

Rapid Communication

The pensions "crisis" in the Eastern Cape Province

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Abstract

In January 1998 hundreds of thousands of pensioners in the Eastern Cape Province were left destitute when a cash shortfall prevented the provincial Department of Welfare from paying out old-age pensions. The Eastern Cape has a history of problems which include backlogs in infrastructure, a lack of administrative capacity, and fraud and corruption. Pensioners were short-changed when government began the lengthy process of streamlining the South African pensions system. The communication draws on press reports covering the period 1997 and 1998, to trace the events which led to the pensions "crisis" and the background to these events. With the benefit of hindsight, the fiasco highlights the significance of pensions in a rural economy and strong popular reactions to the temporary withdrawal of government transfers to the elderly.

In January 1998 the Eastern Cape Province failed to pay state old-age pensions on time. This caused economic hardship among pensioners and a public outcry. The pensions "crisis" has put in sharp focus the key role of pensions in the rural economy.

Poverty is so prevalent in the Eastern Cape that according to a local pensions advice officer, few people could survive without social grants. "Small rural towns in the province exist on pension money" (Laura Best, 1998, personal communication, emphasis added). In the Eastern Cape pensioners are bearing the brunt of South Africa's economic transition and have been caught up in a power struggle between regional and central government in the run-up to the 1999 elections. The majority of the population of the province is rural-based and relies on government transfers, labour migration and remittances to subsist.

A report compiled by the Eastern Cape Socio-economic Consultative Council identifies the province's poverty as its most striking feature. Of the 6.5 million people living in the province, 65% are rural dwellers of which a large proportion are not economically active. Among the economically active in the Eastern Cape, some 41% are without jobs, compared to 29% nationally. In the past ten to 15 years, the Eastern Cape has suffered a deep economic downturn which is reflected in household income: 41% of households have a monthly income of under R500 per month and a further 41% earn under R1 400 a month.

The origins of the crisis

The pensions crisis, which led to the dismissal of the Eastern Cape MEC (Minister of the Executive Committee) for Welfare, has a history of problems. The Eastern Cape's welfare ministry faces the daunting task of streamlining pension systems inherited from the old regime. Underfunding, fraud and corruption, and a lack of administrative capacity to cope with pension backlogs – in addition to the complete overhaul of the pension system – are factors which have contributed to a crisis situation.

Unlike some other provinces, the Eastern Cape has not privatized its pay-out system. The Eastern Cape's tender to out-source pension payments received negative publicity when a first tender was associated with irregularities. Following on a High Court decision, the welfare department called for tenders again in October 1997, only to incur technical problems with a second tender.

South Africa's pension system is in the process of rationalization. To prepare a nationally compatible data base, pensioners were required to re-register in their province. The process of re-registration was designed to weed out fraud and corruption in the welfare system and to establish the accurate number of eligible beneficiaries.

In retrospect, national Welfare Minister Fraser-Moleketi justified the establishment of a new and clean financial system in social security. She has cited an estimated 20 per cent of three million beneficiaries nationwide associated with irregularities. The clean-up process in the social-security system had resulted in a huge reduction in pension and grant payments countrywide. Nationally, payments to about 149 000 beneficiaries with a monthly value of R61 000 had been suspended. In the Eastern Cape payment to some 125 000 unauthorized beneficiaries had been suspended by January 1998 (*Eastern Province Herald*, 15 January 1998).

The clean-up process incurred national savings but also caused individual hardship for pensioners trapped in the system interface. In the Eastern Cape the re-registration process created a bureaucratic nightmare which culminated in the pensions crisis of January 1998.

The province has inherited three pensions systems from the Cape Provincial Administration and the former independent "homelands" of the Ciskei and Transkei. According to the former minister in charge of the process of amalgamation, there was potential for people to be registered for social

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grants eleven times. More than six pension data bases had to be amalgamated (*Daily Dispatch*, 24 February 1997).

The process of re-registration which commenced in 1996 proved to be sluggish. Deadlines were extended several times to accommodate stragglers. By October 1997 only 109 761 of 632 000 beneficiaries had registered and the deadline had to be postponed yet again. The Welfare MEC in the Eastern Cape attributed bottlenecks with re-registration mainly to poor administration. She conceded that her officials had allowed forms to run out and queues to form without supplying people with proper information. In some areas there was also evidence of sabotage of her department's efforts to update pensioner information.

Fraud and corruption

The amalgamation process uncovered widespread fraud and corruption among pensioners and officials alike. In one instance, a task team appointed by the Department of Welfare to take charge of pension pay outs found 800 unclaimed cheques to the value of R750 000 made out to deceased pensioners. In addition, a large number of cheques made out to pensioners still alive had not been claimed, suggesting that previously unclaimed cheques were not returned by pay-out officials (*Daily Dispatch*, 19 September 1997). In another instance, there were indications that the former Ciskei might have lost some R7 million monthly due to fraudulent pension pay outs to 2 148 non-existing ("ghost") pensioners and to 4 804 deceased pensioners.

At the same time, the province's budget was drained by overstaffing. The Eastern Cape has had to absorb the bloated civil services of apartheid's former homelands. A human resources audit found that over 17 000 supernumeraries, or "ghost workers" – people without approved jobs – might account for almost a third of the officially estimated overspending of R1.6 billion.

Cash-flow problems

The provincial Department of Welfare had started the 1997/98 financial year with a significant deficit and its overdraft stood at R824 million at mid-year. At this time the alarm bells were already ringing. A provincial audit conducted by the public service director-general, Paseka Ncholo, found "no effective political and administrative leadership, with a lack of co-ordination and clarity of roles between different levels within the administration" (*Daily Dispatch*, 26 September 1997). Five months into the financial year, by the end of July, almost 60 % of the R2.4 billion pension budget had been consumed.

The elderly bore the brunt of the funding crisis in the Eastern Cape. To save funds and to cope with the additional workload of amalgamation and re-registration, the MEC for Welfare introduced stringent measures, including withdrawal of back pay to new pension applicants and a moratorium on processing new pension applications. At the same time subsidies to private welfare organizations were cut.

To achieve further savings, the number of pay points and the number of days for pay out were cut resulting in "slow pay-out points." Deaths in queues waiting up to four days for pensions and social grants were reported from Mdantsane near East London. Slow processing also resulted from the employment of inexperienced staff who replaced staff suspended because of allegations of theft and fraud. Payments to pensioners on the system became increasingly irregular and new beneficiaries' chances of getting onto the system were jeopardized.

Poor communication added to the misery. Although postponements were announced over the radio and through community structures, many pensioners turned up at pay points only to be turned away as often as four times. Some pensioners reported receiving no money for over half a year.

At the provincial level, Carlisle (1997) argued that the suspension of back pay threatened to perpetuate the situation of indebtedness. A substantial percentage of the next financial year's budget must be allocated for catch-up purposes. Unless the suspension of back pay were to be extended indefinitely, the financial crisis would continue indefinitely.

Debt traps and "skoppers"

For the pensioners, the department's choice to ignore new applications in favour of the backlog and the moratorium on back pay meant that pensioners became caught in a debt trap. Pensioners typically rely on the lump-sum back pay to clear the debt that has accumulated while they wait for their pension applications to be processed. Applicants are issued with a document known locally as "lindela" (Xhosa = to wait). Theoretically, the waiting period should be three to six months but it can take up to two years in some cases. The moratorium on the processing of new applications meant that pension applicants were in for a long wait and would easily fall prey to unscrupulous money lenders, locally known as "skoppers." In order to make ends meet while pensions were delayed, Eastern Cape pensioners turned to money lenders who charge exorbitant interest rates. Harassment by "skoppers" increased during the build-up to the pension crisis.

Pension arrears

During 1997, hundreds of pensioners awaiting their grants for long periods turned to the local advice offices with their problems. The offices, working closely with the Public Protector, the Human Rights' Commission and legal resource centres, brought numerous cases on behalf of pensioners before the courts. Most were settled out of court. However, a milestone court case fought in the public interest, was to play a decisive role in empowering pensioners in the build-up to the crisis.

A successful application was brought on behalf of Nikiwe Bacela, a 61-year-old grandmother with a mentally disabled son. The Grahamstown High Court ordered in December 1997 that Bacela, who had applied for her old-age pension in May 1996, should be paid her pension plus arrears. The Welfare MEC had pleaded financial constraints as the reason for her ministry's inability to pay accumulated pension arrears in terms of the Social Assistance Act. The High Court ruled that the Welfare MEC had acted unlawfully and unconstitutionally when she suspended payment of pension arrears. It was estimated that the landmark decision would affect the payment of an estimated R130 million in arrears' payment to pensioners and others receiving grants in the Eastern Cape. Nonetheless, by February 1998 Ms Bacela had still not seen her money, according to a report filed by the Grahamstown Advice Office (1998) and the matter was taken to court again a month later (*Daily Dispatch*, 19 March 1998).

Provincial and central government power struggle

In the build-up to the pensions crisis, pensioners were caught between a provincial and national government tug of war. The Eastern Cape government claimed it had been underfunded by central government. Indeed, the province has a history of overspending. The 1995/96 budget voted for the Eastern Cape Welfare Department of 2,5 billion was over-

spent by R205 million; the 1996/97 voted budget of R2,7 billion was overspent by R845 million.

While the provincial welfare department had about 630 000 social grant recipients on its books, the national Department of Welfare estimated that the Eastern Cape should have not more than 480 000. Since the commencement of the amalgamation, re-registration and reviewing processes in the Eastern Cape, the number of grantees dropped by 85 000 to 545 000. About 14 000 persons receiving duplicate grants in different areas were removed when systems were amalgamated.

The Eastern Cape was not alone in overspending its budget allocation. At the beginning of 1998 the provinces owed about R2 billion in overdrafts to the bank. The Eastern Cape was one of the major borrowers along with KwaZulu-Natal. The overdrafts presented a dilemma to national Finance Minister Trevor Manuel at a time when central government was attempting to curb expenditure in line with its macro-economic policy of growth, employment and redistribution (GEAR), which had a four per cent budget deficit target. The government tried to make borrowing unattractive by refusing to guarantee provincial debt and prohibiting provinces from being in permanent overdraft. However, the government had little choice but to repay provincial debt and the absence of a government guarantee had not deterred banks from making available substantial amounts of cash.

Nevertheless, the official message was that government condoned overspending financed by bank credit and there would be no "bale out." Provinces were legally bound to adhere to their budgets.

Government intervention

The pensions crisis peaked in January 1998. Hundreds of thousands of pensioners were left destitute when the provincial department was unable to meet its payment obligation. Although the cash shortfall had been foreseen, no measures had been taken to avoid the fiasco.

The breakthrough occurred when the Eastern Cape's pensions crisis received attention at the highest level of government. The cash shortfall was identified as a budgetary crisis. Central government authorized an advance from the national treasury to cover the Eastern Cape's debt of over R800 million, the sum needed to pay pensions.

It is worth noting that Finance Minister Trevor Manuel chose not to join national Welfare Minister Fraser-Moleketi when she made the announcement that government had found cash for the Eastern Cape pension payments. One interpretation is that Manuel's non-appearance with Fraser-Moleketi was designed to avoid the appearance of caving in to provincial demands for extra finance. Care was taken to describe government intervention as assistance to the Eastern Cape to overcome its cash-flow difficulties.

Nevertheless, national Welfare Minister Fraser-Moleketi admitted to underfunding indirectly when she acknowledged that there were problems with social security countrywide. She urged the MECs in all provinces to get people to re-register for benefits to assist her department to compile better statistics for a more accurate budget to avoid underfunding in future.

Crisis analysis

In the aftermath of the crisis, national Welfare Minister Geraldine Fraser-Moleketi in her analysis of the situation identified three factors underlying the budget deficit in social security:

- Underfunding of the social security portion of the welfare budget for 1997 and 1998.
- A deficit in social security at the end of the 1996/97 financial year which was rolled over into the following financial year. Some 33 000 social grants backlogs which had been processed in the first quarter of the 1997/98 financial year resulted in the provincial department spending half its social-security budget in the first four months.
- For three years running, actual expenditure on social security had exceeded the budgeted allocations.

These problems raised the question whether the social-security budgets should be a top slice in the budgeting process, or whether the social-security part of the transfers to provinces should be "ring-fenced" to avoid the re-occurrence of social-security and fiscal problems.

The aftermath

Rapid action followed on the breakthrough. The Welfare MEC was dismissed at the end of January 1998 and the new MEC-designate vowed to introduce strict control measures to contain corruption in her department.

Following the resolution of the crisis, stern measures were taken to ensure that pensions would be paid on time in future. A task team was dispatched to the Eastern Cape to review the situation. As a deficit was again predicted for the next financial year (1998/99), the Eastern Cape government was urged to make plans to approach central government in time to secure funds to maintain pension payments which would be released in instalments according to need.

Mechanisms were swiftly put into place to improve social security countrywide, to prevent a repeat of the pensions crisis in the Eastern Cape and other provinces. These included an early warning system to monitor expenditure and budget on a monthly basis, a system to manage cash flow, and statistics for a more accurate budget to avoid underfunding problems in future. The re-registration process was seen as an important step to compiling good statistics.

Public reactions

The pensions crisis revealed strong public sentiments on pensions. According to popular thinking, both provincial and national government had wronged pensioners. Towards the end of 1997, the Anglican Bishop of the Eastern Cape expressed disappointment that a government which had fought so hard for economic rights was on the verge of radically undermining them by turning against the poor. He appealed to central government to intervene in what he described as the "pensions crisis" in the Eastern Cape, the result of the decisions to suspend pension payments and the processing of new social grant applications (*Daily Dispatch*, 24 November 1997).

The verdict disseminated through the print media was that the province has failed to fulfil its social assistance obligations. The constitution stated the right to social security. Frequent references were made to a clause which states that where a province cannot or does not fulfil an executive obligation in terms of the legislation or the constitution, the national executive can intervene (Carlisle, 1997).

In the build-up to the pensions crisis the opposition parties repeatedly called on central government to intervene in the running of the province. The Democratic Party had requested that central government take over the administration of the former Transkei to deal with the backlogs in infrastructure and services there. When the crisis peaked, the Pan-Africanist Congress invited President Mandela to declare the

Eastern Cape a disaster area (*Daily Dispatch*, 19 January 1998).

The final vote of no confidence in provincial government was sealed when the press leaked that the Presidential Review Commission had recommended that central government take over the administration of the Eastern Cape (*Daily Dispatch*, 28 February 1998). The Commission was appointed by President Mandela in April 1996 to formulate proposals for creating a more efficient public service. An earlier report compiled by Dr Paseka Ncholo, Director General of Public Service Administration, had already identified a number of structural weaknesses in the Eastern Cape.

Popular views on pensions

More clearly than ever before, the crisis underscored the common view that pension money is household income and an entitlement to economic survival and not a privilege. Postponements of pension pay outs were interpreted as a sign of disrespect and a lack of concern for the welfare of poor older people and their families, especially at the hand of rude officials. Firsthand reports from pay points where pensioners were turned away, confirm that pensions represent a lifeline for entire families in the Eastern Cape. Interviewed by reporters, the most frequent lament of pensioners was how to feed the family waiting at home.

The token gestures of sympathy offered to pensioners might be interpreted as attempts to restore the social contract. Eastern Cape Premier Stofile saw fit to publicly beg forgiveness from pensioners on the occasion of the ANC's 86th anniversary: "We have done wrong to you my grandfathers and mothers" (*Financial Mail*, 16 January 1998). Later, national Welfare Minister Fraser-Moleketi also apologized to the people in the Eastern Cape on behalf of government for the late payment of pensioners (*Eastern Province Herald*, 15 January 1998).

In cities and towns throughout the province the general public rallied in support of its pensioners, while condemning the ineptitude of the ministry in fulfilling its responsibilities. Eastern Cape business, agriculture and welfare, and members of the public responded generously to ease the plight of the elderly and their dependants. The Salvation Army's soup kitchens served meals to hungry pensioners and welfare organizations distributed food vouchers to the needy. In Grahamstown alone, R58 000 in aid was reportedly raised in only two days for pensioners.

Local initiatives to empower and protect pensioners

A number of initiatives emerged in the build-up to the pensions crisis to assist and empower pensioners. The Pension Forum, supported by the advice offices, met bi-monthly to exchange information between pension officials, non-governmental organizations, social workers, and pensioners themselves from rural and urban areas.

In the wake of the crisis, pensioners have mobilized their own associations to fight for their rights. Demonstrations of social grantees were a regular occurrence throughout the Eastern Cape where payments were delayed. Sporadic incidents of frustrated pensioners venting their anger against officials were reported even after pension payments had been

resumed in most areas. To assist in smoothing the system, the newly-formed Eastern Cape Pensioners' Association has vowed to identify beneficiaries who are not qualified to receive pensions. They plan to work closely with the Department of Welfare and also to visit pay points to safeguard government money. The Association of Pensioners operating from Uitenhage, together with the Community Policing Forum, has declared war on "skoppers" to free pensioners from harassment on pay days. Members have volunteered to aid monitors to bar unauthorized persons from entering the pay-point premises.

Prospects

At a meeting of provincial and national welfare ministers on the eve of the announcement of the budget for the 1998/99 financial year, the newly-appointed MEC for Welfare in the Eastern Cape has vowed that the pensions crisis will not re-occur (*Business Day*, 11 March 1998). The provincial welfare ministers declared that they were committed to cleaning up the social-security system. Improvements to the social-security system, including outsourcing payments and retraining staff, were under way. More importantly, both provincial and national ministers resolved to pull together to ensure South Africa's social security. The pensions crisis has clearly taken its toll but the resolve to deliver social security has emerged stronger than before.

Acknowledgement

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