

## Exploring policy debates in South Africa

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### POLICY, CHANGE AND ECONOMIC STRUCTURE

#### What is the structure of the South African economy?

An important element of our answer lies in how the history of the country has shaped its present.

As Thabo Mbeki noted in the Fourth Nelson Mandela Memorial Lecture in 2006:

*“... within the context of the development of capitalism in our country, individual acquisition of material wealth, produced through the oppression and exploitation of the black majority, became the defining social value in the organisation of white society ... because the white minority was the dominant social force in our country, it entrenched in our society as a whole, including among the oppressed, the deep-seated understanding that personal wealth constituted the only true measure of individual and social success<sup>1</sup>.”*

Beyond this focus on personal wealth as the true measure of individual and societal success, our history also reminds us that it is a tangible feature of our lives. Many of the persistent features of the country the former president mentions remain. They are worth mentioning here, as our subsequent discussion on policy focuses on policies aimed at transforming certain key features of the South African economy and their continued expression in South African life.

#### Economic transformation: necessary and radical?

The notion of radical economic transformation occupies a polarising space in our public discourse. It has come to be accepted that South Africa is one of the most unequal societies in the world. The country has, as we discuss in this chapter, a social structure characterised by a low-wage, at times fractious society, with deep social and material vulnerability. This presents significant challenges in designing and implementing policies that will address and remedy the social structure that reproduces such inequality.

The approach captured in the policy blueprint that is the National Development Plan is that policy needs to be geared to achieving inclusive economic growth that will create the employment and the social wage multipliers necessary to undo the legacy of apartheid. However, much of this intent is stifled by elements intrinsic to the South African socio-economic story: low household savings and public and private investment, widespread inadequacy of and unequal access to basic social provisions (education, healthcare, water and housing), and entrenched spatial divisions complicate the picture. It often seems there are just too many moving parts, so **what do we solve for first? Moreover, what might employers and employees be able to influence?**

Conditions of work and remuneration in a country with high household dependency ratios may be the answer. This makes for a good starting point for our policy conversation.

#### Where do we begin?

##### **The overhang of the low wage accumulation path**

Low wages are a key feature of the South African social structure. The oft-cited examples of the Group Areas Act, pass laws, influx control and the homeland system were designed to ensure a steady supply of cheap labour. Estimates by Finn (2015), based on the National Income Dynamics Study (NIDS) Wave 3 dataset, estimate the incidence of poverty by race. The results are telling: 70% to 75% of black South Africans and 56.78% among the coloured community were defined as ‘poor’. The figures were 20.47% for Indians and 4.06% for whites. Finn goes on to note that the sectoral profile of the challenge of low wages, and that of inequality, are closely linked:

*“Trends in earnings inequality reveal insights into a number of general facts. First, within industry and within-race inequality are shown to be dominant. Second, inequality within agriculture, construction (both of which have low wages), services and mining has increased significantly. Third, earnings inequality within the African population group is very high, and wages for Africans are far below those of Whites, on average. These issues would need to be considered by any strategy focused on reducing inequality<sup>2</sup>.”*

*Benefits Barometer 2017: Benefits that matter in the changing world of work* unpacks some of the key challenges that will face the labour market over the next few decades. It bears mention, then, that many of the changes discussed in this edition will influence not only the nature of the workplace but also of earnings, and the security of livelihoods funded by those earnings.

Below we discuss a few of the proposed policies, some of which are existing regulation, others that are currently within the policy process, and those that are still in draft form.

## Policy measures proposed

### National minimum wage

The **national minimum wage** is a policy response around which a deal was recently concluded at the National Economic Development and Labour Council (NEDLAC). Responding largely to key features of the earnings profile and the prevalence of the working poor, who earn a monthly household income of less R4 125, there was a need to further regulate income at the bottom end of the distribution. The multistakeholder platform concluded a minimum wage of R20 per hour, equivalent to R3 500 for a 40-hour week, and close to R3 900 for a 45-hour week. The report of the NEDLAC-appointed National Minimum Wage Advisory Panel was telling in terms of the context to which this policy measure was intended to respond:

*Over 6.7 million people earn less than R4 000 a month. Over half of the workforce in South Africa earns below R3 700, and 4.6 million people don't even earn R2 500 per month. If you were supporting a family of five, that R2 500 would only cover your minimum food requirements.*

### Flexible-term employment

It is clear that incidences of low pay continue to pervade the South African economic landscape to a large degree. However, this is not the only challenge related to the workplace for many. The other issue is that of flexible-term employment and the vulnerability and challenges associated with 'atypical' employment. Measures aimed at dealing with the precariousness of work in many sectors are another feature of the South African labour market policy environment.

## Policy measures

### *Labour Relations Act*

Amendments in 2015 to the Labour Relations Act stipulate that 'temporary services' or temporary work are limited to services rendered for not more than three months, and where the temporary service and its duration are not determined by a collective agreement in a bargaining council or by collective agreement or sectoral determination.

The segment of society these amendments are aimed at covering is what economist Guy Standing calls the precariat. Standing argues that policy changes over the last few decades and the responses of corporations to the dictates of the globalising market economy have created an unconventional segment of the 'employed':

*Millions of people, in affluent and emerging market economies, entered the precariat, a new phenomenon even if it had shades of the past. The precariat was not part of the 'working class' or the 'proletariat'. The latter terms suggest a society consisting mostly of workers in long-term, stable, fixed-hour jobs with established routes of advancement, subject to unionization and collective agreements, with job titles their fathers and mothers would have understood, facing local employers whose names and features they were familiar with<sup>3</sup>.*

Indeed, the new workplace is different. When we consider some of the changes suggested in this year's edition of *Benefits Barometer* (especially as they relate to the changing nature of work), these amendments may lay the ground for tensions between regulators, employees and employers. Or, hopefully, greater collaboration and cooperation.

### Intense and often fractious industrial relations

Dr Morne Mostert, a futurist at the Institute for Futures Research (IFR) at the University of Stellenbosch Business School, argues that the biggest risk facing the future of work in South Africa lies in 'social paradigms and approaches to problem solving': how we respond to problems, and the social paradigms we use to do so. Do we often choose the path of conflict and, ultimately, industrial strife, rather than workplace conversation? Do we retreat into the comfort of existing stereotypes, mistrust and fractious dialogue when faced with issues that affect the 'common interest'?

In many instances in South Africa, the response to those questions is a resounding 'Yes'. The 2014 platinum sector strike was a flashpoint in the new South Africa. From January 2014, and six months thereafter, more than 70 000 workers in the platinum sector downed tools in an action from which the industry is yet to recover. It was one example of the level of industrial distrust and the breakdown of a social compact between organised labour, business and the government.

What has happened since? Successive attempts at creating policy aimed at encouraging industrial harmony have been undertaken, while at the same time industrial strife has spread to new sectors deploying technology platforms, like Uber. Recently we have seen numerous incidences of conflict between Uber and the metered taxi industry, as the latter aims to claw back some of the market share taken by Uber.

Below, we take a look at some of the policy processes aimed at addressing industrial tensions, primarily the work at NEDLAC on strike balloting.

## Policy measures proposed

### Strike balloting

**Strike balloting** is a secret ballot conducted among the members of a union to determine whether they should undertake a strike. In many cases this needs to be decided with a clear majority. Alongside the national minimum wage conversations discussed above, NEDLAC proposed amendments to the Labour Relations Act to strengthen provisions on the extension of bargaining council agreements, picketing rules, strike

balloting and resolving industrial disputes through measures like advisory arbitration. As Deputy President Cyril Ramaphosa observed, these deliberations are aimed at preventing protracted industrial action:

*When implemented, these proposed amendments will provide employers and employees with mechanisms to resolve disputes more effectively and expeditiously and minimise the potential for protracted or violent industrial action<sup>4</sup>.*

Many of these proposals have received resistance from organised labour, in particular the Congress of South African Trade Unions (COSATU), the National Council of Trade Unions (NACTU) and the newly formed South African Federation of Trade Unions (SAFTU).

Beyond the union autonomy over work withdrawals that this decision might likely reduce, the other concern is that these measures do not present a ‘full package’ to meet the expectations of the labour movement. This package includes concluding a comprehensive social security dialogue at NEDLAC.

With the advent of the gig economy, the increasing use of a contingent workforce, and flexible employer-employee relationships, a baseline of publicly provided social benefits will become a necessity. In this context, changing, and increasingly fluid, employer-employee relationships also present an opportunity to rethink the ‘portability’ of employee benefits and how these are designed (and for what purpose). One of the questions these changes bring to bear is: how should employer-provided benefits respond to employment relationships without co-location and, increasingly, off-site and contingent workforces?

Next, we discuss some of the aspects of this comprehensive social security package, in particular healthcare, universal income, education and housing.

### Social wage matters

The term ‘social wage’ refers to public spending on welfare, healthcare, education, housing and other related amenities. Social wage policies enable and support labour market participation by narrowing the gap between wages and the cost of living of those engaged in low-wage work, and their households. Benefits Barometer 2017 acknowledges that the shifts described in our discussion of the new landscape of work may displace many from existing jobs, despite new job opportunities emerging. With the vulnerability associated with the growing ‘precariat’ described earlier, it is important to provide a baseline of publicly provided income, health and housing benefits.

Jeffrey Pfeffer, in looking at the US benefits framework, makes an observation that is also instructive for us here in South Africa: “In the US, for good or bad, many benefits and social assistance programs are largely, though not exclusively, handled by employers. The US is unique among advanced industrialized countries in not offering universal healthcare coverage. Instead, coverage decisions are at employers’ discretion<sup>5</sup>.”

In South Africa, the role of employers in the employee benefits framework is a prominent one. With regard to retirement and social protection issues, shifts towards flexible, fluid and geographically diffuse workplaces may dislodge the role of the employer in the provision of these benefits. As Pfeffer notes:

“A similar situation holds for pensions. Even though employers have moved aggressively from offering defined-benefit to defined-contribution plans since 1998, most large employers still offer some form of retirement plan. Employers make contributions to Social Security for their employees, and while the self-employed are required to contribute, their contribution rate is less than that of the combined employee-employer rate.”

We look at some of the social wage issues that are on the policy agenda, and progress made in this regard.

## Policy measures proposed

### National Health Insurance

The National Health Insurance (NHI) is a proposed financing mechanism aimed at pooling funds to provide access to affordable and quality healthcare to all South Africans, irrespective of means. The NHI will be funded by a combination of mandatory prepayment sources, and general taxes. The white paper on National Health Insurance was published for comment in December 2015, and 10 district-level pilots were implemented in the OR Tambo District, Tshwane, Umgungundlovu, Pixley ka Seme District and Vhembe, among others. For policymakers, it remains to be seen how the envisaged health insurance system will respond to the changing landscape of work, and how the combination of mandatory prepayment and taxation is likely to respond to this development.

### Basic income grant

A big part of the policy conversation about comprehensive social security, particularly at NEDLAC level, is the basic income grant. The grant is a small cash payment to citizens, without a ‘means-test’. It is seen as an important part of the policy lever aimed at reducing inequality. Moreover, in a context of high incidences of underemployment in the working-age population, it is a measure that fills a gap: currently, only young children and those who are beyond working age receive some form of social support from the government fiscus.

It is clear that there are growing fears around automation and the displacement of jobs. Guy Standing, at this January’s World Economic Forum annual gathering in Davos, argued that the basic income grant is a “means of basic security...it won’t eradicate poverty, but it will handle uncertainty”. The other argument that Standing and the Basic Income Earth Network make is that wealth is an outcome of the intergenerational transfer of assets (financial or otherwise), so if we allow private inheritance, we should also allow for a public one. This discussion will surely occupy conversations at social dialogue and policymaking institutions over the next year or so, as the debates on comprehensive social security return to the NEDLAC chambers.

### Education and skills development

In addition to the policy debates discussed, there is an increasing awareness that much of the preparation for the changing landscape of work needs to involve a thorough interrogation of our education system. South Africa's education outcomes, and the alignment of our skills profile to market needs, is not always optimal. This year's Benefits Barometer discusses these issues in detail in our segment on "South Africa's skills development journey. In addition, we undertake a detailed discussion of key spatial concerns in the areas of housing and transport (The cost of commuting).

### Connectivity, technology and transport

There is also a recognition that social wage issues must extend to connectivity and information and communication technology (ICT) concerns which, if unaddressed, may further entrench the digital divide. There have been notable concerns about connectivity infrastructure, accessibility and cost. Contentious debates continue regarding the allocation of high-demand spectrum, and whether the model proposed by the Department of Telecommunications and Postal Services (DTPS) in the National Integrated ICT Policy white paper will resolve the issues around accessibility and cost.

Expectedly, policy is required to respond to South Africans waiting hours to get to their places of work using a fragmented public transport system. Not to mention the overwhelming number of South Africans who are without work and the 27.7% who are still in search of work. If one is to include discouraged job seekers, this figure climbs towards two-fifths of the working age population.

The other matter on the policy horizon that's likely to have an impact on financial wellness and the disposable incomes of employees is the market inquiry into land transport modes which was launched by the Competition Commission in May 2017. This inquiry will look at market conduct, pricing and the allocation of subsidies to different travel modes (bus, rail, private car, minibus taxis, among others). We explore the issues around transport in South Africa, and their impact on employee well-being and productivity.

### Small business development

In a changing landscape of work, small businesses will not only be a crucial driver of job creation but will also create spaces to unlock the creative and productive energies of both young people and people who are forced to consider second careers after retirement. In this regard, facilitating the development of a solid small, medium and micro-sized enterprise (SMME) sector becomes imperative to economic growth.

## Policy measures

### Department of Small Business Development

In 2014, South Africa's fifth democratic administration introduced the Department of Small Business Development (DSBD) in an attempt to align government-wide attempts to create access to markets for small businesses. The strategy is a combination of system-wide interventions (public procurement, enterprise and supplier development) and public-private partnership.

With regard to the former, the recently published (1 April 2017) Preferential Procurement Regulations stipulate that 30% of public procurement must be set aside for small businesses, cooperatives, and township and rural enterprises. The regulations also give accounting officers in public entities the right to open certain tenders exclusively to the group of entities mentioned above.

The second type of interventions relate to partnerships between the public and private sector. An example of this is the recently launched Tshepo1Million campaign, pioneered by the Gauteng provincial government with Standard Bank South Africa. The memorandum of agreement between Standard Bank and the Gauteng government explains the purpose of this initiative as "... the management of a purpose-built pipeline of young jobseekers from the Tshepo1Million programme into such training, transitional employment, contract employment, permanent employment and enterprise/ supplier development opportunities as can be identified as viable and feasible across the Standard Bank South Africa internal operations and value-chain".

Increasingly, and even as part of the Broad-Based Black Economic Empowerment (B-BBEE) codes, firms are being challenged to find areas in their operations and value and supply chains to create access to markets for small businesses from designated groups. This is seen as an opportunity to unlock the employment and social spillovers of creating an ecosystem enabling of small business.

In our discussion on South Africa's skills development journey, we delve further into policy issues around the development of a viable SMME sector. We also discuss some of the operational initiatives of the **Department of Small Business Development**. These include the **Black Business Supplier Development Programme** (cost-sharing and grant funding up to R1 million for training and development and tools and machinery); the **Co-operative Incentive Scheme** (a grant for registered primary co-operatives); the **Shared Economic Infrastructure Facility** (a facility aimed at municipalities, municipal entities and provincial government entities) and the **National Informal Business Upliftment Strategy** (a programme aimed at the development of SMMEs on the lower end).

In addition to these programmes, spearheaded by the Department, SMME development is also the focus of development finance institutions (DFIs), the Small Enterprise Finance Agency (SEFA) and the Small Enterprise Development Agency (SEDA).

### Retirement reform

Much of the policy conversation regarding the reform of the retirement benefits and pension landscape has to do with two aspects we will discuss below: automatic enrolment in retirement funds and the annuitisation for provident fund members.

## Policy measures

### Automatic enrolment in retirement funds

As law firm ENSafrica notes, "South Africa has a well-developed occupational pension system, but there is limited coverage and a large number of funds<sup>6</sup>." In late 2016, government tabled a discussion document on social security reform at NEDLAC. In the document, government considers auto-enrolment as a means of ensuring that workers save for retirement. The role of the employer in this proposed approach would be to

automatically enrol workers into a retirement fund, which can be sponsored by an employer or sourced from a third party.

### Annuitisation for provident fund members

The implementation of the *Revenue Laws Amendment Act of 2016*, which proposed the annuitisation of retirement benefits for provident funds, has been postponed. The postponement has occurred as a result of concerns from organised labour and the need for further consultation at NEDLAC.

Discussions on both issues continue, alongside ongoing conversations around comprehensive social security.

**Much of the policy conversation regarding the reform of the retirement benefits and pension landscape has to do with automatic enrolment in retirement funds and the annuitisation for provident fund members.**

### Ageing and care for the aged

Policy debates about the limited resources that can be allocated to health and long-term care pit the health needs of youth and the able-bodied against the health and long-term care needs of the aged and frail.

With attention firmly focused on the development of South African youth, very little is being done to address the crumbling service delivery for long-term care. South Africa has had an Older Person's Act in place since 2006, which purports "To deal effectively with the plight of older persons by establishing a framework aimed at the empowerment and protection of older persons and at the promotion and maintenance of their status, rights, wellbeing, safety and security; and to provide for matters connected therewith."

In truth, very little has been done to translate those good wishes into a coherent strategy to address a situation that is creeping ever so quietly into our back rooms. We consider the implications of this in our discussion of '[Longevity the demographic disruptor](#)'.

Moreover, we present ideas which, by including the private sector into the equation, provide the potential for a sort of 'solutions trifecta' that:

- > addresses the long-term care-giving needs of the elderly
- > develops much-needed skills and job opportunities for youth who are not likely to be made obsolete from automation
- > opens up opportunities for foreign investment through the creating funding mechanism for the development of care facilities that can service both those who can afford to pay and those who can't

Our discussion on Longevity as the Demographic Disruptor also recognises that "differentiated histories, day-to-day lifestyles and family dynamics provide the most powerful explanation for how South Africans will continue to experience the ageing process". What is meant by this? The challenges of ageing, much like all social challenges in South Africa, have racial, class and gender influences that are reflective of the difficult society South Africa remains. The discussion on ageing in *Benefits Barometer 2017*: **Benefits that matter in the changing world of work** looks at the following policy questions, among others:

- > **Who should be providing post-retirement care** (and how should it be provided?)?
- > **How should care be financed?** What aspects of the responsibility of care belongs to the state, the private sector and individuals and their families? The associated policy responses to these questions require a multistakeholder conversation between the Departments of Social Development and Health; medical schemes; employers and service providers in the areas of housing, home and institutional care; community health workers; and the relevant touchpoints in the financial services industry.

### Policy discussions are important to all stakeholders

It's important to set out a role for different stakeholders in our subsequent discussions on factors that influence employee wellbeing in this changing landscape of work. We have discussed some of the key policy debates under way in South Africa that have, or will have, a direct impact on the financial well-being of employees. Policymakers are but one part of the picture, though – it's just as important for employers, employees, trustees and the financial services industry more broadly to be in tune with and 'alive' to these policy discussions, as they will have an influence on the environment within which these different stakeholders conduct their work.

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[PENSION REFORM](#)

[POLICY REFORM](#)

[POLICY MEASURES](#)

[GIG ECONOMY](#)

[MINIMUM WAGE](#)

[STRIKE BALLOTING](#)

[LABOUR RELATIONS ACT](#)

[BASIC INCOME GRANT](#)

[SHARING ECONOMY](#)