



INCLUSIVE SOCIETY
INSTITUTE



IDEAS OF HOPE: POLICY DIRECTIONS AND RECOMMENDATIONS FOR REDUCING INEQUALITY IN SOUTH AFRICA



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Inclusive Society Institute

50 Long Street

Cape Town 8001

South Africa

Registration: 235-515 NPO

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Authors: Percept and 71point4

Edited: Daryl Swanepoel

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EXECUTIVE SUMMARY

Almost three decades have passed since the fall of apartheid, and income inequality persists. Economic growth, equity and social cohesion in South Africa are generally considered poor or regressive despite considerable policy reform aimed at improving these outcomes. In this short report, we unpack and assess potential levers for change that could improve inequality in South Africa.

In this document, we reflect on some of the most salient **within-country factors** for South Africa that could play a role in reducing inequality. The factors were identified through an earlier analysis of multidimensional inequality for the Inclusive Society Institute (see report 1). The within-country factors included in this report are: education; the markets that allow wealth accumulation; and, empowering policymakers (whether national or local) with data for building prosperous cities.

Lower levels of education are associated with higher levels of unemployment. Education policies should be quality-focused, placing emphasis on shifts in outcomes (as opposed to inputs only). Financial investment alone may not necessarily improve education outcomes and innovative funding models such as social impact bonds and outcomes-based contracts could be used to incentivise quality.

Roughly two-thirds of total inequality derives from inequality in labour market earnings. In the short- to medium-term, Government should continue to create employment through labour-intensive programmes that can absorb the excess supply of low-skilled workers (such as the expanded public works programme). Investment hub funding models where innovation is incentivised are also relevant for job creation. The Jobs Fund provides an excellent example of the effectiveness of targeted job creation funding. Lastly, a focus on supporting the conditions that enable job creation for the bottom 50% of the economically active in the income distribution would have a more direct impact on inequality than economic growth alone.

Housing is the main driver of individual and household non-financial wealth today. Making entering the housing market easier (including a well-functioning Deeds Registry Office) is critical to improving housing inequality. Financial markets, namely the credit and long-terms savings markets also need to be better supported in enabling the type of activities that allow for the leverage of existing wealth (e.g., in the form of housing) and the gradual accumulation of wealth (through appropriate long-term savings products).

Creative solutions in the areas we now know matter most for inequality, namely education and labour market access and progression, are needed if we wanted to reduce inequality in South Africa. We require both good, simple policies that support the potential routes out of inequality and better implementation of policies that have already been developed.

C O N T E N T

Executive summary	i
Contents page	ii
List of figures and tables	iii
List of information boxes	iii
Acronyms and abbreviations	iv
1. Introduction	1
2. Drivers for growth and job creation	3
2.1 Improve access to quality education	4
2.2 Increase opportunities to enter and remain in the labour market	6
3. Leveraging what we have: capital markets and the facilitation of capital accumulation	9
3.1 Unlocking the value of the affordable housing market	9
3.2 Increasing access to developmental credit	11
3.3 Facilitate long-term savings	13
4. Growing sustainable cities and communities: Leveraging local government and data	14
5. How would inequality change if we had higher economic growth?	16
6. Conclusion	17
References	18

LIST OF FIGURES AND TABLES

<i>Figure 1: Framework for assessing multiple dimensions of inequality using a capability approach¹</i>	1
<i>Figure 2: Real expenditure (in R billions) and growth trends: 2015-2021</i>	5
<i>Figure 3: Gains/losses to jobs (McKinsey & Company model, 2019)³³</i>	8
<i>Figure 4: Growth in backlog of title registrations in 2014 and later</i>	10
<i>Figure 5: Cost and effort to obtain a title deed for a house of about R200,000</i>	10
<i>Figure 6: Credit origination for individuals earning R10,000-R15,000 per month, 2020</i>	11
<i>Figure 7: Household assets and liabilities in 2020</i>	12
<i>Figure 8: Developmental credit relative to the gross debtors' book, 2021-2021</i>	12
 <i>Table 1: Within-country mediators of inequality, drawing on Bucelli and McKnight's framework¹ with inputs from authors</i>	 2

LIST OF INFORMATION BOXES

<i>Info Box 1: University of Cape Town's online high school</i>	5
<i>Info Box 2: Investing in human capital to prepare for 4IR</i>	8
<i>Info Box 3: Leveraging data to achieve SDGs</i>	15



ACRONYMS AND ABBREVIATIONS

Acronym/abbreviation	Full description
4IR	4 th Industrial Revolution
BER	Bureau for Economic Research
CRDP	Comprehensive Rural Development Programme
ECD	Early Childhood Development
EOF	Education Outcomes Fund
EPWP	Expanded Public Works Programme
GAP	Graduate Asset Programme
GDP	Gross Domestic Product
GSG	Global Steering Group
ILO	International Labour Organisation
LER	Learner to Educator Ratio
MGSI	Microsoft Global Skills Initiative
NDP	National Development Plan
NGO	Non-Governmental Organisation
NIDS	National Income Dynamics Survey
NPO	Non-Profit Organisation
PSETA	Public Service Sector Education and Training
QLFS	Quarterly labour Force Survey
SACN	South African Cities Network
SDGs	Sustainable Development Goals
SGB	School Governing Body
UCT	University of Cape Town
UN	United Nations

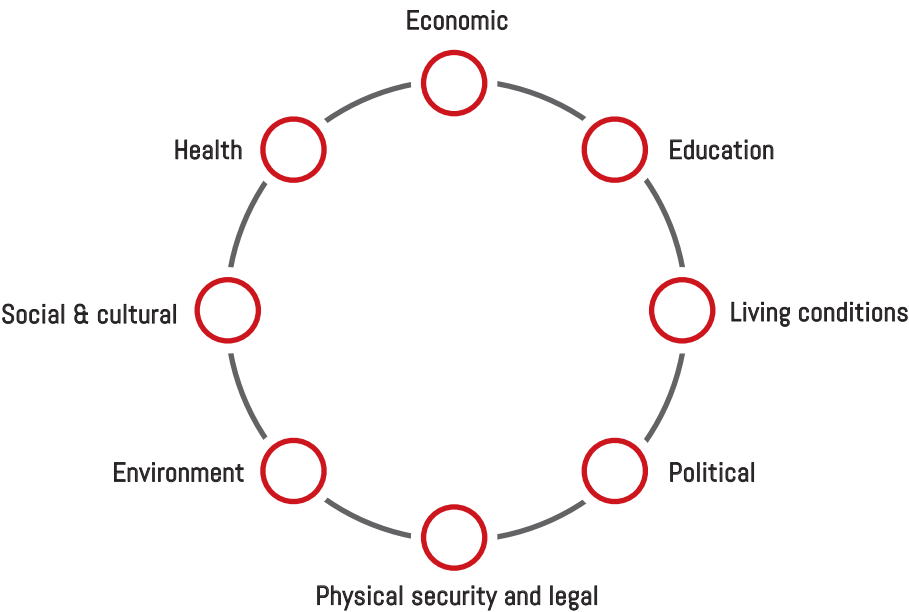
1. INTRODUCTION

Almost three decades have passed since the fall of apartheid, and income inequality persists. Economic growth, equity and social cohesion in South Africa are generally considered poor or regressive despite considerable policy reform aimed at improving these outcomes.

In a previous report we considered how inequality in South Africa has changed in the twenty-seven years after the end of apartheid. That report set out a diagnostic analysis of inequality in South Africa. In this short report, we turn to potential levers for change for inequality with a view to improving inequality in South Africa.

We focus on the dimensions of the multidimensional poverty framework that can potentially provide pathways out of poverty and their relationship to within-country mediators of inequality as per the 2019 framework of Bucelli and McKnight.¹ The dimensions we've chosen to highlight here tend to be **capabilities** in the Multidimensional Human Development approach (Figure 1).

Figure 1: Framework for assessing multiple dimensions of inequality using a capability approach¹



Apart from these specific capabilities, enabling conditions created (or not) by the global and local context also influence a country's ability to reduce inequality. The impact of global factors on inequality can be mediated by within-country factors. For example, the global impact of technological change can be mitigated by a responsive policy environment. A responsive policy environment would enable a country to adapt its workforce as technology changes, to safeguard jobs and income. There are at least seven within-country factors that can mediate (positively or negatively) the impact of global level factors on inequality (Table 1).

Table 1: Within-country mediators of inequality, drawing on Bucelli and McKnight's framework¹ with inputs from authors

Negative mediators of inequality	Potentially positive mediators of inequality
Policy failure	Access to quality services (e.g. education, health, housing, financial)
Political and regulatory capture, e.g. corruption and lack of accountability	Access to social grants
Weak institutions and institutional discrimination	Early adoption of technology
Unequal (resource) endowments	Facilitated entry to capital and savings markets
Social norms, including norms related to gender, ethnicity, religion, sexual orientation, disability.	

In this document, we reflect on some of the most salient **within-country factors** for South Africa that could play a role in reducing inequality, either implicitly or explicitly, and moving to a place of greater equality for all South Africans. The factors selected for discussion here were identified through an earlier analysis of multidimensional inequality for the Inclusive Society Institute. Specifically, education and the markets that allow wealth accumulation (economic inequality) offer pathways for the reduction of inequality in South Africa. At a more systemic level, empowering policymakers (whether national or local) with the data for building prosperous cities and communities can have a direct impact on everyday lived experiences of inequality in South Africa.

2. DRIVERS FOR GROWTH AND JOB CREATION

*“Economic growth since the 2000s has primarily resulted in an increase in income among the **high income earners only**.^{2,3} Increases among the **lower 90% have failed to rise substantially**.” (ISI, 2021:13)⁴*

Understanding income inequality in South Africa is important because of its intrinsic link to economic growth and absolute poverty. The degree of initial (in)equality and changes in it during growth heavily determines the poverty reducing effect of growth. Thus, even when poverty is viewed as a more urgent problem than inequality,⁵ addressing distributional issues remain critical for anti-poverty policies and interventions.⁶

The COVID-19 pandemic has dramatically impacted economies across the globe, and South Africa has not emerged unscathed. The economic impact of the pandemic continues to reverberate throughout the country: In the third quarter of 2021, there was a ~660,000 reduction in employed people compared to the second quarter.⁷ During the same quarter, both the narrow and broad unemployment rates increased to 34.9% and 46.6%, respectively. The narrow unemployment rate is at its highest since the start of the Quarterly Labour Force Survey in 2008 and approximately one out of every two economically active people are unemployed. The pandemic has amplified the already-urgent need for South Africa to stimulate its economy to prevent (and reverse) a further rise in poverty and extreme income inequality.

The National Development Plan (NDP): 2030 (written in 2011) clearly lays out the need for robust economic growth in South Africa. It suggests that some of the ways this can be achieved is through (non-exhaustive list) (1) incentivising job creation (for example, making it mandatory for tenders over R10 million to include a job creation aspect); (2) building skills in the youth such that they are able to enter and thrive in the labour market (see MGSI in Info Box 2) and (3) by helping citizens to save money to provide a safety net during difficult times.⁸ Another key suggestion was the improvement and building of infrastructure that would allow South Africa to increase its exports.

In a compendium of essays published by the Bureau for Economic Research (BER), Fourie and Moloi (2020) show that progress on the NDP goals relating to economic growth and job creation have not been met. South Africa had an average economic growth rate of 0.8% between 2015-2019, whereas the NDP targeted 54% average annual growth rate between 2011-2030. Similarly, the NDP targeted an unemployment rate of 14% for 2020, while data shows the 2020 4th quarter unemployment rate to have been 32.5% - well off the stated target. The enabling conditions under which the benefits of the NDP would have been realised, even if the NDP had been fully implemented, have not occurred. Global factors like COVID-19 have created pressures on the South African economy that have made reach of the NDP targets very difficult. However, the dismal outcomes are largely a result of policy failures.

The NDP speaks to many of the goals that the UN's Sustainable Development Goals (SDGs), a global policy initiative, is trying to achieve. The SDGs were determined in 2015 and agreed to by all UN-member states. The intention was to create impetus behind core areas that would promote well-being (for humans and the planet), prosperity and peace.⁹ South Africa is also a signatory to the SDG's and has a commitment to report on its progress in this regard. All 17 of the SDGs will have a positive impact on inequality and the achievement of one (for example, SDG4: Education) will have positive knock-on effects on others (for example, SDG8: Decent work and economic growth).

The most direct ways to increase economic growth are through improved education and increasing the employment rate.

2.1 Improve access to quality education

*"Of the 6.7 million unemployed persons at the end of 2019, 56% had education levels below matric, followed by those with matric at 34.7%. Only 1.9% of the unemployed persons were graduates while 6.8% had other tertiary qualifications as their highest level of education. **This suggests that lower levels of education are associated with higher levels of unemployment.**" (ISI, 2021:30)⁴*

As a key conversion factor that influences whether people are able to move out of poverty, **improving access to quality education should be a key policy priority**.¹⁰ In Section 6 of the first ISI report on inequality,⁴ we describe the major impact of poor early childhood development and low quality basic education on an individual's chances of finishing matric and successfully entering the job market. The evidence provided makes it clear that education and access to jobs are intimately linked and that without good quality education, one's job prospects – and therefore earning potential – are weak. Here we provide examples of models that demonstrate how education quality can be improved through initiatives in the public, private and public-private sectors.

Novel funding models could remove financial barriers to accessing quality education during early childhood. Low household income is often a barrier to accessing quality early childhood development (ECD) centres.¹¹ In an effort to mitigate this barrier, the **Innovation Edge**, an investment hub for social entrepreneurs working in the ECD space, invested in a start-up called '**Early Bird edu-care**' ("Early Bird"). Early Bird has a novel funding model which uses **cross-subsidisation** to bring quality ECD to children irrespective of income. The model works by using the revenue from their ECD centres situated in big corporates or middle-income housing estates to subsidise their ECD centres that are situated in affordable housing developments. **Class size and assessment quality** are pillars of this model: The ECD centres have fewer than 24 children per class and the children are assessed regularly using a standardised tool to ensure that their learning adequately prepares them for entry into grade 1.¹²

There is value in innovation and investment hubs for education start-ups, as demonstrated in a technical report authored by van der Elst (2016) and funded by **MIETAfrica**.¹³ The report highlights that the sector composition of the start-up funding source matters and specifically recommends that innovation hubs should be **co-funded by the public and private sectors**. Furthermore, the report stresses that emphasis should be placed on innovations that show potential to have large impact. The Innovation Edge, and the Early Bird Edu-centre example, provide evidence of the value of these models in improving access to quality education, and ultimately reducing inequality by levelling the education playing field.

Low investment in the basic education space is a threat to South Africa's aim to achieve equality and needs to be revisited. Even though the number of learners finishing matric has increased from 30% in 2011 to 45% in 2018, Government expenditure (real) on Basic Education (Grades 1-12) between 2015-2021 has shown average growth over the period of 1.07% and between 2019-2021, annual growth has dropped below 1% (Figure 2).¹⁴

Figure 2: Real expenditure (in R billions) and growth trends: 2015-2021

Source: UNICEF 2019¹⁴



Provincial variation in public sector education investment necessitates innovative learning and teaching models. The public-school learner to educator¹ ratio (LER) is lowest in the Northern Cape, at 28.5 learners per educator and highest in Limpopo (32.1). When only government-funded educators are counted, Gauteng (36.9) and Western Cape (35.3) have the highest LER. Because public schools in these two provinces have been able to supplement the government-funded educators with additional educators funded by the school governing bodies (SGB), they have been able to reduce their LER, which improves the quality of education.¹⁴ Therefore, provincial income inequality (which would drive whether the SGBs are able to supplement the government educators), also has a bearing on education quality inequities. Info Box 1 describes a new initiative, spearheaded by the University of Cape Town (UCT), which aims to **improve access to quality basic education through an online high school programme**. Key features of this innovation include being **scalable**, using a **subsidised fee structure** and establishing **micro schools where needed**.

Info Box 1: University of Cape Town's online high school



In response to inequities in access to quality basic education, the University of Cape Town (UCT) is launching an online high school, starting in 2022.^{15,16} The launch of this high school came about as an attempt to tackle the systemic challenges faced by the basic education system and a commitment to achieve UCT's Vision 2030 by unleashing the potential of learners throughout the country in a fair and just way.^{15,17} Education will also become more accessible in general as the curriculum will be available to all as an open-access resource.^{15,17} Although internet access is required to access the content, it can be used offline.¹⁷ This allows students to progress at their own pace, particularly those who have failed matric and would like to rewrite their examinations.¹⁷ The virtual nature of the school also allows it to be **scalable** and implementable by various institutes including NGOs.^{16,17}

The school will provide a **subsidised fee structure** and establish **micro schools with mentors** for student who require a physical schooling environment and a stable internet connection.^{16,17} UCT's expertise in the education space will allow all learners to access high quality learning materials, giving these learners a better chance of entering tertiary education.¹⁶ The school will be made more accessible once a critical mass of 10,000 students has been reached.¹⁶ The introduction of the UCT online high school should support the National Development Plan's 2030 goal of increasing the number of learners who are eligible to study maths and science at the university level, by improving access to quality basic education in these subjects.⁸

¹ Where an educator is counted irrespective of funding source (government or school governing body)

Education policies should be quality-focused, placing emphasis on shifts in outcomes (as opposed to inputs only).¹⁸ Financial investment alone may not necessarily improve education outcomes. Even if Government did provide more funding for the Basic Education sector, if that funding was not used to support initiatives that actively improve education quality and learning outcomes, the investment would not have the desired impact. Unfortunately, this has been the case in South Africa and hence the quality of education in its public schools remains a primary driver of inequality. In recent years, there has been interest by the donor community in **outcomes based funding for education** (the same has been tested in the health sector for over a decade).¹⁹ The premise of these funding models (which include **results-based financing, outcomes based contracting, social impact bonds and pay for performance** amongst others) is that it incentivises stakeholders to focus on the activities that have the greatest impact on the desired outcomes. The incentives are financial and are given only if the outcomes are achieved. There is a substantial amount of evidence around both the value and the difficulties of introducing these types of funding models.

Given the austere economic climate, Government should experiment with social impact bonds to improve learning outcomes. The international **Education Outcomes Fund (EOF)** provides funding for and facilitates partnerships to improve learning outcomes across the globe through **social impact bonds**. The World Bank has also recently advertised for a partner to support them on a social impact bond for ECD in **Uzbekistan**. In South Africa, the Bertha Centre (affiliated with UCT's business school) is playing the secretariat role for the new 'National Task Force for Impact Investing'.²⁰ South Africa has also joined the Global Steering Group (GSG) for impact investing, the first African country to join. The GSG aims to leverage Government, private sector, and donor funding to allow developing countries to experiment with social impact bonds to improve social outcomes. The time is ripe for South Africa to use its position in the GSG and the local National Task Force to test innovative funding models that may improve education outcomes.

Public, private and NGO partnerships aimed at reducing education inequality are proving to be successful. Many private sector companies are working to reduce education inequality in South Africa by partnering with non-profit organisations, charities, or non-governmental organisations. One example of a private sector collaboration is Investec's partnership with **Kutlwanong** Centre for Maths, Science and Technology. In this partnership, Investec sponsors quality tuition and education to disadvantaged learners in South Africa, which is delivered by Kutlwanong.²¹ This initiative helped to support 224 learners in achieving distinctions in maths and 459 learners with achieving distinctions in science in 2019. Liberty's partnership with non-profit organisations (NPO's) Nalibali, BookDash and WordWorks provides yet another example. This collaboration has brought about the **Yizani Sifunde** project, which is aimed at addressing literacy problems in the Eastern Cape through making English and isiXhosa books available for ECD centres.²²

Reaping the rewards of improving access to quality in education in South Africa will take time and is only likely to be realised in the long run. Yet the impact of unemployment, poverty and inequality are felt right now by all South Africans. For these reasons, government policies should simultaneously implement interventions directly targeted at the labour market, specifically increasing opportunities to enter and remain in it.

2.2 Increase opportunities to enter and remain in the labour market

*"Roughly two-thirds of total inequality derives from **inequality in labour market earnings** and that half of this is related to the **very high levels of unemployment in South Africa**." (ISI, 2021: 13)⁴*

In ISI's first report on inequality,⁴ we described how high levels of structural unemployment drives poverty and income inequality. Therefore, **one of the most impactful ways to decrease poverty and inequality is to increase job opportunities** in South Africa. This has been a stated aim of the South African Government since the start of our democracy and yet, the National Development Plan's 2030 target of 6% unemployment still remains far out of South Africa's reach.^{8,23}

In the short- to medium-term, Government should continue to create employment through labour-intensive programmes that can absorb the excess supply of low-skilled workers. The expanded public works programme (EPWP) is one of the long-established government programmes aimed at improving employment rates amongst low-skilled South Africans through labour-intensive programmes.²⁴ The EPWP focuses on job creation across four sectors (infrastructure, non-state, environment & culture, and social). So far, the impact of the EPWP has been positive, improving multiple poverty metrics and increasing job opportunities for participants. In two studies, based in Ekurhuleni district (Gauteng) and KwaZulu-Natal province, participants indicated that their earnings, employability, and skills increased as a result of the EPWP programmes.^{25,26} They were also able to purchase more non-consumables, technology, clothing, toiletries and accommodation- which produces a knock-on positive effect on economic growth.

Investment hub funding models where innovation is incentivised are also relevant for job creation. In 2011, the 'Jobs Fund' was launched in order to address high unemployment rates in South Africa.²⁷ The Jobs Fund received R9 billion in capital to co-finance projects that resulted in the creation of jobs (another innovation and investment hub type of offering).²⁷ The aim was to overcome barriers by leveraging the networks of the public, private and NGO sectors to unlock opportunities for employment and investments that would create jobs down the line.²⁸

Jobs created through investment hub funding models should be targeted at the most disadvantaged. The Jobs Fund has successfully generated ~282,773 jobs, of which 98% went to previously disadvantaged individuals.²⁸ Furthermore, 57% of the jobs went to women and 64% to young people.²⁸ Several promising innovations have been created as a result of the Jobs Fund. Fetola's Graduate Asset Programme (GAP) received R8 million from the Jobs Fund; they place graduates who are unemployed in internship programmes and provide them with support to ensure that they excel.²⁹ This allows early graduates to gain experience, and benefits companies by employing new employees (who are supported in their learning by GAP) at a lower cost. By 2015, approximately 24,000 graduates were placed in internship positions in 8,500 businesses, and 8,000 (30%) of these were later offered permanent positions.²⁹

The Government created and funded Jobs Fund, and initiatives like Fetola's GAP, provide a useful case study for the **value of targeted job creation funding**. The Job Fund's ~282,773 newly created jobs represent 2% of the 14.5 million employed people in South Africa. One of the Job Fund's partners, **Harambee**, specifically focuses on unemployed youth (youth make up ~57% of the unemployed economically active group). Harambee's research shows that between 2021-2026, there will be 3 million new young people who are actively seeking work. Supporting organisations like Harambee can help transform South Africa's youth unemployment rate, and thereby decrease inequality.

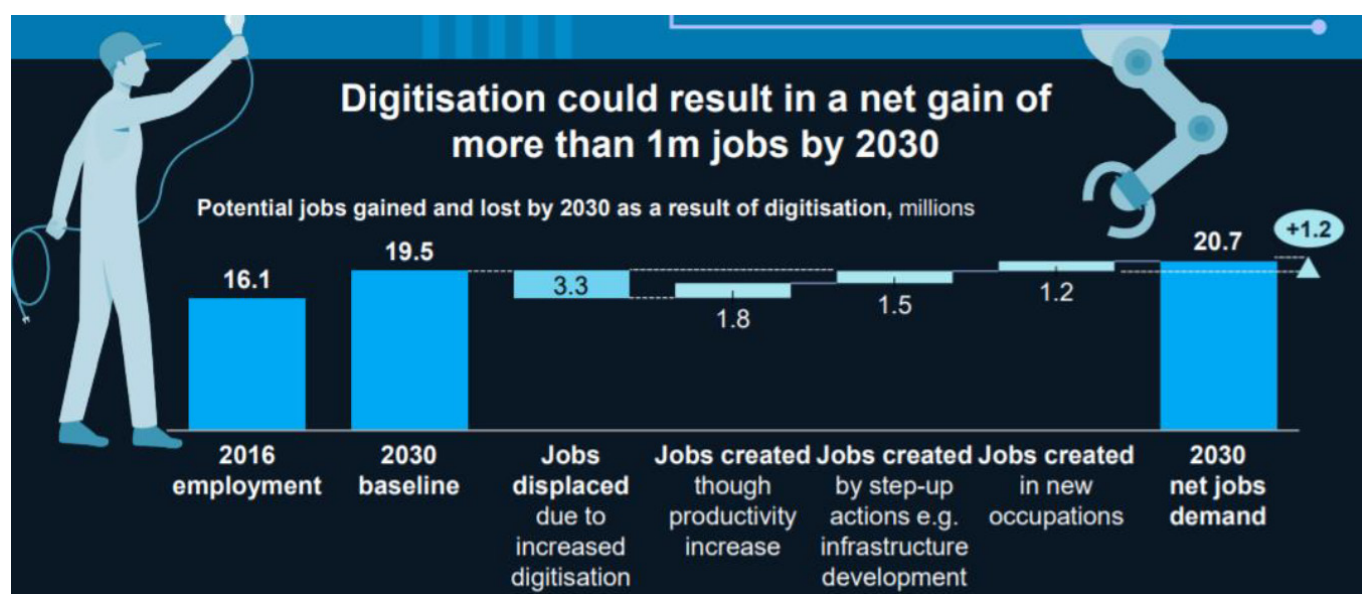
Given 4IR, South African youth need to be prepared for employment in a digital job market. The South African Government has acknowledged the '4th industrial revolution' (4IR) and the changes this shift to a more digital and technology-centred environment may create for the country. In 2020, the Presidential Commission report on 4IR was made publicly available for comment.³⁰ The report lists the following recommendations for South Africa³¹:

- Invest in human capital development;
- Establish an Artificial Intelligence Institute;
- Establish a platform for advanced manufacturing and new materials;
- Secure and avail data to enable innovation;
- Provide incentives for future industries, platforms and applications of 4IR technologies;
- Build 4IR infrastructure;
- Review and amend (or create) policy and legislation; and
- Establish a 4IR Strategy Implementation Coordination Council in the presidency.

The most pertinent 4IR policy recommendation in the South African context is to invest in human capital development. There are concerns that along with the 4IR, massive cuts to low-skilled labour jobs will come, deepening inequality in the country. The International Labour Organisation (ILO) has recommended a 'human-in-command' approach to the new job roles that are bound to arise. Given that

South Africa is in its nascent phase of 4IR thinking, **there is an opportunity to engage with workers, unions, public and private sectors to craft the 4IR workforce such that jobs are safeguarded and evolve with the technological change.**³² The 2019 McKinsey & Company report is often cited when considering the trade-off between technological change and jobs.³³ In their model, the authors suggest that the shift to digitisation that the 4IR brings could result in a nett increase of 1.2 million jobs by 2030 (Figure 3). Their model also shows an increase in South Africa's GDP to 3.5% as a result of digitisation.³³ The 'step-up' jobs denoted in Figure 3, refer to jobs that are created if the Government decides to improve infrastructure (a pre-requisite) to ready itself for 4IR. Therefore, some of the new jobs are as a result of improving country-wide infrastructure, rather than the introduction of new digitised ways of working itself.³³ Having stated these estimates, we need to add this caveat: it is also likely that technological change in the context of a developing country like South Africa with chronic structural unemployment (surplus of low-skilled workers and scarcity of highly skilled workers) may see most of jobs being shed in the middle of the income distribution.

Figure 3: Gains/losses to jobs (McKinsey & Company model, 2019)³³



Initiatives preparing youth for 4IR should target unemployed youth who have the least chance of accessing such opportunities. In Info Box 2, the **Microsoft Global Skills Initiative** (MGSI) is described. This global initiative is spearheaded by Microsoft, and in South Africa Microsoft has partnered with the Public Service Sector Education and Training Authority (PSETA) and the non-profit Afrika Tikkun to realise its goal of preparing unemployed youth for the digital job market. Joint public, private and non-profit sector collaborations such as these are crucial in preparing the labour market for the changes the 4IR will bring.

Info Box 2: Investing in human capital to prepare for 4IR



Microsoft has launched the MGSI in 249 countries and South Africa is the latest to benefit (<https://www.mzansidigitalllearning.co.za/>). The learning and training platform is completely free, and the available training is consistent with the most widely advertised job descriptions. The initiative aims to improve digital skills in the youth and ultimately improve their employability in the changing job market. This initiative should also positively impact on the country's economy and ultimately reduce inequality.

3. LEVERAGING WHAT WE HAVE: CAPITAL MARKETS AND THE FACILITATION OF CAPITAL ACCUMULATION

"Housing is the main driver of individual and household non-financial wealth today." (ISI, 2021:22)³⁴

South Africa has an exceptionally high concentration of wealth, with the top 10% earning more than 85% of the wealth.³⁵ Generational wealth, where wealth is passed down from one generation to another, perpetuates inequality through making it easier for young people of generationally wealthy families to enter the capital market and accumulate assets before their peers. Income is generated from these accumulated assets. Given South Africa's apartheid history, those with access to generational wealth tend to be White- reinforcing the income inequality across racial lines experienced in South Africa.³⁵

Unsurprisingly, capital accumulation including housing and pension savings are very closely tied. South Africa is regressive in its facilitation of the accumulation of wealth for those previously from formal economic opportunities (evidenced by the demographic make-up of the unemployed population). However, there may be potential opportunities for unlocking the value of existing assets (like the affordable housing market), more opportunities for developmental credit through which South Africans can grow income generating capabilities and assets, and policy and market development work than can be done to expand capital accumulation through long-term savings and pensions.

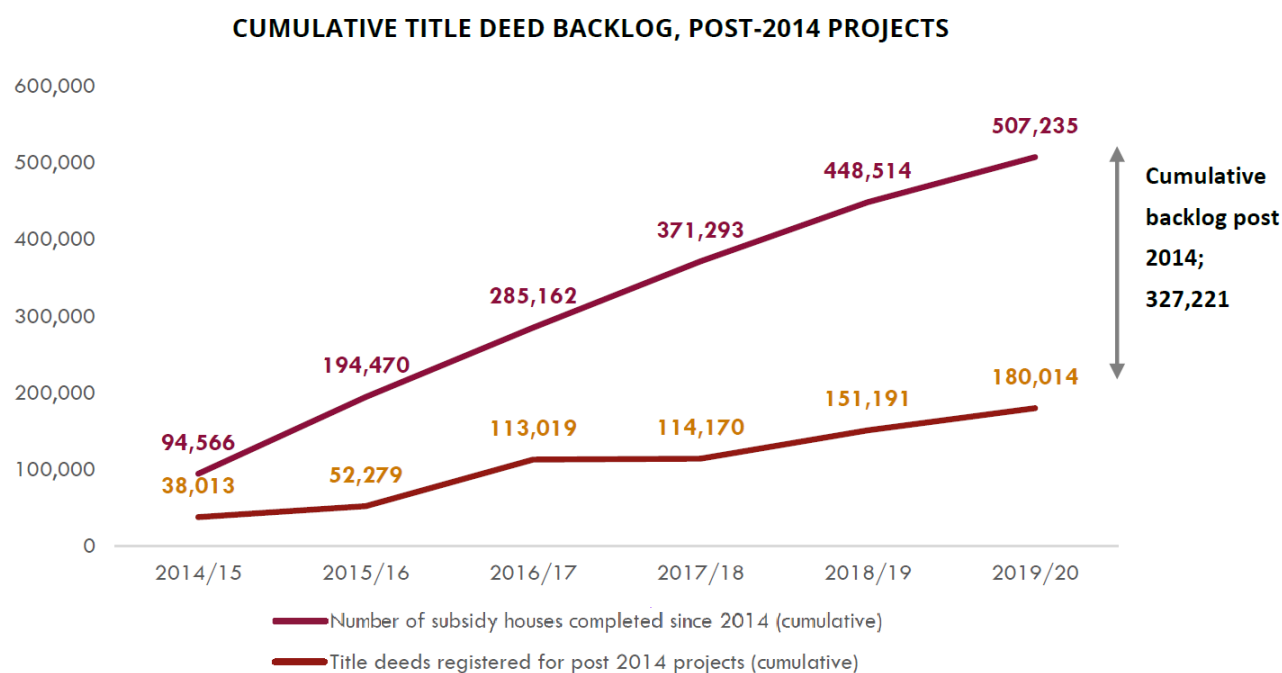
3.1 Unlocking the value of the affordable housing market

In ISI's first report on inequality,⁴ income in the affordable housing bracket was seen to be typically under-valued, leading to an under-estimation of households' total wealth. Property prices in areas that have been overlooked are increasing, creating incentives for households, lenders and municipalities. In Khayelitsha, for example, median house price value rose from less than R200,000 in 2012 to R250,000 in 2015.³⁶ Having a title deed to a property, even a government built and funded property such as properties provided through local government housing programmes, is the only way households can leverage the value of their house to accumulate further wealth through borrowing.

Effort and focus are required to eradicate the title deed backlog and prevent further title deed backlogs. The total title deeds backlog estimated at over 1.1 million units (Affordable Housing Institute, undated) is a significant challenge in enabling households to leverage the wealth of their housing. The Title Deeds Restoration Grant was established to eradicate the backlog,³⁷ but this has largely not been effective. At the same time, the backlog in finalising title deeds after 2014 continues to grow (Figure 4). Barriers to transfer include underlying township establishment and proclamation problems which can be difficult to resolve. In addition, beneficiary administration is complex. Given the progress of time, self-reported owners living in the properties are often not designated beneficiaries.

Figure 4: Growth in backlog of title registrations in 2014 and later

Source: National Treasury ENE various years, CAHF



Beyond the primary title, the current legal processes and systems to maintain title over time are inaccessible for the poor and these should be simplified and reduced. For a house with a value of about R200,000, conveyancing fees can cost in the order of R9,000 (Figure 5), compared to a transactions cost of around R300 when the sale is done in the informal market. Other constraints in the formal sales and transfer market include the costs of municipal arrears (which can be extensive), a certified copy of the title deed costing around R3,000 and various other search and travel costs.

Figure 5: Cost and effort to obtain a title deed for a house of about R200,000

Source: 71point4 and The Centre for Affordable Housing Finance in Africa

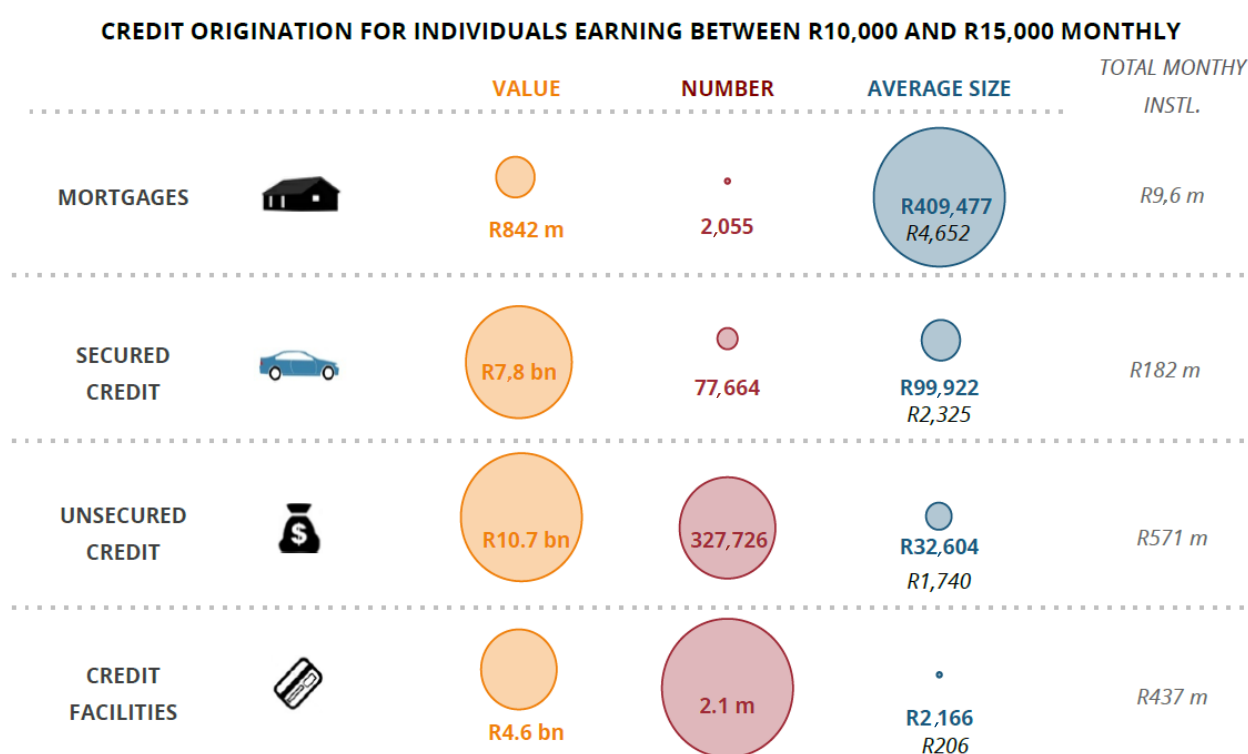
HOUSE FOR SALE: R200 000		FORMAL	INFORMAL
	DIRECT COST: BUYER	Conveyancing fee: R9,344*	~R300
	DIRECT COST: SELLER	Rates arrears: ?? Certified copy of title deed (if needed): R2,963	None
	OTHER CONSTRAINTS	Clean title deed Pre-emptive clause - waiver Other documents (ID, marriage certificate, death certificate, J192, etc.) Search costs Travel costs	None
	TIME	Uncertain: maybe more than a year	Immediate
	RECOURSE AND PROTECTION	Courts (for registered owners)	Social sanction

3.2 Increasing access to developmental credit

Levels of credit access in South Africa are high. It is a market that could be characterised as “Easy In”. During the first quarter of 2008, 57.7% of the total adult population (29.9 million at the time) were credit active. By the end of quarter 1 in 2021, the relative share of the credit active adult population had increased to 69% (of total of 39.9 million adults at the time).³⁸⁻⁴⁰ Credit isn't necessarily a problem. The question, however, is whether the nature of the credit allows adults to accumulate wealth over time. Most of this credit taken up by lower- or even middle-income households (in a relative sense) is not the type of credit that allows for wealth accumulation (Figure 6). Most credit extended to these households in 2020 was unsecured credit (R10.7 billion), followed by secured credit for vehicle financing (R7.8 billion). It is not clear what unsecured credit is used for but most of this is likely to go towards consumption purposes.

Figure 6: Credit origination for individuals earning R10,000-R15,000 per month, 2020

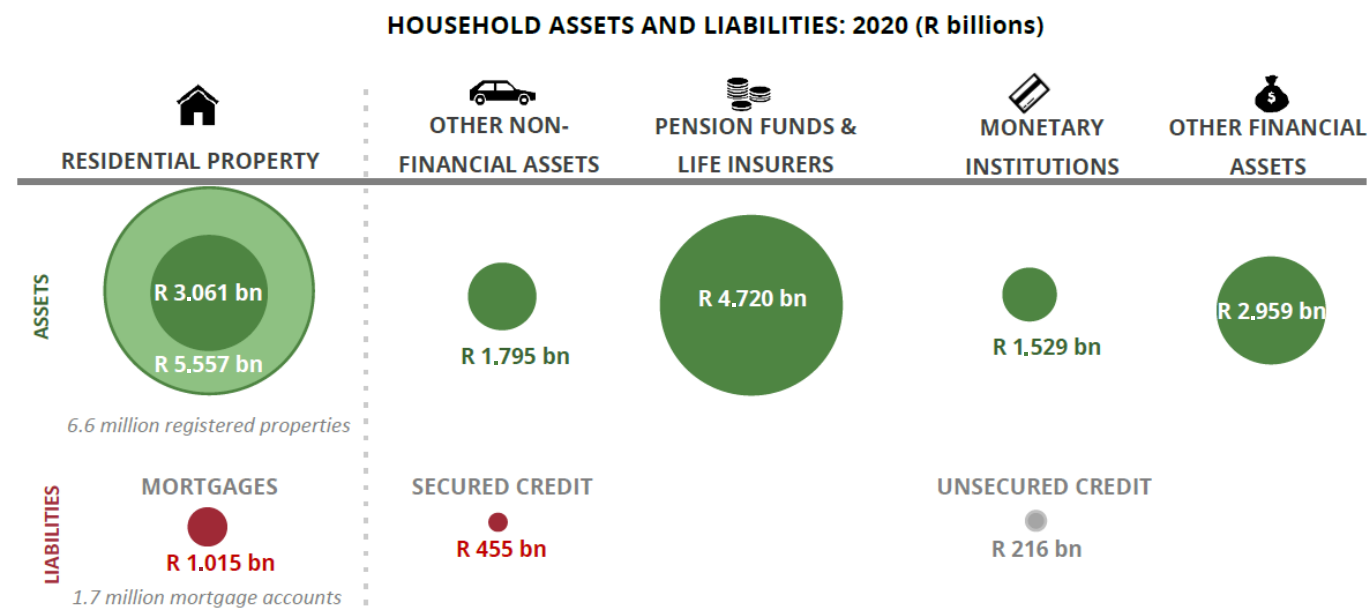
Source: NCR Consumer credit report. Mortgage 12.5%, 240 months, vehicle 14%, 60 months, unsecured 25%, 24 months, facility 25%, 12 months



Does credit serve the people? South Africans are over-indebted and under-leveraged at the same time (Figure 7 shows the under-leveraging), with the value of potentially wealth-supporting liabilities such as mortgages being much lower than the value of residential property (both registered and unregistered) and assets held in pension funds and life insurers.

Figure 7: Household assets and liabilities in 2020

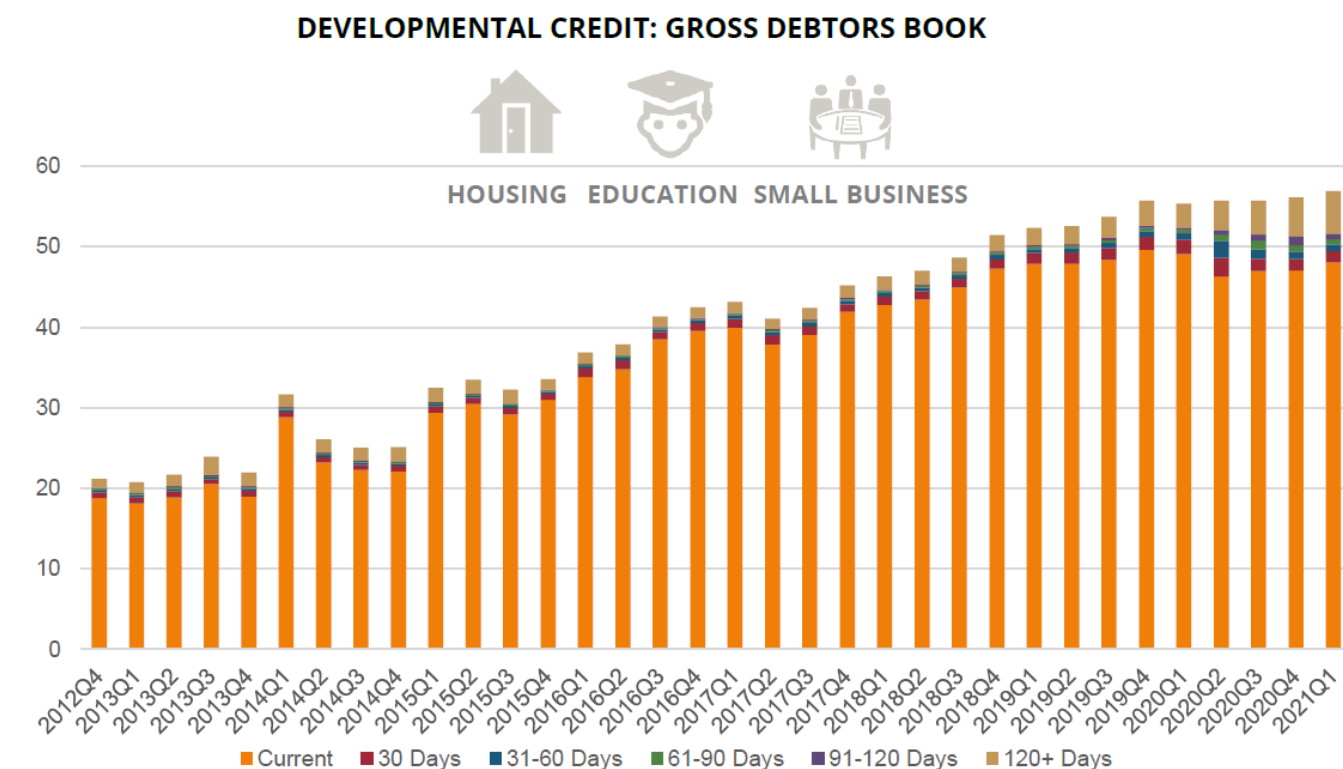
Source: SARB, CityMark



Enable markets to provide more developmental credit for wealth accumulation. The markets and appropriate regulations need to provide individuals with access to credit for developmental purposes to grow their income generating opportunities. Developmental credit levels as a percentage of total credit are currently very low (Figure 8). It is here that the opportunities for wealth generation through credit markets lie.

Figure 8: Developmental credit relative to the gross debtors' book, 2021-2021

Source: NCR Consumer Credit Reports, 2012-2021



3.3 Facilitate long-term savings

Another key determinant of poverty, and thus potentially inequality too, is the ability to save and leverage these funds for wealth accumulation. About half of the South African population do not have any retirement savings plan and only 6% of people are able to be fully financially independent at the time of their retirement.^{41,42}

A strong policy focus on the promotion of all savings, but especially long-term savings for retirement, is needed to expand the social security and wealth network for South Africans. The circumstances where more people can save and then leverage the value of assets they've built up, needs to be facilitated.

Retirement savings are also almost exclusively accessed by those in formal employment. The following actions to increase access to savings for low-income earners and those in informal or erratic jobs could support greater capital accumulation through savings:⁴³

- **The means test associated with social grants is likely to deter long-term savings:** currently one must be able to prove you have no savings or assets to access the government pension. This disincentivises any form of saving and removing the means test would encourage low-income earners to save what they can, when they can, without fear of being excluded from Government's social grant system.
- **Provide incentives to save:** because low-income and informal workers do not have to submit tax returns, they also do not benefit from the rebates associated with savings. The South African Government could facilitate a scheme (similar to that in the United States) where any savings made are matched (or topped-up) by the Government, to incentivise saving in the same way that happens for tax paying citizens.
- Insurers should innovate to find **low-cost ways to enrol low-income earners into savings plans** - giving them viable options for saving. The incentives for insurers are that they will be able to grow their pool of clients, increasing revenue.
- **Favour flexibility:** given that many of these workers do not earn fixed salaries that arrive regularly, insurers could find ways to support more ad hoc contributions rather than the standard monthly payments. This may also reduce individual's concerns of whether they are financially able to contribute the same amount each month.
- **Promote financial literacy:** the lack of understanding as to how to save, how much to save and why saving is important is preventing people from prioritising saving. Government and financial institutions can do more to promote financial literacy.

4. GROWING SUSTAINABLE CITIES AND COMMUNITIES: LEVERAGING LOCAL GOVERNMENT AND DATA

As shown in the previous report of the Inequality Society Institute (2022),⁴ a multidimensional approach to inequality reveals areas for improvement in people's lives at quite a local level, ranging from where people live and their access to transport hubs for travel to work and access to other services, water and sanitation, electricity infrastructure and even access to internet. The provision of many of these services and design of the required infrastructure is often decided at a local level. To enable the growth of sustainable cities and communities, much better planning using local level data is required. Here we consider some examples on how better data, whether more granular or spatialised, can enable better planning and, ultimately, the improvement of the lives of South Africans.

Spatialised data can assist with economic development planning at a local level. Launched in May 2021, the **City Spatialised Economic Data reports** give fair insight into the inequality that is present in South Africa's cities. The reports were created using anonymised income tax data from eight of South Africa's biggest metropolitan areas.⁴⁴ In each of the 8 metro areas (Buffalo City, Cape Town, City of Johannesburg, Ekurhuleni, Mangaung, Nelson Mandela Bay, Tshwane and eThekweni), statistics like the number of firms and employees per metro, wage bands, Gini coefficient and the gender gap were measured.⁴⁴ In 2018, the Gini coefficient was found to be highest in Mangaung, which had a Gini coefficient of around 0.75, and in Johannesburg which had a Gini of around 0.71.⁴⁵ The metro's with the lowest Gini coefficients were Buffalo City and Tshwane (around 0.6 and 0.67 respectively).⁴⁵ The report also showed that the Gini coefficient was generally the highest within the main cities in each metro, as well as in outlying business/tourist hubs.⁴⁵⁻⁴⁸ The gender gap was found to be fairly high, with most cities showing a significantly lower median wage for females.⁴⁴⁻⁴⁸ By showing in which areas poverty is highest and where gender gaps and the Gini's variation is highest, the spatialised data creates the opportunity for local planning that can address these challenges.

Community development workers can form the bridge between local governments and communities, enabling planning that better speak to community needs. In 2003, South Africa introduced the community development worker programme which aimed to facilitate a bridge between local government and its constituent communities. The intention was for the community development workers to communicate government policies and initiatives regularly and to feedback to Government any concerns brought up by the community.⁴⁹ The programme has had a positive impact on improving public participation.

Local governments have taken on various initiatives and programmes to assist in combating inequality in South Africa. Initiatives like the National Rural Youth Service Corps Programme, the "One Household, One Hectare" Programme and the Comprehensive Rural Development Programme (CRDP) help to educate people in rural areas, improve rural infrastructure, and increase farming and food security in needy communities.⁵⁰⁻⁵² As of 2016, the CRDP had assisted in providing access to nutritious food to around 9 million students through its School Nutrition Programme.⁵² Multiple farmers were assisted in accessing water to irrigate their crops, over 800 hectares of land had been distributed, and over 11 million people gained access to electricity due to the CRDP.⁵²

Public-private collaboration in generating ideas for how cities can be developed. An example of local government and private sector collaboration, the South African Cities Network (SACN) encourages cities to share knowledge, experience and best practice in urban development and city management. Its four pillars are Productive City, Inclusive City, Well-Governed City and Sustainable City.⁵³ In each of these four pillars, multiple issues are discussed and addressed. Thus far, the SACN has been able to produce a large knowledge base from which cities can draw information. It has also been involved in programmes and the initiation of task teams aimed at addressing unemployment, urban safety and environmental issues such as water management, waste management and sustainable energy.⁵³ Its future strategy, which aligns with various national and international development goals and agendas, focuses on Sustainable Development Goal 11 (Sustainable Cities and Communities).⁵⁴

In Info Box 3, the story of eThekweni's data repository illuminates the catalytic role productive partnerships, good data (and evidence-based policy) can potentially have on inequality. More metro municipalities will have to take smart data-led approaches to local level planning if growth and development is to be successfully achieved.

Info Box 3: Leveraging data to achieve SDGs



When attempting to monitor progress on the SDGs, eThekweni municipality (a large metropolitan city located in KwaZulu-Natal province in South Africa) discovered that large gaps existed in the data.⁵⁵ This led to the development of the internal data reference group and an SDG institutionalisation committee, who, with external stakeholder, began to develop better data sources.⁵⁵ The resulting data repository, The Durban Edge Open Data Portal, is the first of its kind in South Africa.⁵⁶

eThekweni has been revolutionary in making high-quality, city-level data available with the aim of guiding planning and policy development and reaching the SDG targets.⁵⁵ The institutionalisation committee has brought various stakeholders together to identify challenges within the local context and address them using an evidence-based approach.⁵⁵ Local government has ensured that the data is comprehensive by involving universities, civil society, and community-based organisations in the data collection and monitoring processes.⁵⁵ Silos between stakeholders have also broken down, allowing for a free flow of data that improves the Government's ability to determine impactful actions.⁵⁵

An example of a successful initiative that was supported by the data repository is the SHANA project. The SHANA project aimed to address water shortages through the centralisation of data related to the purchase, sale and maintenance of the water supply.^{55,57} A dashboard was created which presented data related to the water value-chain, allowing producers and consumers to access data.^{55,57} The SHANA project allowed those responsible for the water supply in eThekweni to act swiftly when there were interruptions by being able to easily see where in the value chain issues had arose. This project has acted as a proof of concept for other 'smart city initiatives' which aim to improve the access and quality of public services.

5. HOW WOULD INEQUALITY CHANGE IF WE HAD HIGHER ECONOMIC GROWTH?

A critical question to consider in identifying pathways out of inequality is whether it could be improved with higher GDP growth. As mentioned earlier in this report, **South Africa had an average economic growth rate of 0.8% between 2015-2019**, whereas the NDP targeted 54% average annual growth rate between 2011-2030. Growth rates in recent quarters have been volatile due to an initial severe drop in GDP at the start of the pandemic, with some recovery since then. However, data show that the economy is still (at the end of Q3 2021; the most recent data, released on 7 December 2021) **3.1% smaller than pre-pandemic** (in real, inflation accounted terms).⁵⁹

The November 2021 Medium Term Budget Speech sheds light on the current picture, with the following summary also indicating some challenging cycles that are difficult to end:

“GDP growth is expected to recover to 5.1 per cent in 2021 before declining to average 1.7 per cent over the next two years, a rate that is too low to meet the country’s development needs. Gross debt is forecast to grow from 69.9 per cent of GDP in 2021/22 to 77.8 per cent of GDP in 2024/25. Rising debt-service costs consume an increasing share of national income, crowding out spending on critical programmes necessary to alleviate poverty and create a foundation for faster economic growth. The long-term decline in South Africa’s GDP growth rate is the result of structural weaknesses in the economy – including poor education outcomes – and external shocks. Weak growth is compounded by the rapid increase in public debt, which has raised borrowing costs across the economy. Faster economic growth requires determined implementation of policy reforms to promote confidence, investment, competitiveness, entrepreneurship and job creation.”⁶⁰

From the above, a significant and sustained change in GDP growth rates does not seem imminent. However, even if it were, one should be cognisant of the fact that **GDP growth will not necessarily translate into a reduction in inequality**.

This relationship, holding all else constant, will be very dependent on **what types of jobs are generated, if at all, in the process of an increase in GDP** (where in the wage distribution) and the **types of skill levels required** for different jobs. In fact, if growth is driven by the service industry (rather than agriculture or manufacturing), it may exacerbate inequality if an educational and skills shortage persists. The GDP-inequality relationship will also depend on **how an increase in GDP is translated into more and better-quality basic services**, either through public or private provision, and possibly even through items such as the topical basic income grant (BIG). And as indicated above, the GDP-inequality link will depend on factors such as debt (and servicing costs), alongside GDP.

Ultimately, **we need economic growth that lifts the bottom 50% of the income distribution** and provides better access to jobs for this group and their families. There are endless ways to approach this, with nuances in every route. Technology, as just one example, could pose a threat to jobs as mentioned in our discussion of the 4IR, just as much as it could be the very solution to assisting quality education at scale. This same technology may be the driver of GDP growth, the relevant question is in which way?

In short, the relationship between GDP growth and inequality is not straightforward. More GDP could mean more ways out of poverty, but details of the GDP growth – including where and how it is derived, and where and how it is used – will be central to the question. **GDP is a necessary but not sufficient mechanism for a material change in inequality.**



6. CONCLUSION

Creative solutions in the areas we now know that matter most for inequality, namely education and labour market access and progression, are needed if we wanted to reduce inequality in South Africa. In doing so, but also in other areas examined in this report, namely financial markets that can support wealth accumulation, we need to work with what we have. We require both good, simple policies that support the potential routes out of inequality and better implementation of policies that have been developed.

As a key conversion factor that influences whether people can move out of poverty, improving access to quality education should be a key policy priority. Models that demonstrate improvements in ECD education access and quality include features of innovative funding structures (cross-subsidisation in public-private partnerships), smaller class sizes, standardised assessment tools, and those that have the potential to have a large impact. Low investment in the basic education space is a threat to South Africa's aim to achieve equality and needs to be revisited.

Education policies should be quality-focused, placing emphasis on shifts in outcomes as opposed to inputs only. Outcomes based funding models (results-based financing, outcomes-based contracting, social impact bonds and pay for performance) may need to be considered to achieve the required shifts.

Given the austere economic climate, Government should experiment with social impact bonds to improve learning outcomes. Public, private and NGO partnerships aimed at reducing education inequality are proving to be successful. In the short- to medium-term, Government should continue to create employment through labour-intensive programmes that can absorb the excess supply of low-skilled workers.

The South African youth need to be prepared for employment in a digital job market. Initiatives preparing youth in this regard target unemployed youth who have the least chance of accessing such opportunities. The most pertinent 4IR policy recommendation in the South African context is to invest in human capital development. Any 4IR policy intervention should be co-created with workers, unions, public and private sectors to ensure that jobs are safeguarded and evolve with the technological change.

We need to unlock the major source of non-financial wealth, housing, owned by many South Africans who have houses in the affordable housing bracket. The functioning of the Deeds Registry Office is not currently supporting households in having formal proof of this form of wealth and deeds registration backlogs need to be eliminated fast. Financial markets, namely the credit and long-term savings markets need to be better supported in enabling the type of activities that allow for the leverage of existing wealth (e.g., in the form of housing) and the gradual accumulation of wealth (through appropriate long-term savings products).

Much more granular data is required for the economic development of cities and local communities. Spatialised data can assist with economic development planning at a local level. Community development workers can form a bridge between local governments and communities, enabling planning that better speaks to community needs. Ultimately, much greater collaboration and dialogue between Government, civil society and the private sector are needed to develop cities and communities in a way that will enable them to thrive.

While economic growth is likely to assist with poverty reduction, there are many factors that play a role in determining whether it will have an impact on a reduction in inequality. As with population changes, GDP growth is a necessary but not sufficient mechanism for a material change in inequality. A focus on supporting the conditions that enable job creation for the bottom 50% of the economically active in the income distribution would have a more direct impact on inequality than only economic growth.

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INCLUSIVE SOCIETY INSTITUTE



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