TWENTY YEAR REVIEW

SOUTH AFRICA

1994 - 2014

BACKGROUND PAPER:

INCOME, POVERTY AND INEQUALITY

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List of Acronyms and Abbreviations

AsgiSA	Accelerated and Shared Growth Initiative of South Africa
CSG	Child Support Grant
CWP	Community Work Programme
DG	Disability Grant
EPRI	Economic Policy Research Institute
EPWP	Expanded Public Works Programme
GDP	Gross Domestic Product
GNI	Gross National Income
IES	Income and Expenditure Survey
MPI	Multidimensional Poverty Index
NDP	National Development Plan
NGP	New Growth Path
NIDS	National Income Dynamics Survey
OAG	Old-age Grant
PALMS	Post-apartheid Labour Market Survey
PSLSD	Project for Statistics on Living Standards for Development
QLFS	Quarterly Labour Force Survey
RDP	Reconstruction and Development Programme
SMG	State Maintenance Grant
SPWP	Special Public Works Programmes
TBVC	Transkei, Bophuthatswana, Venda and Ciskei homeland states

Policy Summary

Between 1994 and 2008, South Africa's economy grew by 3.2 percent a year. In contrast, economic growth in the late 1970s until the early 1990s reached just only over 1 percent a year, much less than comparable countries. Undoubtedly, higher economic growth is an essential element for poverty reduction, although it does not necessarily lead to greater equality and inclusion.

Poverty levels in both absolute and relative poverty terms showed a decline from 1993 to 2013, when using both a money-metric and a multidimensional poverty measure.

In addition to economic growth, the reduction in poverty was significantly influenced by social grants. The total number of social grant beneficiaries grew from 2.4 million in 1996 to just under 16 million in 2013, with children being the largest beneficiary target group. High levels of unemployment have also necessitated the implementation of public employment programmes, such as the Expanded Public Works Programme (EPWP) and the Community Work Programme (CWP). Public employment programmes have become an integral part of a suite of policy interventions to support employment growth and reduce poverty.

Despite improved growth and reduced poverty, however, the South African economy remained one of the most inequitable in the world. Inequality was compounded by a reduction in the share of remuneration of the national income from 1994 to 2012. This proportional reduction was driven by mineral rents in the commodity boom. In addition, recent studies suggest that the real earnings for the median worker remained constant from 1995. Agriculture, domestic work and the informal sector still provide relatively low pay, accounting in 2011 for almost half of all workers earning under R2000 a month, but only about 30 percent of all employment.

Furthermore, unemployment remains very high by global standards. South Africa's employment ratio (that is, the share of adults with employment) improved during the 2000s due to the economic boom. The global economic crisis in 2008/09, however, meant that it first declined and then stabilised at just over 40 percent

The foundations for the unusually steep inequality in South Africa were laid in the apartheid era, in particular through inequalities in access to assets, including housing, land, credit and infrastructure, deeply inequitable education and health systems, residential patterns that pushed much of the population into regions that are distant from economic opportunities in the former so-called "homelands", support for market institutions characterised by high levels of concentration and a lack of systems to support emerging and innovative enterprises, and work organisation that maintained a sharp skills differential. The long-term loss of employment in agriculture and mining, which was only reversed after 2010, aggravated the situation.

Key strategies for addressing this situation include the following:

1. The National Infrastructure Plan, which generates employment directly and indirectly as well as providing support to emerging enterprises, including in the rural areas and small towns, and increases social capital in historically deprived communities
2. The Industrial Policy Action Plan and other sector strategies that aim to ensure sustainable employment growth
3. Land reform and other programmes that aim to support emerging producers by providing assets, appropriate marketing and extension support, and credit
4. Strategies to ensure more equitable access to quality basic, further and higher education

Executive Summary

South Africa has made significant strides in consolidating democracy, rolling out basic service delivery and improving the lives of many, in particular those deliberately excluded through apartheid. The ability to overcome decades of apartheid policy continues to be an important cornerstone of the democratic state's transformation agenda. Apartheid primarily set up a system that was exclusionary and inequitable; yet these inequities continue to reproduce themselves through distorted patterns of ownership and exclusion, shaped by decades of apartheid laws and policies.

Under these conditions, the democratic state moved to create an environment for fundamental social and economic transformation. A notable success in the post-apartheid economy was the country's ability to create a sustainable environment of continuous positive growth in the gross domestic product (GDP) before the onset of the 2008 global economic downturn.

The apartheid system was predominantly premised to exclude blacks from participating in core economic activity, except as low-paid labour and, to a limited extent, consumers. These exclusions created distorted patterns of ownership, widespread poverty and a low-wage trap for many people.

Employment challenge

The level of employment in South Africa fell sharply from the late 1970s until 1994. In the mid-1990s, less than half of all South Africans of a working age had income-earning employment, compared to the international norm of almost two-thirds. While employment creation since 1994 stemmed the fall in this ratio, it did not achieve a qualitative improvement. Improvements in the employment ratio as a result of the commodity boom in the 2000s were negated by the loss of over a million jobs from 2008 to 2010, following the global economic crisis. The employment ratio continues to hover around 40 percent.

With the recovery of jobs since the global downturn in 2008, employment increased to just over 13.6 million people by the second quarter of 2013, compared to between nine and ten million in the mid-1990s. However, this growth has not translated into a substantial decline in the reported unemployment rate. The main reason is that many more people – especially African women – began to look for work after the elimination of apartheid restrictions in 1994. The share of people either employed or actively seeking work (that is, the economically active) jumped from 45 percent to 54 percent between 1994 and 2004. It then stabilised at between 54 percent and 58 percent until 2012.

The relatively low employment ratio suggests that comparatively few people, especially in the lower-income deciles, relied on wage income as their main source of income. Thus, in the late 2000s, over half of all households in the former Bantustans depended mostly on remittances or grants, compared to under a quarter in the rest of the country. The poorest 40 percent of households derive more than half their income from non-wage sources. Social grants are an important source of income for those households, unlike households from the 60th decile.

Inequality challenge

The trends in inequality from 1994 are difficult to measure due to weak data especially in the 1990s. Leibbrandt, et al (2009) used household surveys with somewhat divergent methodologies to conclude that the South African Gini coefficient increased from 0.66 in 1993 to 0.70 in 2008. Similarly, Bhorat and Van der Westhuizen (2012) argue that the Gini coefficient, using per capita expenditure estimates from the 1995/96 and 2005/06 Income and Expenditure Survey (IES) data, increased from 0.64 in 1995 to 0.69 in 2005, although the 2010/11 IES found that the Gini coefficient had improved to 0.65.

The relative shares of labour and capital in the national income, known as the functional distribution of income, assist in understanding inequalities in earned income. The share of wages in the national income dropped from just below 55 percent in 1994 to a low of 49 percent in 2008, and then recovered to 51 percent in 2012. Meanwhile, the share of profits climbed from 45 percent to 51 percent between 1994 and 2008, only to fall back to 48.9 percent in 2012 (Statistics South Africa, 2013).

The improvement in the Gini coefficient, as measured by the 2005/06 and 2010/11 IESs, appears to be due primarily to reduced profitability following the global economic crisis in 2008/09. In particular, the share of household income by the highest income decile declined from 54.4 percent to 50.6 percent between 2005 and 2010. This declining share of income by the richest 10 percent of households did not, however, cascade to a more equitable distribution among the remaining groups. In fact, the poorest 40 percent of households saw their share in income fall from 6 percent of the total to 5.6 percent. In contrast, households from the 40th percentile to the 89th percentile increased their share in income from 39.65 percent to 43.8 percent.

The declining share of labour in total income has been associated with stagnant real wages. Real earnings for the median worker have remained almost unchanged since 1995, based on the Post-apartheid Labour Market Survey (PALMS)[1] data. According to Wittenberg (2013), median real earnings, in rand (constant 2000 prices), have consistently remained below R2 000 a month since 1995.

Achievements

Reducing poverty

The available data suggests that democracy has seen improvements in poverty levels. However, those improvements came about mostly through tax-based redistribution to

[1] PALMS data uses all Statistics South Africa national surveys dealing with labour market issues. This PALMS version is inclusive of the Quarterly Labour Force Survey (QLFS) up to the first quarter of 2012.

poorer households. In contrast, despite economic growth, the primary distribution of income (income from wages, profits, interest and rents) has remained deeply inequitable and has not contributed substantially to the reduction in poverty.

When using the food poverty line (which measures basic calorie intake) and social grants are not factored in, the poverty levels increased from 41 percent in 1993 to 43 percent in 2013. However, when grants are factored in, poverty levels reduced from 33 percent to 25 percent between 1993 and 2013.

Using the lower poverty line, which came to just under R500 a month in 2013, similar results are reflected with and without social grants. Again, social grants play a critical role in reducing poverty. With transfer income, the poverty rate decreased from 45 percent in 1993 to 38 percent in 2013.

Using the upper poverty measure, which equalled around R733 a month in 2012, the poverty rate without grants declined from 60 percent in 1993 to 58 percent in 2013. With grants, the poverty rate decreased from 57 percent in 1993 to 52 percent in 2013.

Similar results are revealed for the poverty gap between 1993 and 2013. However, when one compares the poverty gap without grants to that with grants, using both lower and upper poverty lines, it is evident that the poverty gap is higher when grants are excluded. With the inclusion of grants, the reduction in the poverty gap becomes more significant.

Using per capita expenditure data, Bhorat and Van der Westhuizen (2012) demonstrate a reduction in both the absolute and the relative headcount and poverty gap ratio between 1995 and 2010. Despite findings from different periods and using different poverty lines, their study reflects similarities – a reduction in poverty levels – with research conducted by the Economic Policy Research Institute (EPRI).

Finn, Leibrandt and Woolard (2010) attempt to take into account the impact of improvements in social and municipal services on poverty, rather than money transfers and earnings alone. They use a Multidimensional Poverty Index (MPI) that covers improvements in health, education, municipal services and assets.

The incidence of poverty measures the headcount poverty ratio. This measure shows a significant reduction in headcount poverty from 37 percent in 1993 to 8 percent in 2010, using the MPI. In other words, the MPI headcount measure shows a much more substantial reduction in poverty than the money-metric measures do.

Using various studies, there is little doubt that substantial strides have been made in reducing poverty since 1994, whether using a money-metric measurement or a multidimensional poverty measure. The reduction in poverty levels, taking government services into account, is far more pronounced than the reduction using monetary income alone.

Social security support

Prior to 1994, the social assistance programme benefited less than 2.4 million South Africans in the form of the Old-age Grant (OAG), the Disability Grant (DG) and the State Maintenance Grant (SMG). The distribution of social grants was both racially and geographical skewed towards white South Africans and towards urban dwellers.

Remarkably, the total number of social grant beneficiaries grew from 2.4 million in 1996 to just under 16 million beneficiaries in 2013, with the largest beneficiary grant being the Child Support Grant (CSG). The CSG showed the largest growth of all grants, expanding from just under 22 000 in 1998 to more than 11.3 million child beneficiaries in 2013. South Africa now spends close on 3.4 percent of GDP on social grants, at a total cost of about R120 billion to the national budget.

Public employment programmes

Given South Africa's extraordinarily high level of unemployment, public employment programmes have become an integral part of a suite of policy interventions to support employment growth and reduce poverty. As at the end of March 2013, over three million work opportunities have been created by the Expanded Public Works Programme (EPWP) since 2009. These trends may suggest that EPWP Phase 2 is well on track in achieving its primary target of 4.5 million work opportunities by 2014. Public employment programmes such as the EPWP and the Community Work Programme (CWP) remain a crucial income-supporting programme, as long as high levels of unemployment persist.

A combination of social assistance programmes and access to basic services has resulted in a decrease in both absolute and relative poverty levels, but more effort will still be required to reduce poverty levels even further. Despite positive growth for most of the 20 years since democracy, South Africa has become one of the most unequal societies globally.

Recommendations

Managing and achieving a more equitable economy will require a number of interventions, which include the following:

- Building a more cohesive state that recognises and addresses inclusive growth in the context of deep inequalities and continued dependence on minerals.
- Improving the country's ability to identify core priorities. Despite significant challenges since 1994, this seems to be getting clearer with the development of the Accelerated and Shared Growth Initiative of South Africa (AsgiSA). More recently, the development of the New Growth Path, the Industrial Policy

Action Plan, the National Infrastructure Plan and the National Development Plan provides a common vision of priorities.

- In this context, much stronger support for rural development, including large-scale land reform, is necessary in ways that expand economic opportunities for households in the former Bantustans, in particular.
- Reviving the social pact established at the end of apartheid, which will require improved benefits for the majority
- Broadening ownership both by strengthening social capital and supporting collective action by poor communities.
- Providing greater clarity and certainty on policy positions that are considered controversial to stakeholders outside government. This will require government to address unnecessary constraints facing business, but also to consider trade-offs that can work, including the strategic implementation of such trade-offs.
- Responding more purposefully and rapidly to economic downturns. Significant lessons can be learnt from the 2008 response to the global economic crisis. Some of the interventions remain innovative and effective, but require improved management and accountability to mitigate impacts that can severely affect growth, decrease employment and income, and increase levels of poverty.

Review

1. Introduction and background

This review provides an overview of the 20 years since the advent of democracy through an income and poverty lens. The journey travelled since 1994 has not been an easy road, and major challenges remain. However, progress has been made in reducing poverty through income-supporting programmes, ensuring the delivery of basic services and providing mechanisms to enhance economic participation.

South Africa has made significant strides in consolidating democracy, rolling out basic service delivery and improving the lives of many, in particular those deliberately excluded through apartheid. The ability to overcome decades of apartheid policy continues to be an important cornerstone of the democratic state’s transformation agenda. Apartheid primarily set up a system that was exclusionary and inequitable; yet these inequities continue to reproduce themselves through distorted patterns of ownership and exclusion, shaped by decades of apartheid laws and policies.

Under these conditions, the democratic state moved to create an environment for fundamental social and economic transformation. A notable success in the post-apartheid economy was the country’s ability to create a sustainable environment of continuous positive growth in the gross domestic product (GDP) before the onset of the 2008 global economic downturn.

Ironically, and unlike many of the country’s middle-income peers, its economic growth success did not substantially reduce unemployment or inequality. While some improvements were achieved, unemployment and inequality remained extraordinarily high until the end of the 2000s. This paradox reflects the need for more profound changes in access to quality education, productive assets, market institutions, and infrastructure and work organisation to prevent the reproduction of the inequalities entrenched under apartheid. The fault lines of persistently high levels of unemployment and inequality are predominantly racially defined, but also include formal education levels, gender and geographical location.

Economic growth is an important indicator of development, but it is not a given that the benefits of growth are shared equally. A large body of evidence suggests that inequality can impede economic growth. Increasingly, government has recognised the need for a more inclusive growth paradigm as a critical element to address inequality. From the Reconstruction and Development Programme (RDP) before 1994 through the New Growth Path in 2010 and the National Development Plan in 2012, government policy has consistently aimed to address these issues by diversifying the economy, increasing added value, lowering costs, improving labour absorption, supporting small and medium enterprises, and encouraging new investment and business growth. This had laid the basis for recognising the need for a more inclusive growth paradigm as a critical element to address inequality, and continues to be an important policy direction for the democratic state.

2. The journey since 1994

The apartheid system was predominantly premised to exclude blacks from participating in core economic activity, except as low-paid labour and, to a limited extent, consumers. These exclusions created distorted patterns of ownership, widespread poverty and a low-wage trap for many people. These conditions necessitated a programme of fundamental transformation of South Africa's economy and society by the new democratic state, which required long-term strategies and the continual balancing of trade-offs.

The reproduction of these inequalities entrenched under apartheid arose from the following:

- The structure of ownership and control established over centuries of colonialism and apartheid, with most sectors dominated by a few large producers, and the majority of households lacking financial and productive assets.
- Market and financial institutions and regulatory frameworks that evolved to serve high- income groups and formal companies, and that found it hard to meet the needs of poor communities and emerging enterprises.
- The extreme backlogs in investment in historically black communities in both household and economic infrastructure and in government services like education and healthcare.
- The legacy of inequalities in education and skills development that meant that historically black schools typically had fewer resources, books and support staff, as well as dilapidated buildings.
- Uneconomic and divisive settlement patterns that saw almost a third of the population still living in the former so-called "homelands", which lacked natural resources, productive investment and adequate infrastructure, and which consequently suffered from extraordinarily high levels of joblessness and poverty.
- Settlement patterns that pushed most workers far from the economic centres.
- Work organisation and facilities in many workplaces that sustained deep social and economic divisions and limited career mobility for unskilled and semi-skilled workers.

Any evaluation of the journey since 1994 must recognise this inheritance that continues to affect the country's transformation programme. Although South Africa has made progress in addressing these deep-seated systemic blockages to more equitable growth, much more needs to be done. The kind of far-reaching change needed will require continued vigorous action to drive transformation.

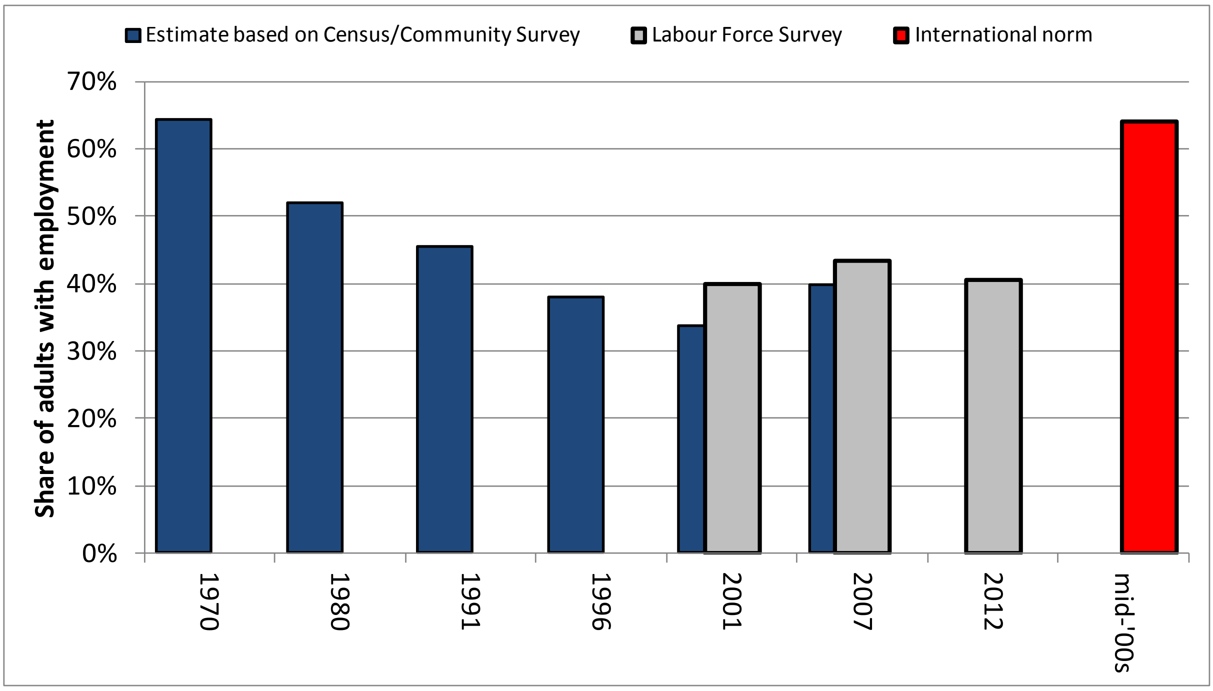
2.1 The challenge: High unemployment and deep inequality

2.1.1 Employment

The level of employment in South Africa fell sharply from the late 1970s until 1994. In the mid-1990s, less than half of all South Africans of a working age had income-earning employment, compared to the international norm of almost two-thirds. While employment creation since 1994 stemmed the fall in this ratio, it did not achieve a qualitative improvement. Moreover, the structure of inequalities and joblessness further entrenched apartheid spatial patterns.

According to the New Growth Path (2010), in the mid-2000s, around a third of the population lived in the former Bantustans, with less than one adult in five being employed. As illustrated in Figure 1, improvements in the employment ratio as a result of the commodity boom in the 2000s were negated by the loss of over a million jobs from 2008 to 2010 as a result of the global economic crisis. South Africa's employment ratio continues to hover around 40 percent.

Figure 1: Employment ratio in South Africa compared to the international norm



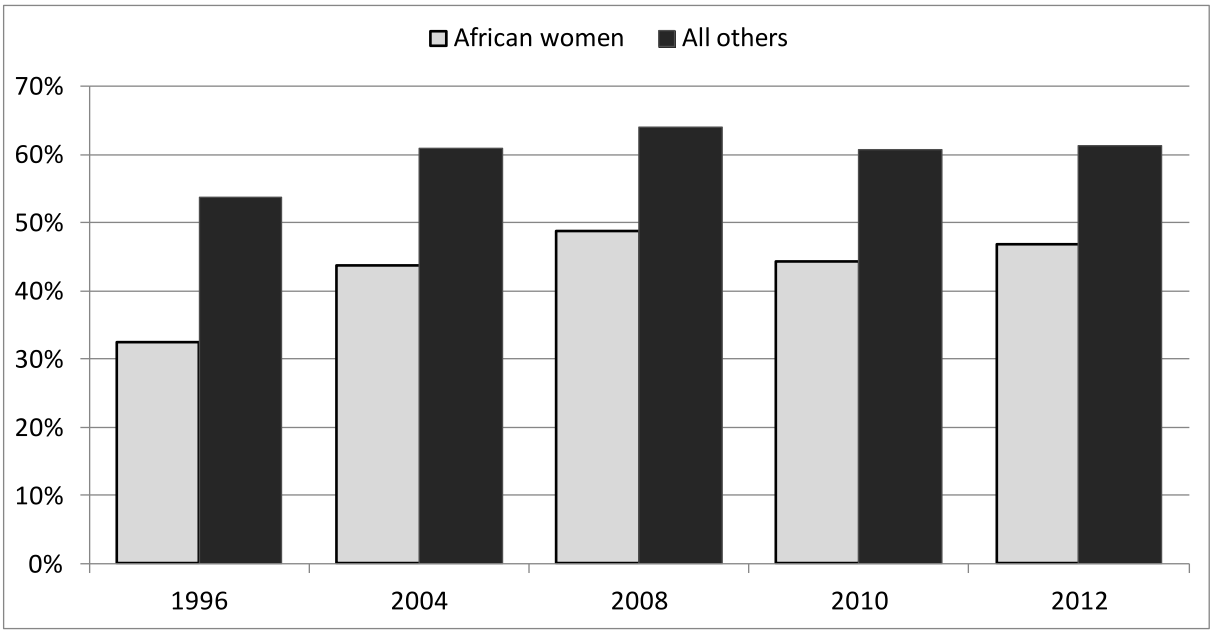
Source: *Calculated from Statistics South Africa census data for relevant years for the RSA, Bophuthatswana, Ciskei and Venda. International norm from the International Labour Organisation (2010). Key Indicators of the Labour Market.*

Note: Before 1996, the annual national census did not fully cover Africans, providing either a large survey in 1970 or excluding those in the Transkei, Bophuthatswana, Venda and Ciskei (TBVC) homeland states from 1980. Furthermore, the estimates assumed that virtually all adults in the former Bantustans were employed as subsistence farmers, if not otherwise. These figures therefore represent estimates based on reinterpretations of the available data in line with more standard definitions for employment.

With the recovery of jobs since the global downturn in 2008, employment increased to just over 13.6 million people by the second quarter of 2013, compared to between nine and ten million in the mid-1990s. However, this growth has not translated into a substantial decline in the reported unemployment rate. The main reason is that many more people – especially African women – began to look for work after the elimination of apartheid restrictions in 1994. The share of people either employed or actively seeking work (the economically active) jumped from 45 percent to 54 percent between 1994 and 2004, only to stabilise at between 54 percent and 58 percent in 2012. In the same period, household size fell significantly, from around five members to four, apparently in large part because of rural-urban migration with the ending of apartheid.

As indicated in Figure 2, the share of working-age people either in employment or actively seeking work climbed substantially from 1996 to 2008, when the global economic crisis saw a reversal up to 2010 and then a levelling out. In the case of African women, the percentage of economically active adults rose from 32 percent in 1996 to 47 percent in 2012. Overall, the number of economically inactive people climbed by only 9 percent from 1996 to 2012, while the number of employed people rose by over 50 percent and the number of unemployed (people actively seeking paid work) rose by over 100 percent.

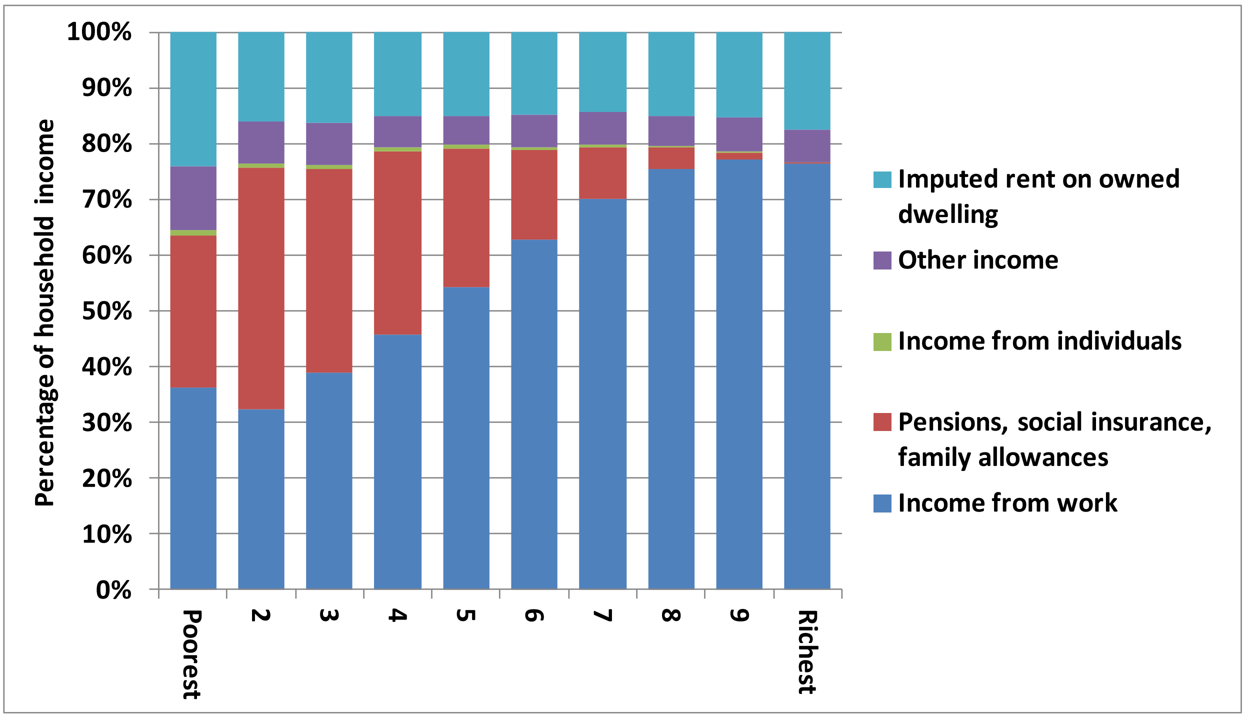
Figure 2: The share of economically active people, 1996-2012



Source: Calculated from official employment status, race and gender data from Statistics South Africa, October Household Survey 1996, electronic database on CD-ROM, and Labour Force Survey September 2004; Quarterly Labour Force Survey, Third Quarter, 2008, 2010 and 2012, electronic databases downloaded from nesstar facility at www.statssa.gov.za in September 2013.

The relatively low employment ratio suggests that comparatively few people, especially in the lower-income deciles, relied on wage income as their main source of income. Thus, in the late 2000s, over half of all households in the former Bantustans depended mostly on remittances or grants, compared to under a quarter in the rest of the country. As illustrated in Figure 3, the poorest 40 percent of households derive more than half of their income from non-wage sources. Social grants are an important source of income for those households, unlike households from the 60th decile.

Figure 3: Sources of income from the 2010/11 Income and Expenditure Survey



Source: Statistics South Africa, Income and Expenditure Survey 2010/11

2.1.2 Inequality

An important relationship exists between economic growth and poverty (Bhorat et al., 2013). Bhorat et al. emphasise that higher economic growth serves as an essential element for poverty reduction. However, it is not a given that where there is an increase in economic activity, poverty levels will fall in society. Experience suggests that economic growth has different impacts on different sectors of society. Ravilion (2001), as cited by Bhorat, indicates that a 2 percent increase in growth rates will result in a reduction in poverty of between 1 percent and 7 percent, depending on the country.

The distributional effect of growth is also significant. As economic growth increases, income growth also increases, but the distribution of that income may not be equitable. Indeed, income inequality may worsen and the gains from growth among the poor may, in fact, be reduced with growth. Bhorat argues as follows:

> *"Higher inequality levels from growth through their deleterious impact on the distribution of income dilute the impact of economic growth on poverty. Given these two caveats to the growth-poverty nexus then, the critical insight is that economic growth may be necessary, but it is certainly not a sufficient condition for poverty reduction in a society."*

The observation of Bhorat et al. (2013) has important lessons for South Africa and the manner in which the country has developed over the past 20 years. Since the advent of democracy in 1994, South Africa has experienced reasonable growth, averaging 3.2 percent per annum. That is virtually the average for all middle-income economies, excluding China, and contrasts with an average growth of just over 1 percent from 1980 to 1993. Yet, despite the improvement realised in economic growth, the South African economy remains one of the most inequitable in the world.

The trends in inequality from 1994 are difficult to measure due to weak data, especially in the 1990s. Leibbrandt et al. (2009) use household surveys with somewhat divergent methodologies to conclude that the South African Gini coefficient increased from 0.66 in 1993 to 0.70 in 2008. Similarly, Bhorat and Van der Westhuizen (2012) argue that the Gini coefficient, using per capita expenditure estimates from the 1995/96 and 2005/06 Income and Expenditure Survey (IES) data, increased from 0.64 in 1995 to 0.69 in 2005, as reflected in Table 1, although the 2010/11 IES found that the Gini had improved to 0.65. Both these studies indicate a similar trend, with levels of inequality increasing since 1994[2] and showing a slight improvement in 2010/11.

These studies also suggest that income inequality has become somewhat less racialised, although there is still a strong correlation with race and gender. In effect, income inequalities by race have declined, while inequalities within the African population have increased. In other words, more historically disadvantaged individuals and households have moved into the top decile without a significant relative improvement in income for the majority of South Africans.

Table 1: Shifts in income inequality: Gini coefficients for 1995 and 2010

	1995	2010
By race of household head		
African	0.5873	0.6453
Coloured	0.4892	0.5876
Asian	0.4617	0.5217
White	0.4456	0.4689
By gender of household head		
Male	0.6410	0.6673
Female	0.6472	0.6785
Total	**0.6625**	**0.6963**

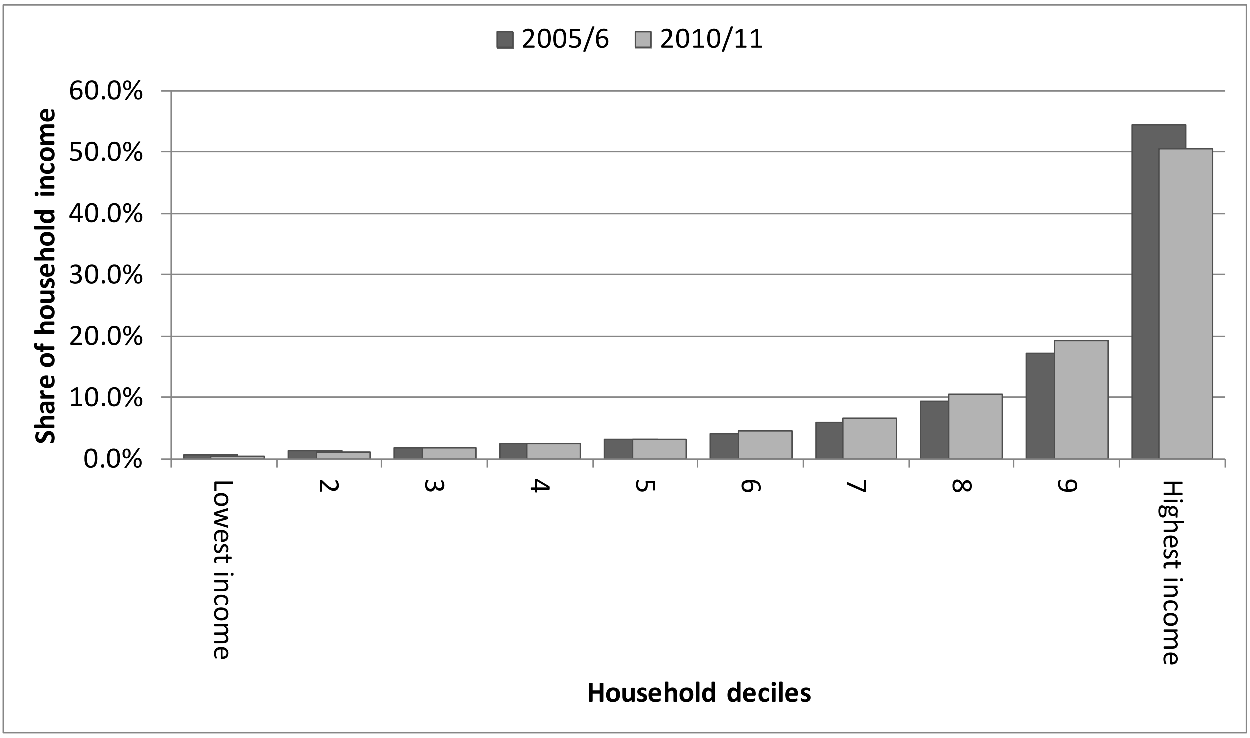
Source: Bhorat et al, 2013

[2] It would be critical to note that data reliability during the 1990s was problematic and this caveat must be noted. Reference is nevertheless made to these studies, as both provide similar trends.

In 2011, South Africa had the highest Gini coefficient of the 128 countries listed in the World Bank's World Development Indicators (Makgetla, 2012). Even when one compares South Africa to other middle-income countries, its level of inequality remains high (Finn et al., 2013).

The improvement in the Gini coefficient measured by the 2005/06 and 2010/11 IESs appears to be due primarily to reduced profitability following the global economic crisis in 2008/09. In particular, the share of household income by the highest income decile declined from 54.4 percent in 2005 to 50.6 percent in 2010. This declining share of income by the richest 10 percent of households did not, however, cascade to a more equitable distribution among the remaining groups. In fact, the poorest 40 percent of households saw their share of income fall from 6 percent of the total to 5.6 percent. In contrast, households from the 40th percentile to the 89th percentile increased their share in income from 39.65 percent to 43.8 percent.

Figure 4: Income distribution by decile, 2005/6 and 2010/11



Source: Calculated from, Statistics South Africa, Income and Expenditure Survey, 2005/6 and 2010/11, data on income by decile.

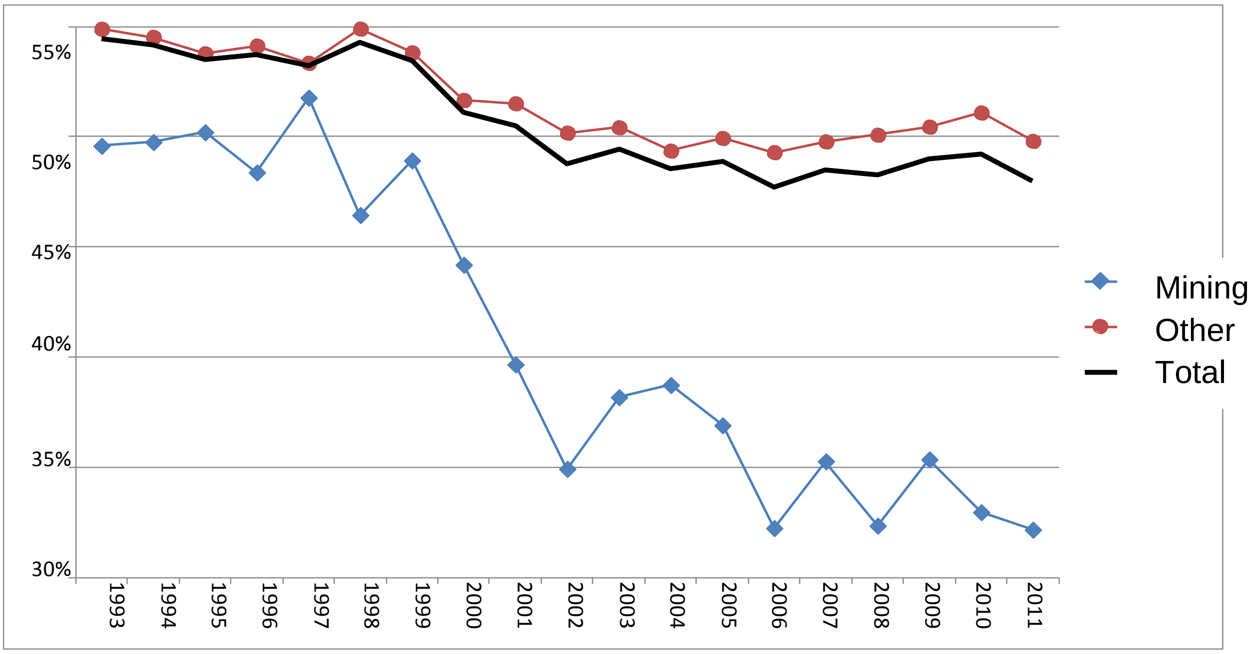
The immediate drivers of income inequality are as follows:

- High levels of unemployment and the consequent dependence on transfers from the state and from family members, which are typically lower than income from a job or self-employment.
- Inequalities in the ownership of productive and financial assets, which in turn leads to sharp differentials in income from profit in its various forms.
- Unusually sharp inequalities in earned income.

The relative shares of labour and capital in the national income, known as the functional distribution of income, assist in understand inequalities in earned income. The share of wages in the national income dropped from just below 55 percent in 1994 to a low of 49 percent in 2008. It then recovered to 51 percent in 2012. Meanwhile, the share of profits climbed from 45 percent in 1994 to 51 percent in 2008, only to revert to 48.9 percent in 2012 (Statistics South Africa, 2013). According to Makgetla (2012):

> *The impact on inequality can be understood by assessing the shares of capital and labour in total income. The share of profits in total value added tended to increase from 1994, while the share of labour generally declined. The commodity boom of the 2000s aggravated this situation, as mineral rents soared without a concomitant expansion in decent work. Throughout the boom, the mining value chain actually shed jobs, largely because of a shift from the maturing gold industry to the more capital-intensive platinum and steel sectors. Manufacturing grew only slowly and agriculture downsized. Slow growth in tradable sectors outside of mining reflected, in large part, the overvaluation of the currency, which in turn resulted from unusually strong speculative capital inflows into the equity and bond markets. The fastest-growing industry was the financial sector, which generated almost no new employment directly.*

Figure 5: Share of remuneration in value added, third quarter 1993 to third quarter 2011



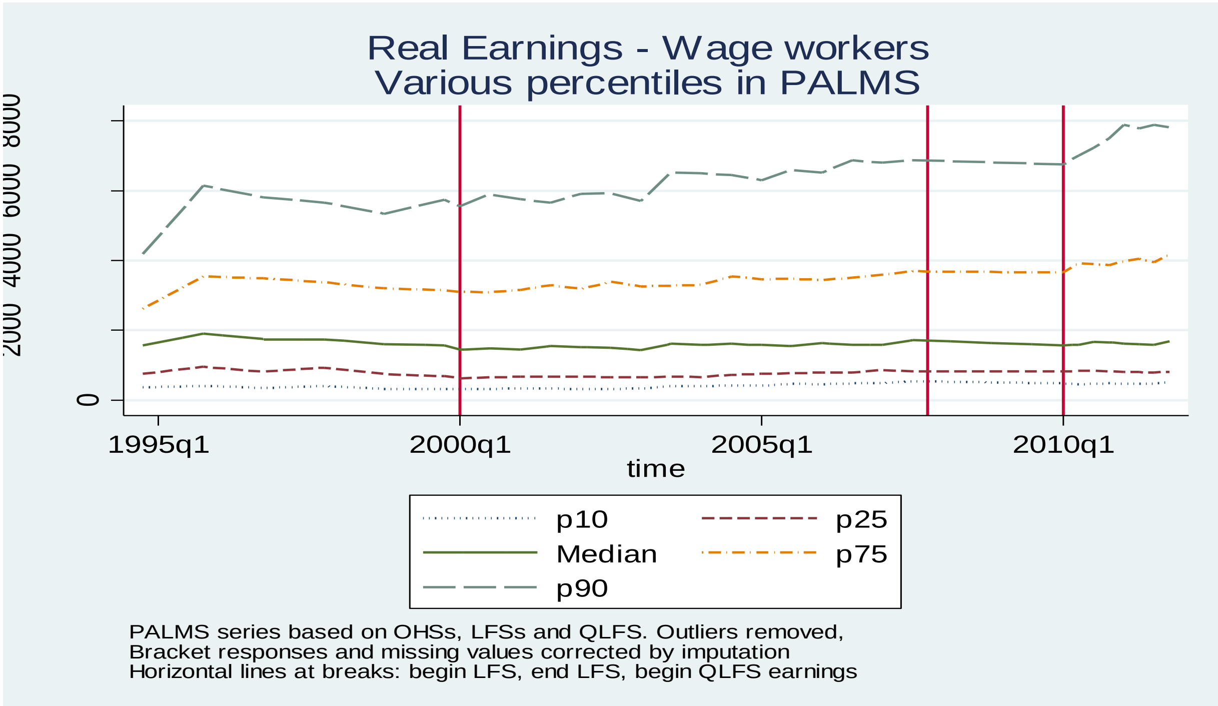
Source: Makgetla, N. Inequality in South Africa, December 2011. Calculated from Statistics South Africa. 2011. GDP 3rd Quarter 2011. Excel spreadsheet downloaded from www.statssa.gov.za in November 2011

The declining share of labour in total income has been associated with stagnant real wages, although, again, the data is not fully reliable for the 1990s. The latest official survey, the Labour Force Dynamics Survey for 2011 (which consolidates findings from the Quarterly Labour Force Survey of Statistics South Africa of that year), indicates the following:

- Half of all employees earned under R3 000 a month.
- Half of all formal employees earned under R4 000 a month, half of all informal employees (which includes taxi drivers) earned under R1 733 a month, half of all farmworkers earned under R1 300 a month, and half of all domestic workers earned under R1 100 a month.
- In contrast, half of all employers (who make up 6 percent of all employed people) earned over R9 600 a month.
- The self-employed mostly worked in the informal sector and constituted 9 percent of all employed people. Their median monthly income was around R2 150 a month in 2011.

On-going studies by Wittenberg (2013) suggest that real earnings for the median worker have remained almost unchanged since 1995, based on the Post-apartheid Labour Market Survey (PALMS)[3] data. According to Wittenberg, median real earnings, in rand (constant 2000 prices), have consistently remained below R2 000 a month since 1995. A further observation indicates that real earnings of wage earners in the 10th and 25th percentiles (low-income wage earners) have not increased. In contrast, income earners in the 75th and 90th percentiles have seen steady growth in real wage income.

Figure 6: Real earnings of wage workers between 1995 and 2010



Source: Wittenberg, 2013

[3] PALMS data uses all Statistics South Africa national surveys dealing with labour market issues. This PALMS version is inclusive of the Quarterly Labour Force Survey (QLFS) up to the first quarter of 2012.

3. Reflection on achievements

3.1 Reducing Poverty

The available data suggests that democracy has seen improvements in poverty levels. That improvement has, however, come about mostly through tax-based redistribution to poorer households. In contrast, despite economic growth, the primary distribution of income (income from wages, profits, interest and rent) has remained deeply inequitable and has not contributed substantially to a reduction in poverty.

The impact of economic growth on poverty, used in various studies, suggests very interesting trends when using both money-metric and non-money-metric measures. Using different poverty measurements illustrates the impact and change in the level of poverty. For instance, the poverty headcount ratio measures the total number of the poor as a percentage of the entire population. Since not all poor people are equally poor, however, it is important to take the intensity of poverty into account. For this reason, the poverty gap measures the distance from the poverty line for all the poor.

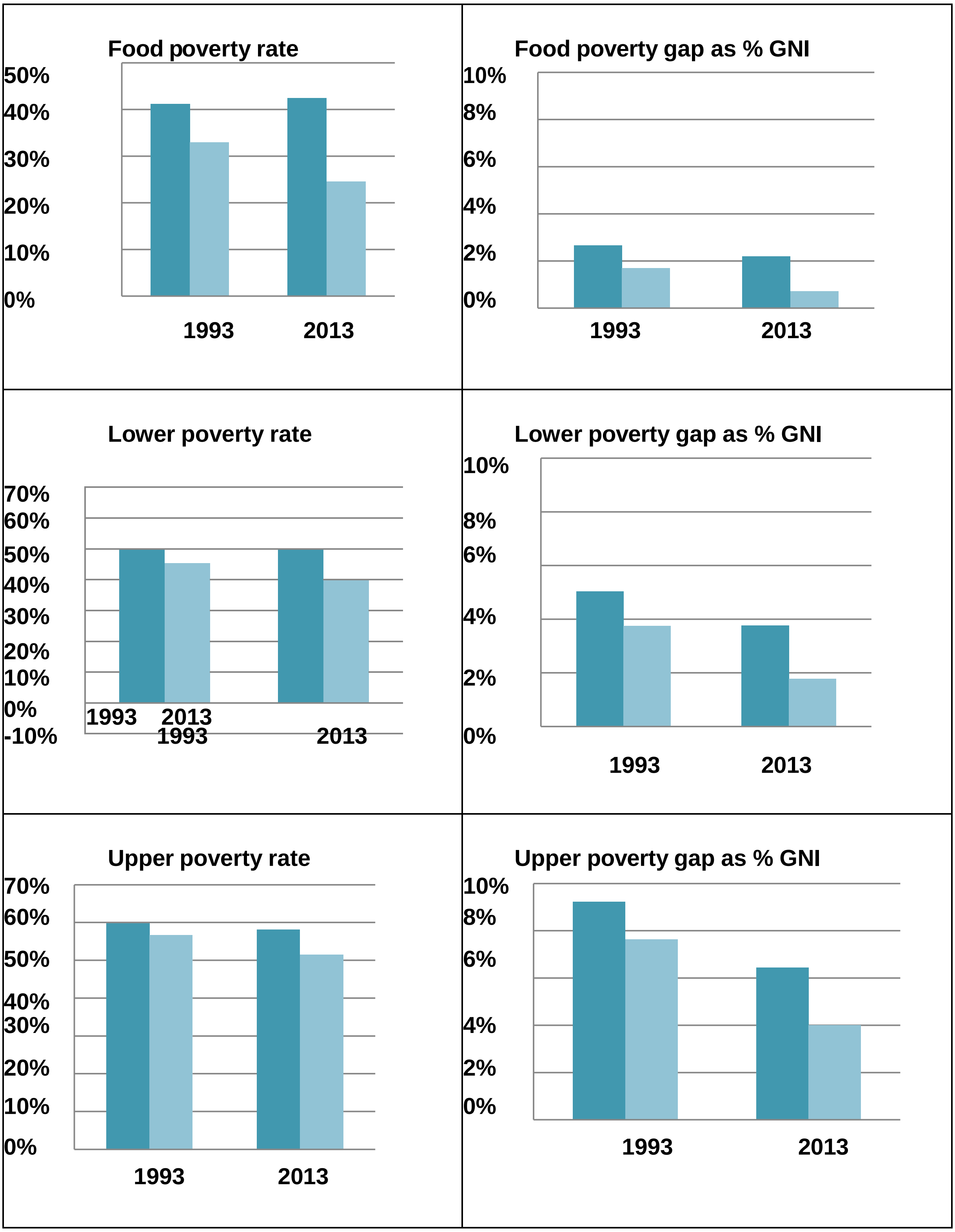
The changes in the headcount poverty ratio and poverty gap, using a recent Economic Policy Research Institute (EPRI) (2013:16–18) study, suggests important shifts in poverty between 1993 and 2013. By using three different poverty lines, the EPRI study illustrates the difference in both poverty levels and poverty gaps with and without social grants between 1993 and 2013.

The charts on the left side of Figure 7 illustrate the headcount poverty rate or the level of poverty at different poverty lines. In each of these charts, the darker bars show the level of poverty without social grants. The lighter bars show the poverty level when social grants have been factored into the calculation. When using the food poverty line (which measures basic calorie intake), and social grants were not factored in, the poverty levels increased from 41 percent in 1993 to 43 percent in 2013. However, when grants were factored in, poverty levels reduced from 33 percent in 1993 to 25 percent in 2013.

Using the lower poverty line, which came to just under R500 a month in 2013, similar results are reflected with and without social grants. Again, social grants play a critical role in reducing poverty. With transfer income, the poverty rate decreased from 45 percent in 1993 to 38 percent in 2013. Using the upper poverty measure, which came to around R733 a month in 2012, the poverty rate without grants declined from 60 percent in 1993 to 58 percent in 2013. With grants, the poverty rate decreased from 57 percent in 1993 to 52 percent in 2013.

Similar results for the poverty gap are illustrated in the two charts on the right side of Figure 7. Again, the poverty gap is considered without grants (the darker bars) and with grants (the lighter bars). Using both lower and upper poverty lines, the poverty gap is higher when grants are excluded. With the inclusion of grants, the reduction in the poverty gap is more significant.

Figure 7: Poverty rate and poverty gap for food, lower and upper bound poverty lines



Source: Economic Policy Research Institute (EPRI), 2013

Table 2 provides a numerical description of the charts in Figure 7. Between 1993 and 2013, if grants were excluded, poverty rates for the lower poverty line remained unchanged, and for the upper measure, the poverty line declined marginally. The introduction of social grants plays a significant role in reducing both headcount poverty and the poverty gap.

Table 2: Poverty rate and poverty gap (1993 and 2013)

		Poverty line (nominal rand)	Poverty rate without social grants	Poverty rate with social grants	Poverty gap Reduction as % GNI
1993	Food	88.71	**0.41**	**0.33**	0.95%
	Lower	131.27	0.50	0.45	1.29%
	Upper	193.61	0.60	0.57	1.59%
2013	Food	336.18	**0.43**	**0.25**	1.48%
	Lower	497.45	0.50	0.38	1.99%
	Upper	733.69	0.58	0.52	2.44%

Source: Economic Policy Research Institute (EPRI, 2013

Bhorat et al. (2013) find similar results on the impact of social grants on reducing poverty by using income poverty measures. Using per capita expenditure data, Bhorat and Van der Westhuizen (2012:5) demonstrate a reduction in both the absolute and the relative headcount and poverty gap ratio between 1995 and 2010. Despite findings from different periods and using different poverty lines, their study reflects similarities – a reduction in poverty levels – with the research conducted by the EPRI.

Bhorat and Van der Westhuizen suggest that aggregate poverty declined in the first decade of democracy at a higher poverty line of R322 per month (2000 prices), from 52.5 percent in 1995 to 49 percent in 2005. When using a lower-bound poverty line of R174 per month (2000 prices), the poverty headcount dropped from 31 percent in 1995 to 23.5 percent in 2005.

Disaggregation at a race level illustrates that the headcount poverty for Africans fell from 63 percent in 1995 to 57.5 percent in 2005 using the higher poverty line, and from 38.1 percent in 1995 to 28.1 percent in 2005 using the lower poverty line. Coloureds and whites also experienced a decrease in poverty levels for both poverty lines between 1995 and 2005. In contrast, Indians showed an increase, using both poverty lines, between 1995 and 2005. Since Indians constitute only 2 percent of the national population, however, this data is not as reliable as for other population groups.

At an aggregate level, relative poverty using the poverty gap ratio in Table 3 for the higher poverty line of R322 per month (2000 prices) reveals a reduction in the poverty gap ratio from 26 percent in 1995 to 21.2 percent in 2005, and when using the lower-

bound poverty line of R174 per month (2000 prices), shows a decline in the poverty gap ratio from 11.7 percent in 1995 to 7.5 percent in 2005.
Bhorat and Van der Westhuizen (2012) argue that both absolute and relative poverty have significantly declined in South Africa in the period 1995–2005 when using different poverty lines.

Table 3: Poverty shifts by race of household head: 1995 – 2005

Category	**Headcount Index**			**Poverty Gap Ratio**		
Year	***1995***	***2005***		***1995***	***2005***	
		R322 a month poverty line				
African	63.04	57.55	*	31.86	25.23	*
Coloured	39	35.13		14.66	13.51	
Asian	4.71	8.43		1.03	2.32	
White	0.53	0.38		0.22	0.11	
Total	**52.54**	**49.03**	*****	**26.04**	**21.29**	*****
		R174 a month poverty line				
African	38.18	28.17	*	14.71	9.01	*
Coloured	14.62	12.94		4.09	4.09	
Asian	0.82	1.6		0.14	1.09	
White	0.23	0.07		0.09	0	
Total	**30.92**	**23.55**	*****	**11.77**	**7.54**	*****

Source: Bhorat, H and Van Der Westhuizen, 2012

Finn et al. (2013) attempts to take into account the impact of improvements in social and municipal services on poverty, rather than money transfers and earnings alone. They use a Multidimensional Poverty Index (MPI) that covers improvements in health, education, municipal services and assets. They argue that, while income and expenditure are reasonably useful for measuring wellbeing, they do not fully capture key aspects of deprivation. That said, measuring multidimensional poverty presents methodological challenges.

Table 4: Indicators of MPI

MPI	Health	• Nutrition • Child mortality
	Education	• Schooling years • Attendance
	Living standards	• Cooking • Sanitation • Water • Electricity • Assets

Source: Finn et al, 2013

In the study of Finn et al., the MPI includes detailed data on health, education and standard of living, defined as a combination of access to municipal services and assets. Specifically, the MPI combines nine indicators that cover health, education and living standards, as shown in Table 4. The authors use the 1993 Project for Statistics on Living Standards for Development (PSLSD) data and wave 2 National Income Dynamics Survey (NIDS) data of 2010 to compare changes in the MPI over the post-apartheid period.

Table 5 provides an overview of the changes in poverty found by Finn et al. using the MPI within the same period. The incidence of poverty (column 1) measures the headcount poverty ratio. This measure shows a significant reduction in headcount poverty from 37 percent in 1993 to 8 percent in 2010. In other words, the MPI headcount measure shows a much more substantial reduction in poverty to the money-metric measures used earlier. Similarly, the study finds that the intensity of poverty (column 2) experienced among the poor decreased from 47 percent in 1993 to 39 percent in 2010.

When measuring both the headcount poverty rate and intensity of poverty – MPI (column 3) – it is shown that multidimensional poverty decreased substantially from 17 percent in 1993 to 3 percent in 2010.

Table 5 further indicates that while the level of vulnerability to poverty (column 4) only fell from 21 percent in 1993 to 20 percent in 2010, severe MPI poverty (column 5) decreased substantially, from 17 percent in 1993 to 1 percent in 2010. Columns 6 and 7 show how the poverty-adjusted multidimensional poverty gap (M1) and the adjusted multidimensional poverty gap squared measures (M2) decreased.

Table 5: Multidimensional poverty measures for South Africa - 1993 and 2010

Year	Incidence (H)	Intensity (A)	MPI = HxA	% Vulnerable	% Severe	M_1	M_2
1993	0.37	0.47	0.17	21.14	16.85	0.13	0.12
2010	0.08	0.39	0.03	19.61	1.12	0.02	0.02

Source: Finn et al, 2013

Finn et al. show that MPI indicators among the population reflect significant changes between the two periods. For instance, half the population was classified as water-deprived in 1993, but by 2010 this had been reduced to 25 percent. The MPI for those who do not have access to electricity fell substantially in the period studied from more than 50 percent of the population living in a dwelling in 1993 to 20 percent of the population in 2010. The population deprived of assets fell from just over 40 percent in 1993 to 25 percent in 2010. The health dimension saw a fall in mortality deprivation in the population from 21 percent to 9 percent and a fall in nutritional deprivation from 11 percent to 3 percent between 1993 and 2010 respectively.

There is little doubt, using various studies, that substantial strides have been made in reducing poverty since 1994, whether using a money-metric or a multidimensional poverty dimension. The reduction in poverty levels, taking government services into account, is far more pronounced than the reduction using only monetary income.

3.2 A comprehensive social assistance programme

In 1993, poverty was widespread among the majority of black South Africans, and was below acceptable standards. This was brought about by the deliberate policies of apartheid. Where social programmes existed, they were primarily used as a short-term intervention to support whites displaced by cyclical economic downturns.

Prior to 1994, the social assistance programme benefited less than 2.4 million South Africans in the form of the Old-age Grant (OAG), the Disability Grant (DG) and the State Maintenance Grant (SMG). The distribution of social grants was both racially and geographically skewed towards white South Africans and towards urban dwellers. For instance, “in 1993, the last year for which racially disaggregated welfare spending data is available, only 0.2 percent of African children were in receipt of maintenance grants while 1.4 percent of white children, 4 percent of Indian children and 5 percent of coloured children received the grant” (Economic Policy Research Institute, 2013, citing Lund).

The democratic government has undergone a major expansion in comprehensive social security, particularly in relation to providing social grants. The social security reform undertaken in the mid-1990s overhauled a racially inefficient and disjointed system of social assistance.

Remarkably, the total number of social grant beneficiaries, as reflected in Table 6, grew from 2.4 million in 1996 to just under 16 million in 2013, with the largest beneficiary grant being the Child Support Grant (CSG). The CSG had the largest growth of all grants, expanding from just under 22 000 in 1998 to more than 11.3 million child beneficiaries in 2013.

The Economic Policy Research Institute (2013) describes the importance of the CSG based on a 2012 report commissioned by the Department of Social Development:

CSG has had far-reaching success in changing children’s lives through impacting educational and health outcomes, time allocation and labour supply, and decreasing risky behaviours in adolescents. Closing the opportunity gap between boys and girls in access to education has been one of the most notable achievements of the CSG. Girls who enrolled in the CSG from an early age attained marks one-quarter of a grade higher than those who enrolled in the CSG at age six.

Table 6: Social grant beneficiaries

Grant type	1996/97	1998/99	2000/01	2002/03	2004/05	2006/07	2008/09	2010/11	2013
Old-age Grant	1 637 934	1 812 695	1 900 406	1 943 348	2 124 984	2 195 018	2 390 543	2 678 554	2 873 197
War Veterans Grant	13 473	9 197	5 617	4 638	2 963	2 340	1 500	958	587
Disability Grant	711 629	633 778	655 822	840 424	1 293 280	1 422 808	1 286 883	1 200 898	1 164 192
Foster Care Grant	42 999	46 496	66 967	83 574	195 454	400 503	474 759	512 874	372 960
Care Dependency Grant	2 707	16 835	33 574	42 355	86 917	98 631	107 065	112 185	117 884
Child Support Grant		21 997	1 111 612	1 998 936	4 165 545	7 863 841	8 765 354	10 371 950	11 341 988
Total	2 408 742	2 540 998	3 773 998	4 913 275	7 869 143	11 983 141	13 026 104	14 877 419	15 944 527
Growth rate		5.49%	48.52%	30.19%	60.16%	52.28%	8.70%	14.21%	7.17%

Source: Economic Policy Research Institute (EPRI).A Twenty Year review of Social Protection Programmes in South Africa, 2013

Social grants, in particular the CSG, support the employability of adult household members. Although the CSG is intended to target the child, household income derived from the CSG goes towards meeting the basic needs of the household.

> *Various studies have shown that the CSG increases the employability of South Africans and has a positive bearing on economic growth in a number of ways. Providing a consistent monthly income allows poor households to better manage social risks, avoid risky economic behaviour, and lift themselves out of poverty. Statistics from the South African Labour Force Surveys and Economic Policy Research Institute demonstrate that households that received the CSG were 2 percent more successful at finding employment in 2005. Female recipients of the grant reported a 3 percent higher probability of finding employment, compared to the 9 percent lower probability of not participating in the workforce for women who did not receive the grant. Cash transfers enable many poor households to participate in labour markets, and contribute to building human capital.*
>
> Economic Policy Research Institute, 2013

The impact of social grants has been a critical factor in reducing absolute and relative poverty levels. However, social grants alone are not the only factor, as Finn et al. (2013) argue. Improvements in overall wellbeing, such as access to basic services, are also seen as being important elements in reducing poverty. The comprehensive nature of South Africa's "developmental welfare programme has succeeded in generating increased access to welfare, implementing services that encourage community engagement and individual independence, and working towards unhinging poverty and inequality" (Finn et al., 2013).

The complementary nature of social grants and the provision of free basic services is an important characteristic of government's social protection framework in reducing poverty. Social grants and improvements in access to basic services will continue to be an important feature of government's overall delivery programme.

3.3 Employment growth and public employment programmes

As noted above, overall employment since 1994 has expanded considerably. Employment increased from around 9.5 million in 1995 to just over 14 million in 2008. It then declined by around a million up to the third quarter of 2010 as a result of the global Great Recession. From the third quarter of 2010 until the second quarter of 2013, the economy gained 750 000 jobs. Overall, the growth in employment served to stabilise the employment ratio at about 40 percent, ending the decline seen in the 1980s. It was not, however, strong enough to increase the employment ratio to the international norm of around 60 percent.

The New Growth Path (NGP) and the National Development Plan (NDP) identify a number of measures to support innovative activities that can create sustainable employment on a larger scale. However, developing new industries that can support employment creation will take time.

By extension, a strategy to support employment must entail a phased approach. It essentially results from the effective trade-off between measures based on direct government control and those geared towards creating sustainable private sector employment. In South Africa, mass employment creation through the economy requires the development and expansion of new activities, which cannot be accomplished overnight (Dicks et al., 2012:15).

In the short run, if employment growth remains constrained, it is relatively easy for government to use its resources to create employment directly through public employment programmes and to alleviate poverty through services and grants. As the economy picks up and employment grows, the initial interventions by government may be reduced, with fewer social interventions required to mitigate poverty and unemployment.

Given South Africa's extraordinarily high level of unemployment, public employment programmes have become an integral part of a suite of policy interventions to support employment growth and reduce poverty.

The Presidential Jobs Summit held in 1998 provided the first social commitment to establish a national public works programme. This process resulted in a framework agreement on labour-intensive construction, and these principles were incorporated into the Code of Good Practice for Special Public Works Programmes (SPWP) and a Ministerial Determination on pay for public employment schemes.

The Growth and Development Summit in 2003 consolidated the public employment programmes under the EPWP. The EPWP primarily sought to emphasise the need for greater political and administrative accountability for job creation targets (May & Pretorius, 2013:9).

The conceptualisation of the EPWP was that it could be significantly scaled up over the next five years with the key objectives as follows (Hassen, 2010:33):

- Draw significant numbers of the unemployed into productive work to enable them to earn an income.
- Provide unemployed people with education and skills.
- Ensure that beneficiaries of the EPWP are either enabled to set up their own business/ service or become employed once they exit the programme.
- Utilise public sector budgets to reduce and alleviate unemployment.

The first phase of the EPWP, from 2004 to 2009, set the following specific targets:

- Creating temporary work opportunities and income for at least one million unemployed South Africans by 2009.
- Increasing the potential for at least 14 percent of participants in the programme to earn an income in future by providing work experience, training and information related to local work opportunities, further education and training, and small, micro- and medium enterprise development.
- Directing programmes to alleviate unemployment among women, the youth and the disabled (40 percent women, 30 percent youth and 2 percent disabled). While the Department of Public Works refers to these targets at various times, the Code of Practice sets as targets 60 percent women, 20 percent youth and 2 percent disabled.
- Having a demonstrable impact on reaching the unemployed.

As indicated in Table 7, employment opportunity targets for the EPWP, Phase 1, were exceeded by more than 600 000. In contrast, the training targets were never achieved over the five-year period.

Table 7: EPWP Phase 1 targets and achievements

EPWP indicator	Sub programmes	Five-year target	Five-year status	Percentage progress
Employment opportunities	Infrastructure	750 000	955 233	127%
	Environment	200 000	467 720	234%
	Social	150 000	174 366	116%
	Economic	12 000	20 377	170%
	Total	1 000 000 +	1 617 696	145%
Training days		15 579 000	7 186 143	46%

Source: Department of Public Works, EPWP Five year report, 2004/05 – 2008/09

In addressing the lessons learnt from the first phase, Phase 2 of the EPWP attempted to address the challenges identified through the following:

- Improved authority and coordination among different government departments, as well as the different spheres of government in charge of driving the programme.
- Providing incentives to drive the programme.
- Supporting additional fiscal commitments where the programme is performing well.
- Creating continued demand for public employment interventions in all spheres of government that support upscaling employment opportunities and income generation.
- Ensuring that public employment programmes remain labour-intensive and thus avoid shifting to construction methods that increase labour-intensity as a result of budget constraints.
- Developing a more uniform wage structure and standardisation of employment conditions.

Table 8 provides an update of the programme at the end of March 2013. Over three million work opportunities were created by the EPWP since 2009. These trends may suggest that Phase 2 of the EPWP is well on track in achieving its primary target of 4.5 million work opportunities by 2014.

Table 8: EPWP Phase 2: Work opportunities created at the end of April 2009 to March 2013

					Accumulative work opportunities to date
Environmental and culture	95 942	107 189	164 475	244 112	611 718
Infrastructure	263 457	277 100	374 591	340 676	1 255 824
Social	206 421	131 982	164 662	171 668	674 733
Non Profit Organisations	13 646	34 712	39 552	40 599	128 509
Community Work Programme	46 393	92 136	100 179	144 538	383 246
Total	625 859	643 119	843 459	941 593	3 054 030

Source: Department of Public Works, June 2013

In 2009, the emergence of the CWP as a result of second-economy interventions sought to upscale public employment programmes through the development of a much more flexible and diverse approach.

Phillips and Hassen (2008), in particular, moot the concept of community-driven approaches towards public employment and investment such as the following:

- Develop a localised approach towards dealing with structural poverty by targeting local investment in asset building, infrastructure and services.
- Allow communities to set priorities based on resource allocations.
- Invest in localised public employment programmes that promote greater cohesion and participation in decision-making.

From the outset the implementation of the CWP represented a departure from the approach that is conventionally followed by government in that it explicitly included a substantial design phase during which ideas and approaches to implementation could be tested (May & Pretorius 2013:34).

The massive expansion of CWP from a mere beginning of only 4 sites in 2009 has now been expanded to 148 sites throughout the country, employing more than 144 000 people. The success in the implementation of the CWP can largely be ascribed to the following;

- The host community is well organised and is able and willing to drive the CWP.
- There is support from experienced partners.
- There is a good skills base available in the community.
- Training takes place and is effective.
- There is a high demand for work in the community.

Public employment programmes such as EPWP and CWP remain a crucial income supporting programme as long as high levels of unemployment persist. The EPWP has been relatively successful in creating work opportunities, while the CWP guarantees a number of work days per month and

The success of the Community Work Programme (CWP)

The CWP was designed as a response to structural unemployment. It offers regular part-time work on an on-going basis in the local areas where it is being implemented. This is typically two days per week, or eight days per month.

The CWP is an area-based programme. Each local site aims to employ a minimum of 1,000 people. The work in CWP must be 'useful work' that contributes to the public good and/or to improving the quality of life in poor communities. The work is identified and prioritized through participatory community processes.

The CWP is designed to achieve an average 65% labour intensity, measured at site level.

The CWP is a government programme, implemented by non-profit agencies (or civil society organizations). This is intended to build new forms of partnership between government, civil society and communities.

Source: Phillips, 2013

promotes greater social cohesion and participation in the implementation of the programme.

4. Overcoming Challenges

4.1 Recognising core challenges

4.1.1 Achieving inclusive growth and equality

Despite reasonable growth, the economy remains deeply inequitable, compounded by extremely high unemployment. An analysis of inequality suggests that South Africa is still one of the most inequitable countries in the world. In addition there has been growing evidence that inequality in itself undermines sustained growth. It limits domestic demand and makes it harder to pursue a consistent development strategy that supports inclusive growth.

South Africa's deep inequalities result from the exclusionary and divided economic and social systems established under apartheid. These systems benefited a minority by depriving the majority of access to assets, including land and finance, quality education and certified skills, decent government services, and access to market institutions. They aimed both at reducing the majority to poorly paid wage labour and at limiting migration to the cities.

Not surprisingly, the exclusionary systems established under apartheid continue to influence the economy and development.

Apartheid-entrenched structures of production and ownership were characterised by a dependence on mining-based exports and heavily concentrated ownership in capital-intensive sectors, such as chemicals, heavy metals and automotives. Concentration of ownership has been associated with very slow change in the racial composition of capital, leading to pressures on the state from emergent black capital. Arguably, the nature of ownership both reflects and shapes investment and production decisions. In turn, those decisions determine employment opportunities and economic growth.

In addition to deep inequalities, South Africa faces the following major obstacles to achieving inclusive growth:

- Over-reliance on short-term foreign capital inflows can create high volatility levels, particularly during economic downturns, with increasingly unpredictable fluctuations in both capital inflows and outflows.
- Addressing bottlenecks and unnecessary regulatory burdens can help to improve increased investment in core economic infrastructure and activity. Maintaining high levels of public investment have an important crowding-in effect, is critical for long-term growth and plays a key role in government's

counter-cyclical response to the international economic downturn. However, the cost of administered prices, such as steel, electricity and telecommunications, remains a challenge for further investment, including a clear policy decision on user fees.

- Workplace conflict is exacerbated by a growing dissatisfaction of overall transformation in the workplace and increasing inequality in earnings.
- The country's energy supply constraints, including the rising cost and delays in the energy-building programme, need to be addressed.

4.1.2 Employment

Overall employment has continued to expand since 1994. Employment increased from 9.5 million in 1995 and peaked at 14 million by the end of 2008 before declining to just over 13.5 million at the end of 2012 – primarily caused by the 2008 global economic and financial crisis. At the same time, unemployment also grew and has remained high and extremely disproportionate, as the ability of the economy to absorb jobs remains a major challenge with a labour absorption rate of just over 40 percent at the end of 2012.

The unemployment rate remains extremely high and unsustainable at just over 25 percent.

In short, the challenge for South Africa is to support growth in key labour-intensive sectors and through innovative activities that can create sustainable employment. Realistically, however, developing new industries that can support employment creation will take time. By extension, a strategy to support employment would entail a phased approach.

4.1.3 Skills constraint

The transition to democracy brought a substantially high skills level and education improvements, compared to the apartheid era. Even so, the education system generally reproduces inequalities based on class and race. Many historically African schools, particularly in the rural areas, provide very poor levels of education. Too often, they still have poor-quality educators, inadequate administrative support or insufficient teaching materials, including textbooks. Most cannot provide learning relevant to the modern economy, notably around design, computers, science and mathematics. Improvements in education and health are crucial for an equitable economy.

4.1.4 Service delivery

Despite significant improvements in the delivery of basic services, settlement patterns left by apartheid continue to fuel inequality by leaving much of the population far from economic opportunities. Moreover, the former Bantustans saw huge backlogs in government service delivery and infrastructure as a result of underfunding under apartheid.

5. Summary and recommendations

While substantial gains have been made in the 20 years of democracy, more effort is still needed to address employment, inequality and poverty challenges. Employment levels have shown a substantially growth between 1994 and 2013, but unemployment remains high.

A combination of social assistance programmes and access to basic services have resulted in a decrease in both absolute and relative poverty levels, but more effort will still be required to reduce poverty levels even further. Despite positive growth for most of the 20 years of democracy, South Africa has become one of the most unequal societies globally.

Managing and achieving a more equitable economy will require a number of interventions, including the following:

- Building a more cohesive state in recognising and addressing inclusive growth in the context of deep inequalities and continued dependence on minerals. Examples tend to show positive outcomes where the state has intervened more purposefully by encouraging investment in economic activities and industries that are more labour-intensive.
- Improving the ability to identify core priorities. Despite significant challenges since 1994, this seems to be getting clearer with the development of AsgiSA. More recently, the development of the New Growth Path, Industrial Policy Action Plan, National Infrastructure Plan and the National Development Plan has provided a common vision of priorities. It is crucial that a common vision filter through all spheres of government and the state sector and that it be adequately communicated and understood by non-economic departments, provinces, municipalities and state-owned corporations. This will improve overall planning and coordination around core priorities.

- In this context, much stronger support for rural development is needed, including large-scale land reform, in ways that expand economic opportunities for households in the former Bantustans, in particular. The aim should be to raise productivity and to facilitate the integration of small farmers into formal value chains, while improving employment levels.

- Reviving the social pact established at the end of apartheid will require improved benefits for the majority. This includes the following:
  - Calls for social peace are critical, but not sufficient under the circumstances.
  - It will require a substantial improvement in equality, so that more people see real benefits from growth.

  - Employment and higher pay need to be addressed, especially in low-wage industries (domestic, agriculture and informal sectors).
  - A holistic policy needs to be developed to reduce the social wage cost for the poor and low-wage workers, including a policy on user fees.

- Broadening ownership both by strengthening social capital and supporting collective action by poor communities. The former could include measures to make publicly owned enterprises more accountable and expand worker ownership and other forms of collective ownership. The strongest programme to support collective action was the CWP, which strengthened community structures, while providing resources to employ community members to improve services in poor areas.

- Providing greater clarity and certainty on policy positions that are considered controversial to stakeholders outside government. This will require government to address unnecessary constraints facing business, but to also consider trade-offs that can work, including the strategic implementation of trade-offs such as the following:
  - The systematic implementation of changes on a scale that would make a difference.
  - Increased importance of coherence in government with common priorities.
  - Clarification of the role of business: what is required from them, what they can offer and how to collectively and realistically work towards getting there.
  - Improved communication with stakeholders through better designed forums.

- Responding more purposefully and rapidly to economic downturns. Significant lessons can be learnt from the 2008 response to the global economic crisis. Some of the interventions remain innovative and effective, but require improved management and accountability to mitigate impacts that can severely affect growth, decrease employment and income, and increase levels of poverty.

Improvements in the use of an outcomes-based approach (theory of change) can ensure common priorities and alignment in addressing many of the challenges faced today.

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