes will be geographically and industry targeted, along ASGI-SA guidelines;
- Education and skills development:
    - the key component of the proposed programme is education and skills development of the unemployed and extreme poor,
    - it will require the contributions of experienced professions and managers,
    - implementation of the programme will hugely benefit from the JIPSA initiative;
- Eliminating the second economy:
    - Developing human capital of the unemployed and extreme poor, will empower and mobilise individuals and communities alike and will contribute substantially towards eliminating the second economy;
    - Skills development through the effective utilisation of Expanded Public Works Programmes will also support this initiative;
- Macroeconomic issues:
    - The nature of the programme, given the development of human capital and therefore the supply-side drivers of the economy, will ensure higher and sustainable economic growth that is effective in alleviating unemployment and poverty;
- Governance and institutional interventions:
    - The design of the programme requires national integration, as well as shared responsibilities of business, labour and civil society;
    - This will expand government's capacity and ensure more effective service delivery.

4. CONCLUSION

South Africa faces the twin challenge of high unemployment and poverty. Many of the poor and unemployed have given up hope. Even with the implementation of several initiatives as part of the Accelerated and Shared Growth Initiative, the poorest of the poor, those demoralised, will require support to become gainfully employed. This support should be given in the form of income that will help the unemployed and poor to access education, training, skills development and employment opportunities. Government could achieve these objectives within the current macroeconomic framework through the redesign of current social security policy and the mode of implementation of these policies.

The strategy is about increasing people's chances of getting employed. The redesign would be geared towards ensuring that a benchmarked budget or earmarked social security tax is designed to broaden its reach with a view to expand the social protection. The expansion of the safety net requires that able-bodied individuals are supported to seek and find employment – thus achieving the objective of enhancing the link between social benefits and economic activity. South Africa cannot escape the dire need for an integrated national strategy for social development towards mobilising and empowering the South African population

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