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## Committee Report No 8

### *Poverty, Social Assistance and the Basic Income Grant*

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#### **8.1 Introduction**

The Committee paid significant attention to the urgent problem of poverty and its impacts on South African society. Moreover, through the process of public hearings, consultations with representative groups, submissions and commissioned research the Committee has considered existing and proposed measures to alleviate poverty.

This chapter is divided into five major sections. The first section reviews the state of poverty in South Africa. The current approach to poverty and vulnerability is examined. Significant measures under way to address poverty are reviewed against their stated policy objectives. Recommendations on what benchmarks and processes must be put into place to enable government to systematically address poverty through social protection measures are indicated. In addition recommendations are made on the need for and processes of monitoring and evaluation that must be put into place.

The second section evaluates the impact of the existing system of social assistance cash transfers on poverty in South Africa. It provides an analysis of the categories of people in receipt of social assistance, the gaps in coverage and some of the major problems within the existing system. Issues related to targeting, means testing, dependency and perverse incentives are examined. Recommendations on the current arrangements are made.

The third section provides an analysis of effective ways of targeting those who are currently outside the social safety net and evaluates the means test within the context of social security take-up rates. The fourth evaluates the impact of a basic income grant, assessing its role in reducing poverty. The social and developmental impact of the grant, focusing on social investment, labour markets, and macro-economic considerations as well as the fiscal impact is evaluated.

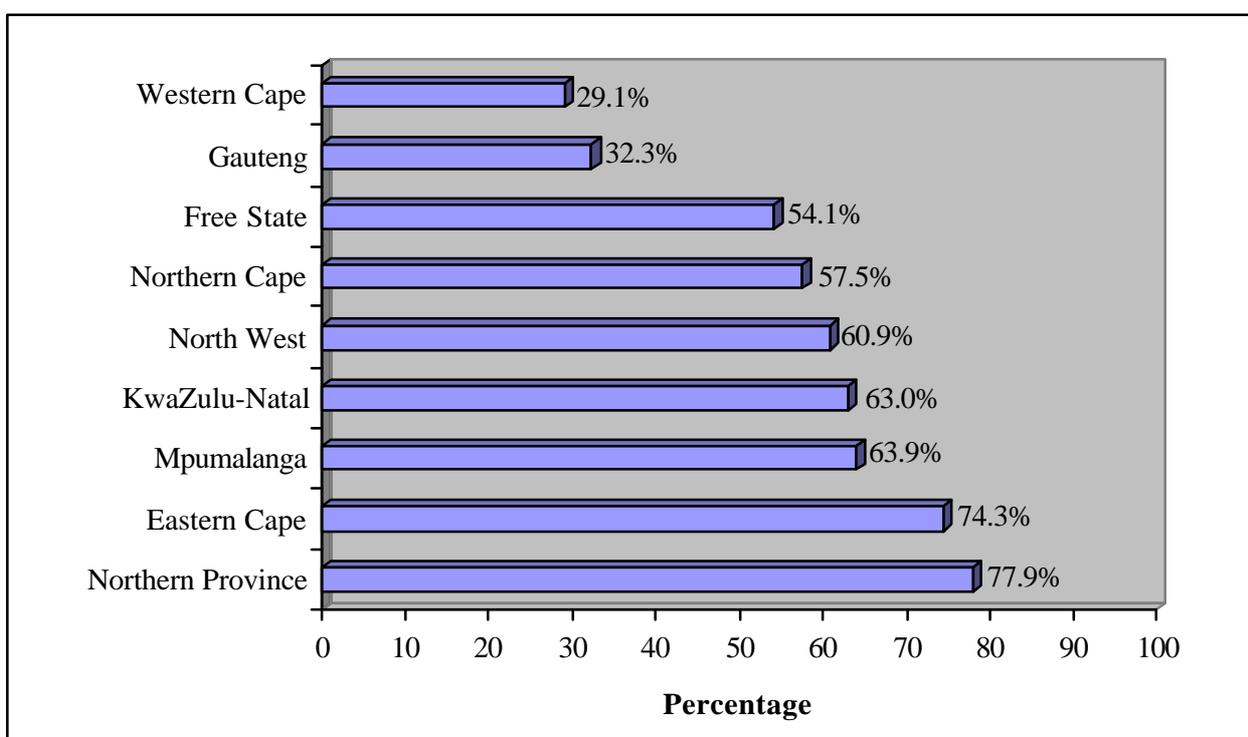
#### **8.2 How poor is South Africa<sup>1</sup>?**

Debate on the reliability and validity of a range of poverty indicators and measures does not obscure the fact that as a result of a number of complex factors the majority of black South Africans exist below any acceptable minimum poverty line. Poverty is the greatest burden of South Africa's people, and is one of the direct results of the apartheid system and the grossly skewed nature of business and industrial development that accompanied it. The World Bank Group noted in 1995 that South Africa has one of the worst social indicator records (i.e. health, education, potable water, fertility and mortality) in the world as a result mainly of past discriminatory policies. According to this study, the poorest 40% of the households surveyed (containing 53% of the population) accounted for less than 10% of the total consumption. In contrast, the richest 10% of households (containing less than 6% of the total population) accounted for over 40% of the country's total consumption.

Preceding chapters (refer to the chapters on the Socio Economic Context, Conceptual framework and Employment-Unemployment) have provided empirically based evidence on the extent and features of poverty and inequality in South Africa as well as its structural roots.

Depending on which poverty line is used, researchers put the number of South Africans living in poverty at anywhere between 45 and 55 per cent. Despite existing measures to address the various dimensions of poverty the reality is that, depending on the poverty line used, about 20-28 million citizens are living in poverty. The incidence of poverty differs between the different provinces. In all estimates the Western Cape and Gauteng have the lowest rates of poverty, and Mpumalanga, the Eastern Cape and the Northern Province the highest rates<sup>2</sup>.

**Figure 8.1: Percentage of population in poverty**



Source: Whiteford and van Seventer—1999: iv

The Poverty and Inequality Report found that 61% of African people could be classified as poor, whereas only 1% of White people fall into this category. The Report also noted that one-third of South African children less than five years old live in extremely poor households and 60% of the members of these households are women.

Most of the poor live in rural areas: while 50% of the population of South Africa is rural, the rural areas contain 72% of those members of the total population who are poor. The poverty rate<sup>3</sup> for rural areas is 71%. The poverty gap<sup>4</sup> was about R28 billion in 1995, and 76% of this was accounted for by conditions in the rural areas<sup>5</sup>.

South Africa's Human Development Report 2000 also provides clear evidence of the spatial, racial and gender dimensions to poverty. Evidence put before the Committee as well as research reveals that women are more likely than men to be poor with the poverty rate among female-headed households at 60 per cent, compared with about 30 per cent for male-headed households<sup>6</sup>.

Poverty trends are also reflected in variations in provincial human development indices. Since human development indices are a composite measure that incorporates proxies for health, education and income indicators it helps to assess the impact of capability and income poverty interventions<sup>7</sup>. As an aggregate measure of income and capability poverty interventions it also provides a useful benchmark against which government can assess the policy balance between social and economic objectives. Taken together with poverty indicators, the human development index confirms that there is an imbalance between economic performance and social policy performance. This has already been discussed in the findings of preceding chapters.

Significantly, the Committee based its analysis on more than just a quantitative review of indicators and statistical measures. Providing opportunities for poor people themselves to voice their experiences was a way of ensuring broad based participation in the inquiry as well as verifying the extent to which existing policy and programme initiatives of government are understood by and reach the poorest people. The realities of intense poverty and inequality were also evident in direct representation made to the Committee by poor people themselves. Moreover, hearings and visits to provinces indicated that the poorest communities are living in conditions that dangerously compromise their human security and well-being. Indeed the statement below captures how people experience poverty:

its texture: the dull ache of deprivation, the acute tensions generated by violence and insecurity, the intricacies of survival and all its emotions—despair, hope, resentment, apathy, futility and fury.<sup>8</sup>

Direct representation by poor people confirmed previous findings of the 1995 South African Participatory Poverty Assessment that also described the reality behind poverty statistics. Millions of citizens were said to be plagued by continuous ill health, experience extraordinary levels of anxiety and stress (and the accompanying realities of violence and abuse vented mainly on women and children) and perform harsh and dangerous work for low incomes. Today, pervasive demoralisation and fatalism has become a feature of some of the worst affected communities. A sense of hopelessness and an inability to alter the conditions of life remains a defining feature of South Africa.

This was a thread that ran through representations made by hundreds of poor people to the Committee. Feelings of alienation, exclusion from the transformation process and the lack of self worth as a result of poverty were common. There was a sense that people have nothing to lose. They have no stake in the future because for them the present is characterised by an intense struggle to barely eke out an existence. Anecdotal evidence from young and old people indicated that in some communities mothers were allegedly prepared to kill themselves and their children because of

an inability to cope with the hardships they faced. The violence inherent in poverty plays itself out in violent pathologies that affect the most vulnerable, especially children and women.

Describing her life at the *Speak Out on Poverty Hearings* in 1998, Emma Mahkaza told commissioners:

I am having seven children and nothing to depend on. I am making bricks and sometimes it rains and then I can't do it. And I collect food and take it to people. I fetch wood and collect cans of cold drink and sell them. When I am without food then I go next door and if they don't have, then the children will have empty stomachs and I cry. Yesterday I left with my children fast asleep because they will ask me what we are going to eat. I am very thin, because when I bought a bucket of mielie meal, I won't eat at all if I am thinking of the children. They say: "Mum, you are going to die".<sup>9</sup>

### **8.3 Measures to combat asset and capability poverty**

Evidence across countries shows that poverty and the standard of living are directly related to resource allocation and income. Therefore it should follow that improved accessibility to resources can contribute to the improvement in standards of living for many South Africans. That the democratic government has made significant strides to ensure policy and budget reprioritisation to provide access to resources is evident. Such reprioritisation of resources is directed at such basic ingredients as access to water, sanitation, electricity, housing, knowledge/education, health care, land and other productive resources.

Government aims to meet the basic needs of communities through the provision of basic education (pre-primary and primary), basic health (primary and district level services), housing, water and sanitation, and electricity. It records the following measures to meet basic needs:

- 46 percent of the total education budget is spent on basic education;
- 20 percent of the total health budget is spent on basic health care;
- there is free health care for pregnant women and children under six;
- a nutrition programme reaches 12 000 primary schools;
- two million people have access to safe water;
- since 1994 1 167 435 houses have been built or were in the process of being built by the end of 2000.
- the Consolidated Municipal Infrastructure Fund subsidises the cost of capital investment in municipal infrastructure;
- an 'equitable share' of national revenue is provided for local government; funds are transferred to municipalities on the basis of need to enable them to provide services to poor communities.<sup>10</sup>

During the past 7 years government has launched new programmes and expanded and revised existing programmes to deal with asset and capability poverty. These measures are designed to provide people (especially those who have been excluded as a result of apartheid) with access to certain assets and capabilities needed to overcome their poverty. Through such measures it is expected that opportunities will open up for people to improve their income earning capacity and as a result to address levels of destitution and poverty. The Committee engaged in a systematic review of some major current government measures to address poverty. Such a review was designed to provide a holistic picture of the potential impact of interventions related to asset and capability poverty as well as income poverty. The section below provides a more detailed but preliminary analysis of such measures.

### 8.3.1 Housing

In respecting the right of access to housing, the Department of Housing assisted vulnerable and previously disadvantaged groups with housing subsidies through the National Housing Subsidy Scheme (HSS). The National HSS is aimed at assisting the vulnerable groups in realising the right of access to adequate housing (Human Rights Commission, 1998/99). The housing subsidy programme comprises of a once off capital subsidy to households whose income is below R3 500 per month (The household income comprises the applicants income plus the income of his/her spouse or partner).

There are four different types of subsidies, all of which are allocated by provincial housing boards. Table 8.1 shows the subsidy amount for which beneficiaries of the different household income categories are eligible to apply, depending on the mechanism they choose.

**Table 8.1: Subsidy amounts for beneficiaries of different income categories**

<b>Monthly Household Income</b>	<b>Subsidy for immediate ownership: Individual, Project, Rural and Relocation mechanisms</b>	<b>Consolidation subsidy (available to those who have already benefited from previous subsidies)</b>	<b>Subsidy for rental or instalment sale: Institutional subsidy mechanism</b>
R0 –R1500	R16 000	R8 500	R16 000
R1501—R2500	R10 000	0	R16 000
R2501—R3500	R5 500	0	R16 000

Source: Department of Housing

#### 8.3.1.1 Housing Delivery

The South African government is committed to the delivery of low-income housing. The Reconstruction and Development Programme (RDP) explicitly commits government to providing one million low-income houses in its first term of office. This commitment is repeated in the Housing White Paper, which guides the South African government. This commitment to providing access to housing is underpinned by an understanding that provision of physical assets is an important measure in poverty eradication (Hassen, 2000).

The commitment to deliver one million houses between 1994 and 1999 was partly based on the acute need for low-income housing in South Africa. The Department of Housing has estimated this need at 3.7 million units. Table 8.7 provides an analysis of houses completed or under construction and backlog by province between 1994 and 2000 financial year.

Significant progress has been made in terms of the delivery of units. Since the inception of the programme in April 1994 and as at the end of 2000 financial year, a total number of 1 167 435 housing units have been completed or are currently under construction. Calculated at 4.5 persons per household, more than five million people have been provided with access to housing. The need for housing is currently estimated at 2 784 193 units.

Hassen (2000) modelled the projected delivery of housing units over the medium term. The results of his model indicated that at projected levels of delivery, government will neither meet the needs of new entrants, nor reduce the backlogs. According to him, the backlog will continue growing as total spending over the medium term does not even cover the estimated 200 000 additional housing units. In addition, he identified the following as problems in the quality of houses being built:

- 49 809 households have been registered with the Defects Warranty Scheme.
- Emerging evidence that housing is perpetuating urban sprawl and reinforcing inherited apartheid spatial patterns.
- The Minister of Housing has indicated that only 30% of houses have complied with the standard of 30m<sup>2</sup>.

### **8.3.2 Land**

In fulfilling the right of access to land, the National Department of Land Affairs has implemented a land reform programme that includes land redistribution, land restitution and tenure reform. These programmes utilise an integrative approach to addressing poverty. They provide poor people with access to land for residential and productive use in order to improve their income and quality of life (Human Rights Commission, 1997/98).

#### **8.3.2.1 Redistribution**

The goal of the land redistribution programme is to provide the wider majority of South Africans with access to land for residential and productive use. Particular emphasis is placed on the rural poor, labour tenants, farm workers, women and emerging farmers and persons living in informal settlements. This policy makes it possible for poor and disadvantaged people to buy land with government help.

#### **8.3.2.2 Land Restitution**

The purpose of the land restitution programme is to compensate or restore land to people who were dispossessed by racial discriminatory legislation after 19 July 1913. The cut off date for claims was 31 December 1998. At the time the following claims were lodged with the Commission on Restitution: 63 455 (KwaZulu-Natal—14 208, Western and Northern Cape—12 044, Eastern Cape

and Free State—9 615, Gauteng and North West—15 843 and Mpumalanga and Northern Province—11 745).

Land restitution is aligned with the Presidential Rural Initiative, targeting particularly the Eastern Cape, KwaZulu Natal and the Northern Province.

To date the Commission has finalised 8288 claims. These claims involve 7516 households that have received financial compensation, and 12 597 households receiving 274 000 hectares of land.

### **8.3.2.3 Tenure Reform**

Tenure Reform aims to provide tenure security and create appropriate institutional arrangements to contribute to an improved quality of life for all South Africans. Implementation takes place on the basis of the Strategic Direction of Land Reform, a Framework Document. It outlines a set of principles to guide tenure reform and a proposed course of action that locates land tenure reform within the context of government's integrated and sustainable rural development strategy.

Submissions to SANGOCO's Report on Poverty and Human Rights (1998) identified the following as main obstacles experienced by poor in gaining access to land:

- The inability to acquire a secure right to land was identified as a major constraint. In their submission to SANGOCO, the National Land Committee pointed out that the restitution process was experiencing 'a crisis of delivery' for a number of reasons. These include its legal and bureaucratic approach, and the extreme slowness of the process.
- The South African Small and Medium Enterprise Development Initiative (SASMEDI) reported that officials in the Department of Land Affairs lack clear guidance on how to complete the application forms for the grant, combined with conflicting messages regarding the criteria for accessing the grant.
- Many of the submissions highlighted the insecurity of farm housing, as eviction from the farm inevitably follows dismissal. There were also tales of the eviction of elderly or ill people from farms who were no longer able to work.
- Most rural women do not have access to land in their own names, but through a male relative.
- The Disabled People of South Africa (DPSA) highlighted that persons with disabilities experience difficulties in gaining access to land. When trying to access land, they are told that another senior member needs to sign for them i.e. the land will belong to them. The underlying assumption is that disabled people are unable to use the land effectively. Accordingly, many eldest children who are disabled are denied their inheritance rights to land or a home from their parents.

Adams and Howell (2001) also pointed that about 80% of the total land claims registered are urban, yet rural claims involve a far larger number of people. Each can embrace 50-10,000 people, while each urban claim represents an individual. The bulk of claims settled to date fall into the urban

category. Because the settlement of urban claims usually involves financial compensation, they are quicker to resolve. However, as they rarely involve the transfer of land to blacks, they do not address the core land issues facing South Africa—the skewed nature of ownership and racial dispossession.

### **8.3.3 Food and Nutrition**

#### **8.3.3.1 Integrated Nutrition Programme (INP)**

Currently, the Department of Health has adopted an Integrated Nutrition Programme (INP) as its main strategy for nutrition. The INP is implemented as an integral part of the Primary Health Care (PHC) approach. The INP aims to facilitate a co-ordinated intersectoral approach to solving nutrition problems in South Africa. The emphasis is on building long term capacity of communities to be self-sufficient in terms of their food and nutrition needs while at the same time protecting and improving the health of the most vulnerable parts of the population—women and young children.

The INP targets nutritionally vulnerable communities, groups and individuals for nutrition interventions and provides nutrition promotion and education to all people. Priority target groups for nutrition interventions will be:

- Children 0—24 months
- Children 25—60 months
- At-risk pregnant women
- At-risk lactating women
- Persons suffering from chronic diseases of lifestyle or communicable diseases
- The at-risk elderly, and
- Primary school children from poor households.

#### **8.3.3.2 Primary School Nutrition Programme (PSNP)**

The Primary School Nutrition Programme was implemented on 1 September 1994. Its implementation followed the announcement by President Mandela that “a nutritional feeding scheme will be implemented in every primary school where such a need was established” during the State of the Nation Address on 24 May 1994. It was one of the “100 day Presidential Lead Projects” of the Reconstruction and Development Programme (RDP). The focus areas of the PSNP were school feeding, nutrition education and health promotion through interventions such as parasite control and micro-nutrient supplementation.

Nutrition interventions in primary schools aim to:

1. Contribute to the improvement of education quality and general health
2. Improve nutritional knowledge, perceptions, attitudes and behaviour amongst primary school learners, their parents and their teachers.

3. Enhance broader development initiatives.

The following progress has been made with regards to the implementation of the PSNP:

- RDP principles such as community participation, local capacity building, participation of small, medium and micro enterprises and local employment, etc. have been supported.
- Lunch box campaigns, linked to nutrition education and household food security projects, are held to encourage learners to bring healthy snacks to school. This is done, for example, in the Free State Province.
- School food gardens are promoted in provinces such as Eastern Cape, Free State, Mpumalanga, KwaZulu/Natal, Western Cape and Northern Cape.
- Linkages have been established with other development initiatives in the community, for example bread baking projects and community food gardens to ensure sustainability.
- Programme administrators and teachers reported improved school attendance, decrease in learner drop-out figures and improved concentration and alertness levels.

Although school feeding still absorbs most of the resources, some progress has been made with the implementation of the other interventions, namely parasite control and nutrition education. However, the following problems are being experienced:

- Parasite control is largely restricted to the provinces of KwaZulu/Natal and Mpumalanga.
- The effective and efficient implementation of school feeding is hampered by a number of issues. Problem areas include:
  1. Food quality and food safety
  2. Compliance of menu options with nutritional, social, logistical and cost criteria
  3. Food quantity
  4. Cost benefit and cost-effectiveness
  5. Consistency and coverage
  6. Targeting
  7. Adverse effects.
- Misappropriation of funds still seems to be a problem in some areas. Audits of all the nutrition programmes have been concluded at the end of 1999. The implementation of audit recommendations should go a long way to address this problem.

An evaluation of these projects was done by the Directorate: Nutrition at the end of 1998. The key findings of the evaluation were:

- Lack of uniform conceptual understanding at all levels of what a community based nutrition programme/project is, has been identified as one of the constraints. Different

definitions of community-based nutrition in the 1999/2000 financial year Provincial INP Business Plans assessed confirm this observation.

- The poorest communities were hard to reach because of scarcity of objective data and lack of a functioning national nutrition surveillance system. Different methodologies have been adopted to carry out initial assessment of pilot projects.
- Managerial problems relate to lack of personnel, limited technical knowledge and experience at different levels as other contributory constraints to implementation of the community-based nutrition pilot projects. The provincial staff vary from 0%-90% (professional and non-professional personnel) from the provincial to the regional/district levels. The available human capacity affected the implementation of the INP.
- Communication between the National and Provincial and between the Provincial and Regional levels was inadequate and ineffective.

### **8.3.3.3 The Special Programme for Food Security (SPFS)**

The SPFS is a national programme formulated in collaboration with FAO-UN under the Technical Co-operation programme (TCP) funding for the implementation of the 1996 World Food Summit Plan of Action. This programme is a direct request to FAO by President Thabo Mbeki for in-country assistance to strengthen delivery within the Integrated Sustainable Rural Development Strategy. To this end, the Minister of Agriculture and Land Affairs signed a declaration of Intent on the 6<sup>th</sup> September 1999 with the FAO Director-General in Rome.

The SPFS is a preparatory programme, which will inform a larger joint initiative. The time frame for this “pilot” activity is 8 months, implementation phase is 2001-2003 by which time a larger programme will have been developed and approved. The larger programme will use the experience and the activities of the pilot as a starting point.

The objectives of the programme is to improve household food security of the resource-poor in both rural and peri-urban areas, through the demonstration of appropriate technologies that will increase food production and the income of small farmers without compromising the sustainability of the resource base.

Currently, numerous projects are planned or being implemented and different approaches to small-scale farmer development are being followed throughout the country. It is believed that, the SPFS would contribute to these efforts by helping provincial authorities experiment and develop a well articulated, systematic and more effective system of support to farmers.

Within this context, the following areas have been identified to launch the programme, namely:

Northern Province	-	Praktiseer (Southern region)
Eastern Cape	-	Lusikisiki (Wild Coast region)
KwaZulu Natal	-	Nkandla (North East region)

This three areas have been selected for piloting during the preparatory phase after which a total of 27 sites in Northern province, 24 in Eastern Cape and 24 in KwaZulu Natal will be covered for the three year phase one of the programme. The programme will later expand to other regions within the pilot province and to the rest of the country.

#### **8.4 Water and Sanitation**

One of the major historical problems that existed in South Africa is the issue of equity in the water sector. According to the RDP, in 1994 more than 12 million people did not have access to clean drinking water, and 21 million people did not have adequate sanitation. Seven and a half million people had to walk a long distance to fetch water every day. Much of the burden of inadequate water supply in South Africa is born by the rural poor, especially women.

To establish a framework for efficient and equitable supply of water to all communities, a Municipal Infrastructure Programme (MIP) was developed, which aimed to rehabilitate, upgrade and provide new municipal infrastructure to meet the basic needs of communities as efficiently and effectively as possible. The programme was replaced by the Extended MIP, and is currently known as the Consolidated MIP. It focuses mainly on urban areas, while programmes such as Community Water Supply and Sanitation (CWSSSP) are aimed at rural areas (NEDLAC, 2000).

##### **8.4.1 Consolidated Municipal Infrastructure Programme (CMIP)**

The Consolidated Municipal Infrastructure Programme (CMIP) is one of the largest programmes undertaken by government to date. The Programme is aimed at enabling municipalities to provide at least basic levels of services to low income households. The programme is also aimed at contributing to other government strategic and intervention policy objectives which include: SMME development; utilisation and empowerment of affirmative business enterprises, targeting the most vulnerable communities and sectors of society such as women, youth and the disabled for job creation.

The CMIP also makes available capital grants to municipalities to provide services and facilities such as water, roads, storm water, solid waste disposal, community lighting, clinics, cemeteries, and multi-purpose community and sports facilities to needy South Africans. An amount of up to R3000.00 per site is provided per low-income household for urban areas, that is households with income less than R3, 500. In rural areas where there are no housing programmes in place which can provide internal services, an amount of R 7, 000.00 per household is provided for bulk, connector and internal services as well as community services and facilities. The mission of the programme is to support municipalities through a grant fund to provide municipal infrastructure in order to improve the quality of life and build sustainable communities.

##### **8.4.2 Community Water Supply and Sanitation Programme**

The primary aim of the Community Water Supply and Sanitation (CWSSP) scheme is to provide basic water and sanitation services to those that have not benefited from them in the past and so alleviate poverty.

By December 1998, the CWSSP had brought water to 2.9 million South Africans (the backlog stood at 12 million). It had spent R730 million out of the R3,2 billion allocated to the 1 300 projects since it began in 1994. The programme aims to provide water to 90% of the current non-serviced population by 2004 (NEDLAC, 2000).

Community Water Supply and Sanitation Projects are located in KwaZulu Natal, Eastern Cape, North West and Northern Province.

There are acute problems experienced by people living in the rural areas as highlighted by their vulnerability to disease and epidemics (Hemson, 2000).

The following figures, drawn from a data set of people living in a homestead, kraal or hut in KwaZulu Natal (the majority of rural people) give some dimension to the gap between policy and implementation:

- Most people depend on rivers and streams for their water supply
- 60% draw water from a water source more than 2000m away (i.e. outside the RDP guidelines)
- 30% spend more than an hour to fetch water
- 18% pay for water (indicating that most are not served by water projects or cannot afford to be connected)
- 68% felt they had an adequate supply of water
- 60% felt that they had an inadequate water supply as the river sometimes is dry, 20% felt they could not carry enough water and the remaining 10% stated they had no regular supply
- 88% stated they used a pit latrine if they used a toilet
- 60% said that they had not noticed new water services over the previous five years and the responses of the remainder referred to services in urban settings
- 67% argued that community water services were the same or worse than previously, although 31% reported improvement

These statistics indicate the extent to which the poorest of the poor—those ostensibly targeted for social assistance—have been missed in the implementation of infra-structural projects. Deprivation on this scale provides a very different perspective on service delivery (Hemson, 2000).

Nozi Mjoli, the research manager of the Water Research Commission, notes with concern that “so far very limited progress has been achieved in reducing the number of people who lack adequate sanitation”. The R600 subsidy for each household latrine is fairly costly to administer and limited benefits from this subsidy reach individual households. Lack of institutional capacity and

integration means that the current approach is fragmented with responsibilities for sanitation spread across different government departments, with no one ultimately taking responsibility.

### **8.4.3 Free Basic Water Services**

As part of the Government's strategy to alleviate poverty in South Africa a policy for the provision of a free basic level of services has been established. In the words of President Mbeki, "the provision of free basic amounts of electricity and water to our people will alleviate the plight of the poorest among us" (Mbeki, 2001). A number of policy statements at the local level have reinforced this commitment.

The Minister of Water Affairs and Forestry announced in February 2001 that the government had decided to ensure that poor households are given a basic supply of water free of charge. He said that Cabinet has approved a policy to provide 6 000 litres of safe water per household per month (Kasrils, 2001). The Minister of Water Affairs and Forestry has indicated that the date set for implementing the free minimum basic water policy by local government structures is 1 July 2001. Implementation by this date will, in most areas, require appropriate adjustments to tariff regulations and to municipal budgets by the start of the 2001/2002 financial year

The primary intended recipients of free basic water are poor households. Although there is a broader policy commitment to the extension of free basic services to *all* households the primary target of the policy is poor households for whom free basic services represent a significant poverty alleviation measure.

#### **8.4.3.1 Volume of water—what is a basic amount?**

South African standards relating to a 'basic' level of water supply, that is a level sufficient to promote healthy living, come from the World Health Organisation standard of 25 litres per person per day. This amounts to about 6 000 litres per household per month for a household of 8 people. This volume of 6000 litres per month has therefore been set as the target as a 'basic' level for all households in South Africa. This quantity will also be regulated as part of the national strategy in terms of Sections 9 and 10 of the *Water Services Act of 1997* (Palmer Development Group, 2001).

A free water supply system comprises of a lifeline tariff which is a minimum that is required for living and a rising block tariff which means that as a person consume more water, the price increases. The system being proposed has being piloted in Hermanus and Durban and the findings in these case studies are that the revenue's to local government's actually increases. The reason for the increase is that larger consumers of water and electricity are willing to pay the increased cost. Also, the costs associated with sending out a bill to someone who users less than 6 000 litres of water a month, is not viable (Hassen, 2001).

## **8.5 Electricity**

The RDP set the target of electrifying 2,5 million households by 2001—1,75 million by Eskom (300 000 household connections per year until 1999), and 750 000 by local authorities. In this way, 72% of South African households would have electricity by the end of the decade.

### **8.5.1 Electricity Basic Support Services Tariff Strategy (EBSST)**

The National Government and the Department of Minerals and Energy are committed to a ‘free electricity basic support services’ policy. However, it is recognised that this policy has many ramifications and that in order for it to be successful, its implementation needs to be carefully planned in consultation with Eskom and Local Government. A multi-stakeholder Task Team has been established to oversee the implementation of the basic electricity supply.

Cabinet has provisionally approved that grid electrified households be allocated 50kWh of electricity per month as an ESI cross subsidy and non-grid electrified households be subsidised to the maximum of R40 per month from the energy component of the Equitable Share. This approval is subject to the outcomes of the pilot study to be initiated by the Department on Minerals and Energy by June 2001, the results of which will be presented for Cabinet approval in 2002.

The Department of Minerals and Energy (2001) identified the following as issues to be addressed locally and nationally for the EBSST to be successful:

#### **➤ Socio-political**

A sound relationship at a local level between councillors and their constituents is essential if a free basic electricity initiative is to be successful. Local Government leadership and Eskom need to have insight into the implementation practicalities including welfare and demographic issues. On the other end consumers need to understand what is possible and what their roles and responsibilities are in terms of the hardware provided, its upkeep, energy costs and other related costs associated with the provision of municipal services.

#### **➤ Financial**

The existing financial framework of Local Government and the specific conditions of individual Municipalities, District Councils and Eskom must be taken into account in the design of the EBSST strategy. The cost estimate for implementing the EBSST if all households are to receive free basic electricity is R1.8 billion per annum based on 1999 electrification figures.

#### **➤ Institutional Capacity**

Many municipalities are in financial difficulties. Most of these will need external capacity to implement the EBSST system in their jurisdictions. It is envisaged that such municipalities will access and utilise restructuring and transitional grants to facilitate restructuring their organisations, functions and fiscal positions to improve equity and efficiency of service delivery, including free

basic services. For the EBSST system to be successful there needs to be the organisational capacity to manage it. This is seen as a key constraint in many Municipalities.

## **8.6 Social Welfare Services**

Welfare budgets consist of two major categories: social security and social welfare services. Social security comprises payment of grants and pensions to individuals and households, while social welfare services include the provision of government welfare services.

### **8.6.1 Services to Older Persons**

Services to Older Persons consist of:

- Housing
- Community based support and care programmes rendered by service centres and luncheon clubs
- Assisted living (accommodation with support services)
- Residential care (Frail care)

As far as residential care is concerned, only residents with an income of R1 300 per month or lower are subsidised. The subsidy is based on a sliding scale favouring older persons with an income equivalent to that of an old age grant.

There are currently 474 homes for older persons with a capacity to accommodate 42 952 older persons (see table?), as well as 7 state run homes for older persons with a capacity of 794 beds.

The majority of services and facilities are situated in Gauteng (103) and the Western Cape (139). Rural provinces where the majority of older persons are living have very little resources to meet the growing needs of older persons.

The Department of Social Development identified the following as problems related to services and facilities to older persons:

- Services to white older persons are more sophisticated than services to black South Africans, and a wide range of services are available.
- Backlogs regarding services and facilities in rural and informal settlements are of great concern.
- The current method of funding does not allow CBO's and NGO's in rural communities to render effective services.

The Report of the Ministerial Committee on Abuse, Neglect and ill-treatment of Older Persons (2001), confirmed the following problems:

- There are no uniform standards in government-funded residential homes of cleanliness, accommodation, nutrition, staff ratios, room size etc.
- The quality and quantity of food is often below standards
- There is no uniform financing policy: homes for the poor and disadvantaged which lack basic facilities receive lower grants or subsidies than homes in advantaged communities with good facilities
- Government subsidies to homes have not kept pace with costs
- Many homes have been forced to close. Some residents are expected to ‘return to their families, some make private arrangements, others have joined the ranks of the homeless

## **8.6.2 Services rendered to children and families**

### **8.6.2.1 Flagship Programme for unemployed women and children under five years**

The Department of Social Development in collaboration with the provincial departments of Social Development established the Flagship Programme as part of the strategy to alleviate poverty and to pilot developmental social welfare services, as emphasised in the White Paper for Social Welfare. Economic and developmental opportunities and services are provided to unemployed women and their young children. Pilot projects are designed to create income that is distributed amongst the participating women. Each pilot project provides an economic opportunity for women in a targeted community.

### **8.6.2.2 Services for People with Disabilities**

Services to persons with disabilities are complex and sensitive due to the wide range of disabilities and organisations working in the field. The focus has over the years changed from only care, treatment and support to a rights issue. The Department of Social Development subsidises a large number of NGO’s, CBO’s and FBO’s for the rendering of services to people with disabilities.

The following services are subsidised by the Department of Social Development:

- Protective workshops
- Parent empowerment programmes
- Homes for people with disabilities
- Transport services
- Counselling

### **8.6.2.3 Protective workshops**

Protective workshops have a long history in the country. They are initiated and managed by non-governmental organisations. They started as therapeutic means to occupy people with disabilities. Through the years they evolved into income generating projects to supplement the disability grants. The Department of Social Development aims to transform protective workshops which, act as

employment facilities for people with disabilities, into financially viable entities, thus reducing dependency on government for their sustenance. Due to the previous conservative legislative framework, people with disabilities were excluded from participating in economic activities. This phenomenon led to poverty among the majority of this designated group, especially those in rural communities and informal settlements. The Department of Social Development, in consultation with its provincial counterparts, is engaged in piloting models for economic empowerment of people with disabilities through financing the protective workshops and poverty alleviation projects.

## **8.7 Legal Aid**

Legal aid effectively means providing legal services for persons who are unable to pay fees for such services. Its object is to make it impossible for any person to be denied the equal protection of the law simply on account of poverty. It is an essential part of the administration of justice of any democratic state and is internationally recognised.

In South Africa, this right is guaranteed to the citizen in terms of section 34 of the Constitution of the Republic of South Africa 108 of 1996 which states: 'everyone has the right to have any dispute that can be resolved by the application of law decided in a fair public hearing before a court or, where appropriate, another independent and impartial tribunal or forum'.

The Constitution therefore places an obligation on the state to ensure the provision of legal assistance to certain categories of persons. The Legal Aid Board has been tasked with this obligation. The Legal Aid Act has been amended to include the words, '... and to provide ... legal representation at state expense as contemplated in the Constitution. Before the implementation of this amendment the Legal Aid Board could only render or make available legal aid to indigent persons (Kuppan et al, 2000).

### **8.7.1 Eligibility**

In terms of the current means test the following persons are regarded as indigent for the purposes of granting legal aid: (a) a single person with a calculated income of no more than R500 per month, and (b) a married person with a calculated income of no more than R1000 per month. These amounts are both increased by R150 for each of the applicant's dependants.

The following are problems and gaps in the provision of Legal Aid:

#### **➤ Availability of legal aid and the application of a means test**

Presently, in South Africa, only the rich and hopelessly poor have access to justice. The broad middle section of the population finds it very difficult to pay for legal costs. The lower part of the middle income groups more often find it impossible to litigate in civil matters due to the cost involved. This group is also at a disadvantage in criminal trials, as legal aid will be denied due to the means test, yet he/she is not able to afford a private attorney.

➤ **Lack of information**

Most of the people who are economically weak positions are also socially and culturally handicapped. For them the major difficulty with any legal problem is knowing how to obtain help. In some cases they may not even recognise that the problem that they are facing is a legal problem

➤ **The public defender**

It has been reported that as some public defenders are not compensated per case but per month, they therefore have no incentive to deal with a matter expeditiously. For various reasons the public defender system has not been extended to the rural areas

➤ **Access to legal services in rural/inaccessible areas**

Compared to the ratio of indigent people living in South Africa, there is still a great need for the expansion of legal aid to rural and inaccessible areas.

➤ **Small Claims Court**

The essential problem with the Small Claims Court is the delay involved for a matter to be finalised. It is possible that a matter will only be heard after the proceedings have been initiated. There is generally a long roll and matters are postponed many times before they are finalised.

Kuppan et al (2000) argues that women and children are also marginalised. The constitution, in terms of section 28(1)(h) guarantees, to a child who is affected by civil proceedings, the right to a legal practitioner, at state expense. The Legal Aid Board Guide does not specifically make mention of any legal aid to be guaranteed directly to children or women in particular. Women are greatly prejudiced in maintenance applications, Rule 43 applications, undefended divorce proceedings, as well as in domestic violence matters. Once again, the Legal Aid Board does not assist women with such matters. A women, who has been a housewife throughout her marriage and is now faced with one of the above matters, will have no financial means to proceed, yet the national legal aid scheme cannot assist her.

## **8.8 Access to credit**

A completely different approach for supporting the Small, Medium and Micro-enterprises (SMME) sector has emanated from the Department of Trade and Industry, which has spawned two parastatals, namely Khula Enterprise Finance Ltd. and Ntsika Enterprise Promotion Agency.

National government views SMME's as key vehicles for attaining several different objectives, viz. Employment generation, income redistribution, and enhancement of industrial competitiveness.

Khula Enterprise Finance Ltd was established in 1996 to improve the availability of loan and equity capital to small, medium and micro enterprises by offering loans, guarantees and seed funds in a sustainable manner to retail financial intermediaries in need of capital and capacity.

The other arm of the SMME support strategy, Ntsika, seeks to provide advisory services to existing and new SMMEs. Ntsika reaches its clientele largely through its Local Business Service Centre, of which there were over 80 in 2000. One data bank lists another 300—400 NGO's and companies which exist to support the SMME sector (Aliber, 2001).

Khula has only one trading subsidiary, called Khula Credit Guarantee Ltd. During 1999/00 1 566 guarantees were issued amounting to R275 million averaging 7 833 jobs credited. This brings the total guarantees to 3 656 since inception of the scheme. Since inception a total number of 136 672 loans were issued amounting to a commitment of R260 million and 27 retail financial intermediate were established. 22 community based organisations participated in Khula Start, this resulted in 3 200 group loans issues and on average 4 737 jobs were created. R62 million was committed for 17 projects for funding under the Land Reform Credit Facility. The Mentorship programme established 4 centres and referred 150 applicants to banks of which 60 were successful and an amount of R10 million was earmarked (Department of Finance, 2000).

The Poverty and Inequality Report (1998) indicated that the Khula lending programme has been in operation only since January 1997, but officials concede that the volume of loans made has not been sufficient to meet SMME's needs. In addition, national programmes for SMME development have focused primarily on the needs of urban SMME development.

## **8.9 Access to Education for learners with special needs**

### **8.9.1 Education of learners with special education needs**

This programme is concerned with learners who experience barriers to learning and development. These include learners who are regarded as disabled. There are currently 380 special schools in South Africa with a capacity to accommodate 64 603 learners.

In the fiscal year 2000/01 less than three per cent (2.82%) of the total education budget was allocated to special schools. This figure was slightly down from 1999/2000 (2.85%) and is projected to remain constant for the next two years of the MTEF cycle.

The Department of Education indicated the following as disparities related to the provision of special needs education inherited from the previous education dispensation:

- The incidence of disabilities in the Eastern Cape constitutes 17.39% of the disabled population yet the province has only 10.79% of the total number of special schools
- Gauteng has 17.14% of the disabled population but has 25.26% of the schools
- The Western Cape has 5.47% of the disabled population but has 21.58 of the schools

This mismatch between needs and provision is a direct result of previous apartheid policies that allocated facilities on a racial basis. These policies also centralised provision within the Western Cape and Gauteng so that the vast majority of learners attend residential special schools in a province other than their own since no facilities were available in their province of residence

A comparison between the overall incidence of disabilities and the number of learners accommodated in school reveals stark disparities, for example:

- 0.28% of learners in the Eastern Cape are enrolled in special schools yet the overall incidence figure for the population of disabled persons (of all ages) is 17.39%.
- This pattern is repeated across provinces indicating that significant numbers of learners who—based on the traditional model—should be receiving educational support in special schools are not getting any.
- While the national total incidence figure for disabilities (of all ages) is 6.55%, the total numbers of learners in special schools is 0.52%.

## **8.10 Access to Transport**

### **8.10.1 Transport for people with special needs**

The Department of Transport aims to develop a strategy and a transport system that will meet the requirements of passengers with special needs. Special needs customers are divided into the following groups:

- **Life cycle passengers**

Customers under this category have special needs by virtue of being in the normal stages of human life-cycle. This category includes children between 5—14 years, pregnant women and elderly persons.

- **Impairment passengers**

This group refers to transport users who have physical or cognitive impairments and disabilities.

- **Signature passengers**

These are passengers who due to their illiteracy, age, lack of familiarity with the language require assistance to use public transport.

### **8.10.2 Taxi Recapitalisation Programme**

The Taxi Recapitalisation Programme aims to address a need for improved transport services for customers with special needs. The programme aims to provide a safe transport system for the aged who in some instances wheel chair bound and for the disabled who use public transport but due to their physical condition find it difficult to use transport.

The programme also aims to address transport needs of elderly people in transporting them to clinics and pension pay points.

### 8.10.3 Rural Infrastructure Strategy

The aim of this strategy is to provide transport infrastructure and services in rural areas. Through transport, the rural communities will access markets, welfare services, employment and social activities. The Rural Transport Strategy aims to:

- Focus on the provision and development of infrastructure e.g. upgrading links to primary road networks
- Enable the provision of appropriate transport services and target the transport subsidies at

### 8.11 Special projects for poverty relief, infrastructure investment and job summit projects

Other specific grants that fund poverty reduction are Poverty Relief, Infrastructure Investment and Job Summit Allocations. The special allocation was instituted in 1997/8 and has been in existence for 4 years. The bulk of programmes funded combine income generation, especially for poor rural people, with some additional objective such as protection of water resources, erecting useful community infrastructure, waste management and training.

**Table 8.2: Poverty relief and job summit allocations**

<b>R million</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>
<b>Agriculture:</b> Land care, Food Programme	20	25	35	35	50
<b>Arts, Culture, Science and Technology:</b> Agricultural production and processing, Investing in culture		30	55	48	64
<b>Education:</b> Adult Basic Education and Training, Rural School Building Programme		-	73	74	114
<b>Environmental Affairs and Tourism:</b> Integrated Waste Management Campaign, Local tourism infrastructure, Tourism product development, Coastal development, SDI projects	70	99	175	240	300
<b>Health:</b> Nutrition and Household Food security	23	7	10	12	15
<b>Housing:</b> Rental Housing project	75	-	75	75	-
<b>Labour:</b> Social plan technical support facility, employment services, Skills development	50	3	10	-	-
<b>Provincial / Local Government Affairs:</b> Social plan implementation, Local Economic Development Fund	45	78	79	102	120
<b>Public Works:</b> Community Based Public Works	377	249	274	274	274

<b>R million</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>
<i>Social Development</i> projects	40	120	50	100	71
<i>Sport and Recreation</i> facilities			40	90	130
<i>Transport:</i> Road Upgrading and Maintenance	100	-	94	100	100
<i>Water Affairs and Forestry:</i> Working for Water, Community Water Supply and Sanitation, SDI projects	200	351	410	350	330
	0	228	120	-	-
<b>Total</b>	<b>1 000</b>	<b>1 200</b>	<b>1 500</b>	<b>1 500</b>	<b>1 568</b>

Source: National Treasury

The purpose of the allocation has changed since its inception, from having a special employment programme focus in 1997/8 to the provision of short-term poverty relief in 1998/9. In 1999/00 part of government's commitments at the Job Summit became an additional obligation of the special allocation. The Table above reflects amounts allocated to different Government Departments from 1999/00 to 2003/04 financial year. An amount of R1,5 billion a year will continue to be allocated to Departments over the next three years.

### **8.11.1 Community Based Public Works Programme (CBPWP)**

The Community Based Public Works Programme is a short-term programme aimed at poverty alleviation, skills training, the development of assets and capacity building.

The key objectives of the CBPWP are as follows:

- Generate temporary employment on large scale during the construction of community assets
- Create permanent income-generating activities through the operation and maintenance of community productive assets
- Improve the living standards and quality of life of the poorest segments of the population by providing basic community level infrastructure
- Stabilise and improve community livelihoods that are threatened by drought and other natural disasters
- Build capacity of local development organisations and local government structures to manage community development ventures, and
- Promote partnership between public sector, private sector and civil society in managing community development ventures

The National Department of Public Works commissioned two independent evaluations of different components of the CBPWP. In 1996, the International Labour Organisation (ILO) and the Community Agency for Social Enquiry (CASE) carried out an evaluation of the Community

Empowerment Programme—CASE/ILO, *Reaching the poorest of the poor? An evaluation of the Community Employment Programme, 1996*. In 1997, the same two agencies evaluated the provincial component of the CBPWP (Department of Public Works, 2000).

Results of an evaluation done on Programme highlighted the following:

- A generally inequitable geographic spread of projects
- Imbalance in project type
- Lack of monitoring and evaluation of the programme
- Lack of proper administrative co-ordination between Ministries having jurisdiction over public works
- Lack of capacity for implementation

Taking account of the findings and recommendations of the CASE/ILO evaluations, the Department of Public Works re-aligned the CBPWP to effect the following elements:

- Targeting at district councils rather than provinces
- Provisions for clusters of projects at local level, aiming at the mutual reinforcement of benefits
- Emphasis to be placed on assets capable of providing continued benefits such as directly productive, labour saving and road access infrastructure
- The use of District Councils and NGO's as Programme Implementing agents and
- Project appraisal and approval (through the Provincial Co-ordinating Committees) and monitoring

Since the early evaluations of the CBPWP, the programme has implemented many of the recommendations, as part of the Re-aligned CBPWP. An effective Programme Management System for the CBPWP has been established, which is a systematic guide and a procedures manual, which informs role-players of how the programme is set-up and administered and how projects are to be planned and implemented. An effective monitoring system also enables continual evaluations and improvements with respect to service delivery (Department of Public Works, 2000).

### **8.11.2 Skills Development Strategy**

The government's commitment to promote active labour market policies is well demonstrated in the Skills Development Act, 1998 and the Skills Development Levies Act, 1999. These two pieces of legislation introduce new institutions, programmes and funding policies designed to increase investment in skills development. There are two over-riding priorities that this legislation seeks to address. The first is the ever-present reality of the global economy and the imperative to increase skills to improve productivity and the competitiveness of industry, business, commerce and services. The second is to address the challenges of social development and the eradication of poverty (Department of Labour, 2000).

The Skills Development Programme seeks to ensure that youth, women and persons with disabilities are able to improve their access to the labour market and their skills development within the labour market. The Department of Labour (2000) identified the following as projects for designated groups:

1. The Development Support Strategy
2. Domestic Workers Project
3. Bursary Scheme for Person with Disabilities
4. Restructuring of Shelter Employment Factories
5. Wage Subsidy Scheme

### **8.11.3 Problems with poverty relief funds**

Under spending is a key problem with poverty relief funds. A total of R1,161 billion remains unspent. Of this amount, R402,4 million remains unspent from 1999/00 and R758,8 million from 2000/01. While some departments appear to have spent their 1999/00 allocation in that financial year, none of these funds had actually reached any projects. For example, departments transferred money to provinces, to other agencies or to other programmes within their departments (Interview with Julia de Bruyn, National Treasury).

An analysis of the reasons for under spending indicates that, in part, the problem lies in the late finalisation of allocations to departments and lack of realism among departments about the length of time necessary in planning cycles. Projects of necessity require planning processes of at least four months before disbursements can start. In all the years that this allocation has been made, departments received final allocations less than six months before end of the financial year, although some departments had three-year MTEF allocations in 1998/99<sup>11</sup>

Julia de Bruin also raised concerns on both efficiency and effectiveness of the allocation. These include:

- Overlapping (and in some cases duplication) of projects by different departments
- Departments funding projects which are at best marginally related to their core function and skills
- The leakage of substantial proportions of the funding to the non-poor
- The effectiveness of spending in addressing poverty
- Lack of programme management capacity at all levels
- Inadequate degree of integration and co-ordination amongst the departments implementing projects

### **8.12 Findings on current Government measures to address asset and capability poverty**

The Committee finds that Government programmes to address deprivation in health, education, housing, land, basic services such as access to water and sanitation, electricity and access to credit are well conceived and potentially well targeted. The barriers to access remain administrative and institutional. Analysis also shows that across all programmes it is the better off who are able to access benefits through these programmes.

Evidence put to the Committee shows that the poor are generally unable to access health care and primary education because they do not have even the most basic income for transport, food and basic clothing. It is the Committee's considered view that these key Government programmes, put into place to address capability and asset poverty, are essential and will in the long term result in sustained human development and economic growth. However in the immediate term their policy efficiency, especially with regard to those poorest people in the rural and informal areas, is being compromised because of unsustainable levels of income poverty.

Moreover the Committee finds that, given apartheid and structural unemployment, the range of poverty relief projects, while in many cases innovative and responsive, are unable to make any significant impact on mass based unemployment and levels of income poverty in the immediate term. Many of these projects, are also not cost efficient in terms of their outcomes.

It is therefore the Committee's view that for the long- term policy benefits of health, education and more generally, basic services to make a developmental impact on the poorest, Government needs to take urgent steps to provide the basic means to enable the poorest to access these benefits. The Committee also recognises that barriers to access are not only bureaucratic (administrative) or to do with capacity constraints within Government itself but, based on evidence put before it, also that many of the poorest are trapped in income poor households.

### **8.13 Poverty measures: Requirement to target social policy**

The World Bank says"

"The measurement and analysis of poverty, inequality and vulnerability are crucial for cognitive purposes (to know what the situation is); for analytical purposes (to understand the factors determining this situation);for policy making purposes (to design interventions best adapted to the issues); and for monitoring and evaluation purposes (to assess whether current policies are effective; and whether the situation is changing)".<sup>12</sup>

The Committee's review of human development and various poverty studies in South Africa indicate the need for nationally agreed poverty measures. Nationally agreed poverty measures must have a conceptual and empirical basis. Conceptually, the Committee's framework for Comprehensive Social Protection acknowledges that poverty has many dimensions. Effective

policy must focus on capability poverty (deprivation in health and education), income poverty (lack of earnings and other sources of income) and asset poverty (access to resources).

Social policy intervention must also consider how inequality, participation, social exclusion and vulnerability contribute to poverty and people's social capacity for self-reliant development. Such a broad view of poverty requires special attention to the measurement and analysis that informs specific policy options. For this reason a conceptually sound and an empirically based understanding of poverty indicators and measures of well-being is critical.

Implementing concrete policy actions requires that Government develop mechanisms and procedures for gathering and evaluating data on poverty and human development. South Africa has made important advances on this front since 1994 when Government first began to collect official statistics on national socio-economic indicators. Statistics South Africa continues to build national capacity for collecting this important social and economic data. The 1996 census and national surveys of social indicators such as the SALDRU/ World Bank<sup>13</sup> survey in 1993 and the subsequent October Household Surveys (OHS) have provided important evidence to help orient current policies as well as to inform many of the submissions to this Committee

The need for an objective indicator of poverty to be used as a basis for determining grant allocations and various forms of poverty support has long been recommended. However, to date no single indicator has been consistently used across all departments for public policy purposes. For the purposes of this report a Committee study found that the minimum food requirement per person was R286.5 per person per month. This is based on a daily food requirement estimated at R9.55<sup>14</sup>.

If it is assumed that the non-food requirement per person is 50 percent of the total consumption need for basic survival, the Committee estimate translates into a monthly requirement of R570 per person.

### **8.13.1 Other Government programmes on poverty**

It is evident that the democratic Government has made significant strides to ensure policy and budget reprioritisation to provide access to resources is evident. Re-prioritisation of resources is directed at such basic ingredients as access to water, sanitation, electricity, housing, knowledge/education, health care, land and other productive resources.

Based on the review, however, the Committee concluded that while there has been considerable progress in some aspects, current measures do not adequately contribute to a minimum package of goods, services and benefits. Many programmes for alleviating poverty and meeting basic needs are not targeted effectively in rural areas and to beneficiaries. Gaps in coverage and inequalities exist in the provision of services.

For example, the Committee found that most rural women and disabled people still experience difficulties in gaining access to land. Research shows that about 80% of the total land claims

registered and settled to date by the Department of Land Affairs are urban, yet rural claims involve a far larger number of people.

A survey done on housing subsidy schemes also indicate that people in the rural areas are less likely to know about subsidy schemes. In terms of household income, most of those who knew about the subsidies were those earning between R2 000 and R3 500 (63%), households in the lowest income category had less knowledge of the subsidy scheme (58%).

The Poverty and Inequality Report (1998) indicated that national programmes for SMME development have focused primarily on the needs of urban SMME development. Results of an evaluation done by CASE and ILO highlighted that there is a generally inequitable geographic spread of Public Works projects.

While the Government has implemented new initiatives with regard to sanitation and water schemes, there are still millions of South Africans without adequate access to services. Representation made to the Committee indicated that lack of access to running water forces many people, especially the rural poor, to walk long distances to fetch water. Most households in rural areas have no toilet facilities and have access to water from a river, a bore-hole or tank.

Several problems have also been encountered with regards to the provision of nutrition to school children. In 1998/99, the Primary School Nutrition Programme aimed to target 17 500 schools and serve a meal to 5 574 305 school children. Figures from the Department of Health indicate that the target of the number of beneficiary learner and schools has never been reached. This indicates that not all children are benefiting from the school feeding scheme.

### **8.13.2 Need for Government co-ordination and capacity for implementation**

The Committee recognises that a lack of technical knowledge and experience at different Government levels is a contributory constraint to the implementation of poverty relief programmes. There is also lack of integrative structures to co-ordinate policy formulation and implementation of poverty relief programmes in Departments. It is recommended that technical capacity be built at different levels of Government to optimise the impact that projects could have on the lives of the poor. Greater co-ordination between different levels of Government should also take place in order to implement poverty relief programmes. Agreement needs to be reached on a realistic time frame for the implementation of projects.

At this stage there is no effective, consistent form of monitoring and evaluation of poverty alleviation programmes in South Africa. The strategic management of policies for reducing poverty and meeting basic needs requires that such a system be established to monitor progress. It is recommended that an agent be established to monitor and evaluate poverty relief programmes, and ensures that this is done in a transparent manner.

## **8.14 South Africa's social assistance system: Addressing income poverty**

South Africa's social security system aims to address a state of poverty rooted in apartheid's legacy. Low or non-existent incomes contribute directly to poor access to health care, education, housing, and social infrastructure. This section evaluates the impact of the income grant programme on the state of poverty in South Africa using a household-level micro-simulation model. It considers possible additions and alternatives to the existing programmes, including a targeted unemployment grant and a basic income grant.

### **8.14.1 An overview of the social assistance system<sup>15</sup>**

In April 2001 an estimated 3.5 million South Africans received a social assistance through some form of income grant<sup>16</sup>. The State Old Age Pension (SOAP) is the largest social assistance programme with about 1.9 million beneficiaries. The important redistributive impact of this programme has been recognised by government, labour and academia.<sup>17</sup> The disability grant is the second largest programme in Rand terms, but smaller than the Child Support Grant (CSG) in terms of beneficiaries. Disability Grant beneficiaries numbered 643,107 in April 2001. Eligibility for the grant is determined based on a medical diagnosis assessing the degree of disability, along with a means test. Reform of the Disability Grant (DG) has been the subject of a recent task team report.<sup>18</sup>

The introduction of the Child Support Grant represents an important reform introduced by the government since the transition to democracy. In April 2001, 800,476 caregivers received grants with an estimated value of R120 million. The distinctive feature of the programme is the concept of 'follow the child', meaning that the benefit is independent of the child's family structure. This grant was introduced in April 1998 and provided R100 per month per child for children under the age of seven within a means test. The declared goal then was to reach 3 million children within the next five years. At the same time, the phasing-out of the State Maintenance Grant (SMG) with about 350,000 beneficiaries started. The Department of Social Development had to phase out the SMG over a period of 3 years. In April 2001, the CSG benefit was raised to R110, with a commitment to adjusting it for inflation in subsequent years.<sup>19</sup>

Other programmes include the Foster Care Grant (FCG), which provides benefits for families that have adopted a child, and the Care Dependency Grant (CDG), which supports parents taking care of a disabled child at home. At the age of 18, the disabled individual can apply for a Disability Grant. In terms of numbers of beneficiaries, the SOAP, the DG and the CSG are the largest social assistance programmes within the government funded social security system.

### **8.14.2 The micro-simulation model<sup>20</sup>**

To better understand the current and future impact of social assistance grants on the poorest households the Committee commissioned research using micro simulation modelling. The micro-simulation model used in this analysis is built on the SALDRU database, a household survey covering 9,000 households including approximately 40,000 individuals.<sup>21</sup> The database contains estimates of population, broken down by demographic variables (race, gender, age, geographical attributes, etc.), characteristics of household structure, measures of income and spending patterns,

and other socio-economic indicators. In order to obtain a nationally representative sample, the SALDRU survey employed a two-stage self-weighting design using Census Enumerator Sub-districts (ESD) and households, adjusted provincially to match the racial distribution based on the 1991 Census as well as demographic projections (SALDRU 1994).

When examining the distribution of resources on the household level, one has to be aware that the intra-household distribution is often neglected. While until recently, research often assumed a 'unitary model' in which the household ... (acts) as a single decision-maker... new evidence points to various forms of 'collective' or 'bargaining' models.<sup>22</sup> As Haarmann points out, "pooling of resources does not mean equal access to or even equal decision making power over the resources."<sup>23</sup> The distributional analysis in this report follows the lead of the 'Key Indicators of Poverty' report<sup>24</sup> and the 'Poverty and Inequality Report'<sup>25</sup>, based on consumption quintiles and defining the poor as the 40% of the population with the lowest consumption. This methodology is discussed in more detail in the appendix.

### 8.14.3 Household structure and social security reform

The table below summarises South Africa's household structure as modelled for March 2001. The table breaks the statistics down according to identified household. The table indicates an estimated population for South Africa in March 2001 of approximately 45 million people. This compares to the Statistics South Africa estimate of 43 million people in October 1999. The typical South African lives in a household with six members.

**Table 8.3: Household structure (March 2001)**

	Only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Only work. age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
<b>No. of people</b>								
Total	58,604	28,758,097	603,631	9,446,117	4,612,308	997,625	400,953	44,877,335
No. 0-17	58,604	15,090,087	400,417	4,419,833	0	0	0	19,968,941
No. 0-4	7,082	4,301,805	62,734	1,274,775	0	0	0	5,646,396
No. 5-13	21,407	7,719,485	235,152	2,305,151	0	0	0	10,281,195
No. 14-17	30,115	3,068,797	102,531	839,907	0	0	0	4,041,351
No. 18-59/64	0	13,668,010	0	3,533,337	4,612,308	600,443	0	22,414,098
No. 60/65-	0	0	203,214	1,492,947	0	397,182	400,953	2,494,296
<b>% of people:</b>	<b>0.1%</b>	<b>64.1%</b>	<b>1.3%</b>	<b>21.0%</b>	<b>10.3%</b>	<b>2.2%</b>	<b>0.9%</b>	<b>100.0%</b>
% children 0-17	0.3%	75.6%	2.0%	22.1%	0.0%	0.0%	0.0%	100.0%
% 0-4	0.1%	76.2%	1.1%	22.6%	0.0%	0.0%	0.0%	100.0%
% 5-13	0.2%	75.1%	2.3%	22.4%	0.0%	0.0%	0.0%	100.0%
% 14-17	0.7%	75.9%	2.5%	20.8%	0.0%	0.0%	0.0%	100.0%
% 18-59/64	0.0%	61.0%	0.0%	15.8%	20.6%	2.7%	0.0%	100.0%
% 60/65-	0.0%	0.0%	8.1%	59.9%	0.0%	15.9%	16.1%	100.0%

	Only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Only work. age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
<b>Average No. of people in the HH:</b>	<b>3.5</b>	<b>6.5</b>	<b>4.4</b>	<b>8.9</b>	<b>2.2</b>	<b>3.4</b>	<b>1.7</b>	<b>6.4</b>
Av. 0-17	3.5	3.5	3.1	4.4	0.0	0.0	0.0	3.2
Av.0-4	0.5	1.0	0.5	1.3	0.0	0.0	0.0	0.9
Av.5-13	1.5	1.8	1.8	2.3	0.0	0.0	0.0	1.7
Av.14-17	1.5	0.7	0.8	0.8	0.0	0.0	0.0	0.6
Av. 18-59/64	0.0	3.0	0.0	3.3	2.2	2.1	0.0	2.9
Av. 60/65-	0.0	0.0	1.3	1.2	0.0	1.2	1.7	0.3

Based on the above table several observations can be made:

- Most pensioners (84%) live in households with non-pensioners, so it is likely that old age pensions will support living standards beyond their immediate beneficiaries.
- Nevertheless, most adults (81%) and children (76%) live in households with no pensioners, so they are less likely to benefit from the grants paid to pensioners. It becomes clear that while pension money often benefits poor children, pensions are not good at targeting them.
- Over four million working age adults live in households with no pensioners or children. The poor in these households are excluded from a social security system that protects children and pensioners.
- Most South Africans live in large households (more than 6 people). Since larger households tend to be poorer, a fixed grant to each household will not be efficient in targeting the poor--larger per capita benefits will accrue to wealthier households.

#### 8.14.4 Parental care and household structure

A number of household structural characteristics are important when considering social security reform. One important characteristic with important implications for social security reform is the structure of parental care.

While more than half (54%) of South Africa's children live with both parents using the less restrictive "parent in household at least 15 days per year" test, only 41% live with both parents when using the more restrictive "6 months per year" test. 18% of South Africa's children have no parent in their household at least six months per year (but this figure drops to 12.5% with the less restrictive "15 days per year" test.)

#### 8.14.5 The household structure and poverty

The table below shows the distribution of the South African population broken down by consumption quintiles across household types. Consumption provides a better measure of long-term well being than does income.<sup>26</sup>

Poor households are large and crowded. Nearly thirty percent of South Africans live in the poorest household consumption quintile--more than twice as many people as in the wealthiest quintile. Half of the adults of pensionable age who live alone are in the wealthiest quintile--only a tenth are in the poorest quintile. The model further provides a picture of the demographics of the people living in the 40% of households with the lowest per capita consumption. 53% of South Africans live in these poorest households, including 60% of the nation's children.

The Committee's analysis shows that:

- Poor households are more likely to be made up of pensioners living with children and working age adults.
- Eight people live in the average poor household, compared to six in the average household for the nation as a whole. (The average household size in the poorest quintile is more than twice as large as the average household in the wealthiest quintile.)

#### **8.14.6 The impact of the current social assistance system**

This section compares a scenario without any social security assistance with a scenario modelled on the current level of take-up of existing social grants. It provides an assessment of the social implications of the current system.

In the absence of social assistance transfers, 58% of South African households would fall below the subsistence line of R401 per adult equivalent. 26.4% of South Africa's households are headed by women.

The household micro-simulation model provides an assessment of the social implications of the current delivery of social security benefits, based on data available for March 2001.

Approximately half of the people in the bottom two quintiles live in households that receive no social security benefits. Out of a projected 23,840,471 people in the bottom two quintiles, the simulation model estimates that 11,840,597 individuals (49.7%) live in households that receive no social assistance. The average per capita social assistance transfer is R42, of which two-thirds (R28) is distributed through the State Old Age Pension (SOAP). The disability grant accounts for approximately twenty percent (R9), and the Child Support Grant only about ten percent (R4). Existing social security programs reduce the average poverty gap by 22.9%, but leave 13,063,820 in destitution (with income levels less than half the poverty line). The simulated economic and fiscal impact—as represented by transfer statistics—of the current system is summarised in the table below.

**Table 8.4: Social Transfer Statistics (March 2001)**

	Only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Only work. age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
Total number of people reached by social assistance programmes:								
SOAP	0	0	158,579	1,222,999	0	287,822	228,913	1,898,312
CSG	2,035	759,422	22,647	312,655	0	0	0	1,096,759
DG	0	360,641	4,763	181,542	89,874	10,397	955	648,172
Total	2,035	1,120,063	185,990	1,717,195	89,874	298,218	229,868	3,643,244
Total annual transfers by social assistance programmes (in millions):								
SOAP	R 0	R 0	R 1,077	R 8,152	R 0	R 1,878	R 1,427	R 12,534
CSG	R 3	R 1,002	R 30	R 413	R 0	R 0	R 0	R 1,448
DG	R 0	R 2,247	R 27	R 1,215	R 553	R 71	R 4	R 4,118
Total	R 3	R 3,250	R 1,135	R 9,780	R 553	R 1,949	R 1,431	R 18,099
Total annual transfer to quintiles (in millions):								
1. Qu.	0.0	1,081.5	448.0	4,093.6	119.4	436.1	125.7	6,316.7
2. Qu.	1.3	1,031.2	376.3	2,980.9	76.5	493.3	257.5	5,261.3
3. Qu.	1.4	747.5	237.3	1,943.5	143.5	350.4	315.7	3,844.5
4. Qu.	0.0	307.5	69.6	574.1	151.8	355.1	289.6	1,749.3
5. Qu.	0.0	73.4	0.0	188.5	74.6	320.8	439.8	1,084.6
Total annual transfer rural / urban. (in millions):								
Rural	2.7	1,875.8	888.3	6,318.6	210.4	901.7	585.2	10,830.5
Urban	0.0	1,363.1	241.3	3,450.9	355.4	1,049.5	847.0	7,336.5
Total annual transfer by race (in millions):								
“African”	2.7	2,805.8	1,064.7	8,818.0	388.0	1,269.3	768.7	15,403.1
“Coloured”	0.0	331.4	61.9	719.8	109.8	214.1	36.5	1,490.5
“Indian”	0.0	48.3	6.7	113.7	28.8	138.5	0.0	319.0
“White”	0.0	80.5	0.0	132.5	46.9	333.8	623.1	1,179.4

The simulation estimates that 3,643,244 individuals are currently receiving social security—more than half of these (1,898,312) receiving the State Old Age Pension. The estimated number of Child Support Grant beneficiaries is 1,096,759, while 648,172 people receive the Disability Grant. The total value of transfers is R18.1 billion, of which R11.6 billion is distributed to individuals living in the bottom two quintiles. Approximately sixty percent of the benefits are transferred to rural recipients, consistent with the strong rural bias to South African poverty.

### 8.14.7 Findings

The problem of poverty has not been adequately addressed by the existing social security programmes—most of the poor live in households that receive no social security benefits at all, and the rest remain poor in spite of the benefits they receive. Nevertheless, South Africa’s social security grants make a significant impact, reducing the average poverty gap by approximately 23%.

The relatively low percentage belies important variances. The State Old Age Pension reduces the poverty gap for pensioners by 94%. Poor households that include pensioners are on average significantly less poor than households without pensioners. Social security reduces the average

poverty gap for “skip generation” households by 62.4%, and for three-generation households by 46.1%. For the average poor household without a pension-eligible member, however, social security’s impact is almost negligible. For households with only children and working age adults, the average poverty gap reduction is only 8.4%, and for households comprised only of working age adults, the reduction is only 7.6%. South Africa’s social safety net has a very loose weave.

### 8.15 Social security take-up and the means test

The means test is the central factor distinguishing the basic income grant from other forms of social security. The application of the means test and other eligibility criteria influences the rate of take-up of existing programmes. This section analyses the current take-up of South Africa’s social security programmes. The role of the means test in affecting take-up is explored, with a particular focus on the Child Support Grant. An example of the implications of the means test and take-up rates is evaluated using a simulation exercise involving the extension of the CSG to age 18.

#### 8.15.1 An assessment of the potential of full take-up

In order to quantify take-up rates, it is necessary to estimate the full number of individuals eligible for the existing social security programmes. The scenario discussed in this section is based on micro-simulations run with the assumption that all beneficiaries received the entire set of benefits to which they were entitled, based on detailed household characteristics. This report and a previous study with a 1996 baseline<sup>27</sup> provide detailed estimates on the cost of fully implementing the existing social security system. The full take-up simulation provides the baseline scenario for the subsequent analysis. The following table summarises key social security statistics by household type.

**Table 8.5: (Baseline scenario): Full take up of all grants**

Only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Only work. age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
Total No. of people living in the bottom two quintiles:							
35,696	14,982,029	444,791	7,039,617	894,528	382,381	61,430	23,840,471
% of people living in the bottom two quintiles:							
0.1%	62.8%	1.9%	29.5%	3.8%	1.6%	0.3%	100.0%
Total No. of people living in HH receiving no social assistance (bottom two quintiles):							
11,496	4,050,351	1,961	13,268	805,550	0	0	4,882,627
% of people living in HH receiving no social assistance (bottom two quintiles):							
32.2%	27.0%	0.4%	0.2%	90.1%	0.0%	0.0%	20.5%
Average No. of people living in the HH (bottom two quintiles):							
4.2	7.4	4.7	9.3	2.7	3.7	1.4	7.6
Average No. of people employed in the HH (bottom two quintiles):							
0.0	1.0	0.0	0.8	1.0	0.6	0.0	0.9
Average No. of people receiving social assistance (bottom two quintiles):							
1.1	1.5	2.3	3.1	0.1	1.3	1.4	1.9

<b>Only child.</b>	<b>Child. + work. age adults</b>	<b>Child. + adults in pen. age</b>	<b>Child. + work. age adults + adults in pen. age</b>	<b>Only work. age adults</b>	<b>Work. age adults + adults in pen. age</b>	<b>Only adults in pen. age</b>	<b>Total</b>
Average % closed of the poverty gap by social assistance (bottom two quintiles):							
23.2%	22.4%	80.3%	60.4%	10.9%	77.7%	100.0%	36.6%
Average per capita social assistance transfer (bottom two quintiles):							
R 26	R 30	R 200	R 113	R 28	R 216	R 568	R 62
Average per capita social assistance transfer through SOAP (bottom two quintiles):							
R 0	R 0	R 180	R 84	R 0	R 209	R 568	R 33
Average per capita social assistance transfer through CSG (bottom two quintiles):							
R 25	R 21	R 20	R 20	R 0	R 0	R 0	R 19
Average per capita social assistance transfer through DG (bottom two quintiles):							
R 0	R 9	R 1	R 9	R 26	R 8	R 0	R 10

Even with full take-up of all social security programmes, nearly five million people living in the bottom two quintiles live in households that received no benefits at all. Approximately eighty-four percent (4.1 million) of these people are children or adults who live with children. The remainder (806 thousand people) consists of adults who live in households with only working age adults. Ninety percent of those poor households (bottom two quintiles) made up only of working age adults would fail to receive social security benefits.

*The existing social security system has the capacity to close 36.6% of the poverty gap if all benefits are distributed to everyone entitled. The closing of the gap, however, is not evenly distributed across household types. Households containing only working age adults have on average only 10.9% of the poverty gap closed, while the entire poverty gap for households containing only adults in pensionable age would be closed. Households containing only children and working age adults have an average of only 22.4% of the poverty gap closed, while “skip generation” households have an average of 80.3% of the poverty gap closed. 60.4% of the poverty gap for three-generation households is closed.*

With full take-up, the average per capita transfer rises to R62, with most of the increase relative to current take-up associated with the Child Support Grant. The average per capita transfer distributed through the CSG rises from R4 to R19. The average per capita SOAP transfer rises from R28 to R33, and the Disability Grant from R9 to R10.<sup>28</sup> As a result, the relative shares of the programmes change. Most of the benefit of the existing social security system with full take-up still comes from the State Old Age Pension (SOAP)—but it falls to approximately sixty percent of the per capita social assistance transfer, while the share attributable to the CSG rises to a third (from ten percent).

The model quantifies the number of beneficiaries and the total amount of transfers associated with each of the social security programmes. The table below documents the potential number of beneficiaries and the associated amounts of transfers under the assumption of full take-up on the part of all eligible individuals.

**Table 8.6: (Baseline scenario): Full take up of all grants**

	Only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Only work. age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
Total number of people reached by social assistance programmes:								
SOAP	0	0	195,027	1,468,375	0	322,480	251,315	2,237,196
CSG	12,203	3,814,987	104,119	1,529,350	0	0	0	5,460,659
DG	0	417,967	2,917	170,825	118,001	8,339	0	718,050
Total	12,203	4,232,954	302,062	3,168,550	118,001	330,819	251,315	8,415,905
Total annual transfers by social assistance programmes (in millions):								
SOAP	R 0	R 0	R 1,310	R 9,800	R 0	R 2,106	R 1,554	R 14,770
CSG	R 16	R 5,036	R 137	R 2,019	R 0	R 0	R 0	R 7,208
DG	R 0	R 2,603	R 20	R 1,143	R 724	R 57	R 0	R 4,546
Total	R 16	R 7,639	R 1,467	R 12,961	R 724	R 2,163	R 1,554	R 26,524
Total annual transfer to quintiles (in millions):								
Poorest Qu.	2.7	3,036.1	574.8	5,660.0	142.1	478.5	139.6	10,051.9
2 <sup>nd</sup> Qu.	8.1	2,343.9	493.8	3,909.6	137.3	516.0	278.6	7,742.2
Middle Qu.	4.1	1,562.7	296.4	2,459.3	184.0	430.2	339.8	5,404.5
4 <sup>th</sup> Qu.	1.4	605.0	89.5	746.1	189.8	398.2	341.6	2,381.0
Wealthiest Qu.	0.0	159.8	6.9	237.4	91.2	342.7	465.9	1,298.5
Total annual transfer rural / urban. (in millions):								
Rural	16.4	4,933.9	1,165.8	8,685.1	296.5	1,007.6	631.5	16,805.8
Urban	0.0	2,717.6	292.9	4,275.6	445.8	1,149.8	943.8	9,862.5
Total annual transfer by race (in millions):								
“African”	16.3	6,921.0	1,379.3	11,843.0	539.9	1,412.2	837.8	23,328.9
“Coloured”	0.0	614.0	73.9	872.6	124.1	229.5	51.4	1,984.8
“Indian”	0.0	88.6	6.7	128.9	36.4	146.7	6.7	396.7
“White”	0.0	165.5	3.7	170.3	55.2	376.5	667.8	1,403.4

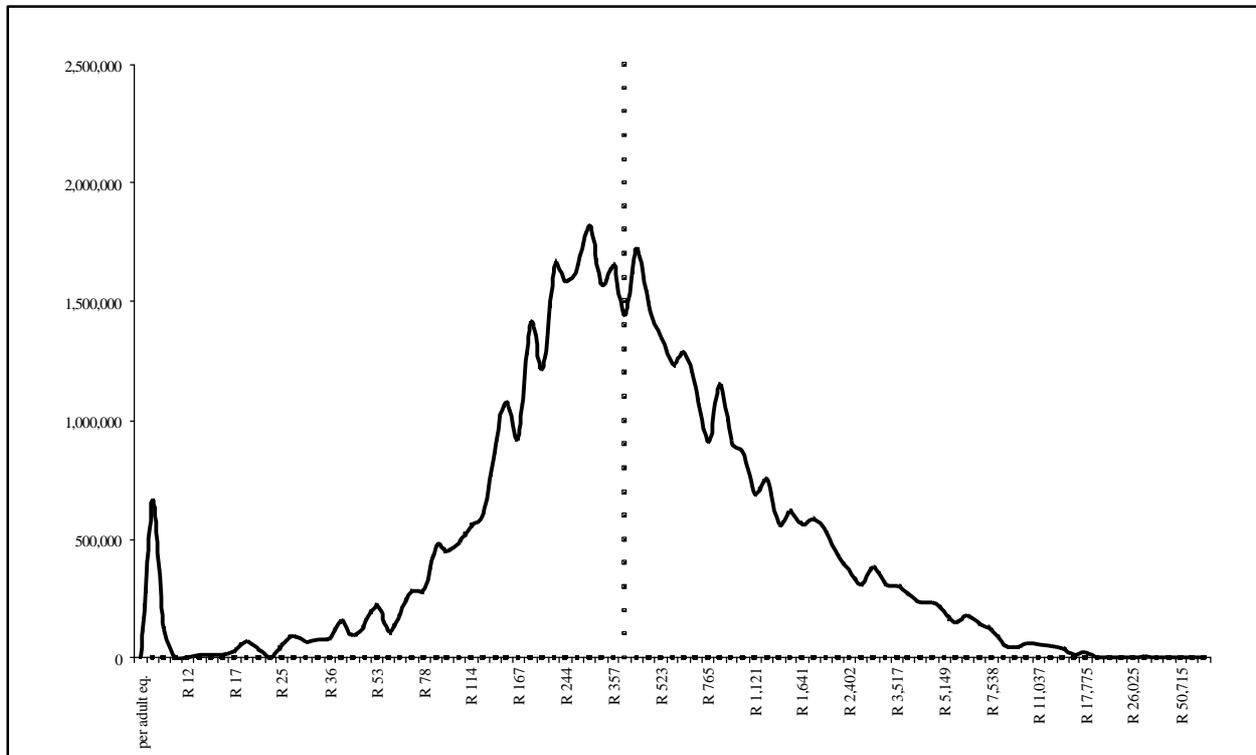
More than eight million people are eligible for South Africa’s social security programmes, of which over five million are children. With full take-up, South Africa would spend R26.5 billion rand on the transfer payments--R14.8 billion for the SOAP, R7.2 billion for the CSG, and R4.5 billion on the disability grant (DG). Approximately 83% of the grants would go to households that include children, and nearly half the transfers would be paid to “three generation” households.

The distribution of the grants is progressive--the potential value of grants to the poorest quintile would be 30% greater than the amount provided to the next poorest quintile, and about eight times the value of transfers to the wealthiest quintile. In the wealthiest quintile, seventy percent of the transfers would go to households without children, compared to eight percent in the poorest quintile. Nearly two-thirds of the transfers would be paid to rural households.

The figure below depicts the impact of the distribution of income if all potential beneficiaries of South Africa’s social security programmes received the full grants for which they were eligible. The figure is constructed with population on the vertical axis and relative income categories on the

horizontal axis. That is, an increment along the horizontal axis represents a ten percent increase in income. The dotted vertical line represents the subsistence line of R401 per adult equivalent.

**Figure 8.2: South Africa's distribution of income (assuming full take-up of existing social security programmes)**



The figure documents that even with full take-up of all grants, over half the population remains below the subsistence line. With full take-up of all social security programmes, 21,955,935 people fall below the poverty line, while 20,768,683 are above. In particular, a large group of the poor are concentrated in the low tail of the distribution. This group is particularly difficult to target with means tested programmes.

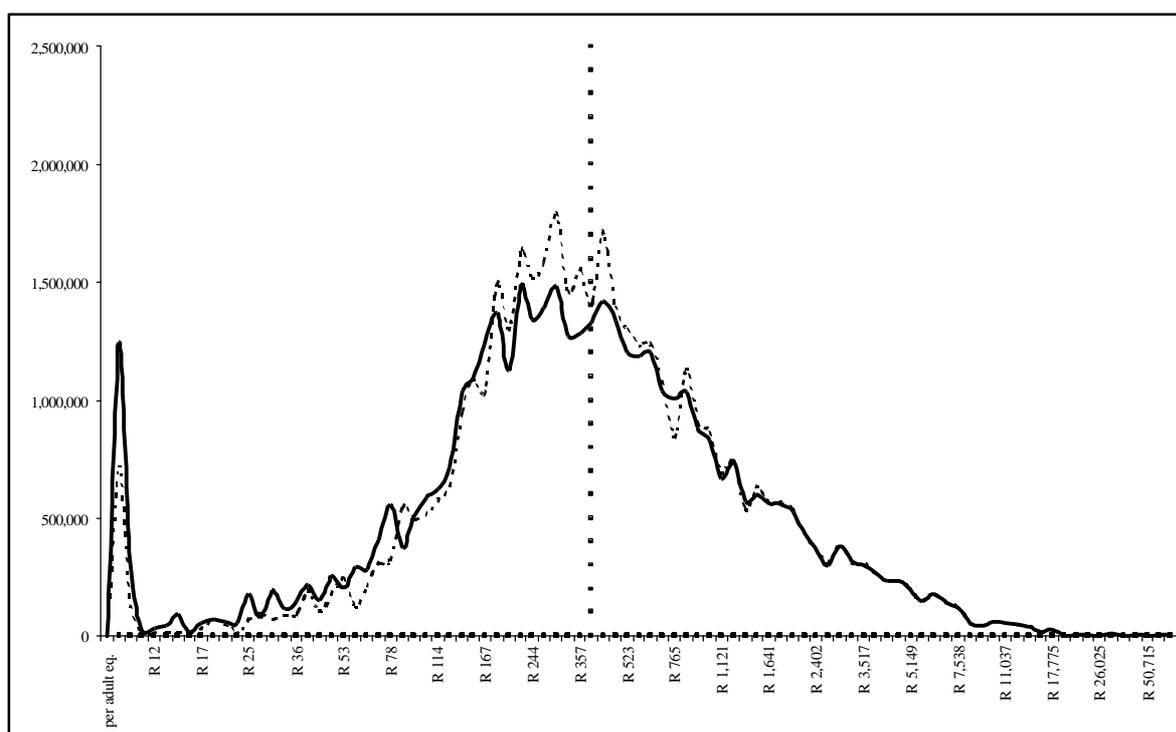
Comparing the current take-up scenario with the full take-up scenario provides measures of rates of take-up. The table below compares the actual and predicted numbers of beneficiaries with the estimates of eligible beneficiaries based on the full take-up scenario. The actual numbers of beneficiaries are provided by the Department of Social Welfare's SOCPEN system for March and April 2001. The approximate take-up rate is the same using the actual and predicted numbers of beneficiaries

**Table 8.7: Take-up Rates for South Africa’s Major Social Security Programmes**

Social security programme	Actual No. of Beneficiaries	Predicted No. of Beneficiaries	Eligible No. of Beneficiaries	Take-up rate
State Old Age Pension	1,905,263	1,898,312	2,237,196	85%
Child Support Grant	1,084,659	1,096,759	5,460,659	20%
Disability Grant	643,107	648,172	718,050	90%
Total	3,633,029	3,643,243	8,415,905	43%

The estimated take-up rate for the Child Support Grant is approximately 20%, while the estimated take-up rate for the State Old Age Pension is 85%. The following distribution figure depicts the simulated distribution of income under current take-up compared to the distribution with full take-up. The dotted line represents the full take-up distribution from the figure, while the solid line represents the distribution of income with March 2001 take-up.

**Figure 8.3 South Africa’s distribution of income comparison March 2001 versus full take-up**



The higher tail depicted by the solid line represents the much greater number of people at the bottom of the income scale with existing social security take-up. The solid line lies above the dotted line at the lower end of the distribution, and the difference represents individuals who would benefit under full take-up of the grant. The solid line falls below the dotted line well before the poverty line cut-off of R401, representing that full take-up improves the lives of many individuals but does not necessarily push them over the poverty line. As discussed in the appendix, the poverty headcount measures will not fully reflect this social benefit, but the poverty gap measure will. Full take-up of existing social security benefits moves an estimated 843,164 people out of poverty, and increases the average poverty gap reduction from 22.9 to 36.6 percent. However, these benefits are

unlikely to be realised with the current structure of the social security system. Means tests, rigid eligibility criteria, and the high relative cost of applying for social security all contribute to low take-up rates. The following section assesses the impact of the means test on take-up rates, and the resulting social consequences.

## **8.15.2 An assessment of the means test**

### **8.15.2.1 The means test for the child support grant**

In 1998 The Department of Social Development developed the first means test for the selection of children eligible for the Child Support Grant. According to this means test, a child who lived in a household with a total income of less than R800 in urban areas and R1100 in rural areas or in an informal dwelling was eligible. Furthermore, the care-giver had to comply with certain conditions, including providing proof of effort to find employment or proof of effort to join a developmental programme, proof of immunisation of the child, and proof of efforts to obtain maintenance from the parent.<sup>29</sup> The care-giver also had to ensure that the child had accommodation and was properly fed and clothed. The Department's declared goal for the first year was to put 390 000 children on the system.<sup>30</sup> However, according to a press statement of the Minister in February 1999, only 23 823 children were on the system at that time.<sup>31</sup>

With effect from 25 June 1999, the Minister changed the means test based on the household income to only testing the income of the primary care-giver and where applicable of his or her spouse.<sup>32</sup> However, in case of a couple the combined income is tested and not as in the case of all other grants half the combined income. At the same time, the Department embarked on an information campaign to inform the public about the accessibility of the CSG. By April 2001, the take-up rate had risen to approximately twenty percent.

### **8.15.2.2 The concept of a means test**

A means test for a poverty reduction programme defines criteria of a target group. Typically the means test selects a group of people who are identified as being in need while excluding those who do not need support. There are different typologies of 'means' that can be tested—the choice to test one specific 'means' or the combination of several depends on the objectives of the programme and the socio-economic conditions of the target group. A means test or targeting-mechanism requires certain qualities in order to be effective:

- based on easily determinable and observable means
- simple to administer
- cost-effective
- difficult to manipulate
- avoids negative incentives.

### 8.15.2.3 Options for a means test

Major options for means testing include:

1. **Income testing:** This is a common targeting mechanism for cash transfers. For instance, the eligibility criteria for the State Old Age Grant are built on an income test. The underlying logic is that it defines people earning below a certain amount as eligible for support and excludes the others. For this mechanism it is important that the income can be easily measured and checked. Problems arise, however, with income earned in the informal sector: This income is difficult to monitor and it often varies from month to month.
2. **Nutrition monitoring:** A chief precept of social protection is that the social security should address malnutrition, thus yielding social and economic benefits. This targeting mechanism enjoys public support from those people who regard welfare as a means of last resort to guarantee survival. Though it might be argued that this type of targeting has a place in nutrition programmes which are designed to provide food for children, the usefulness for other programmes, like cash transfers, remains questionable: First, such targeting might create perverse incentives. E.g. a person will get support, if his/her child is malnourished, and if the condition of the child improves, the support will be cancelled; if the condition however does not improve, the payment of the benefit will continue. The incentive surely must be the improvement of the condition of the child, not the opposite. Second, the underlying concept has to be challenged as it does not help to prevent malnutrition, but only intends to help once somebody is already malnourished. Nutrition support at a clinic for a child who is malnourished does not, however, provide perverse incentives, and is a system which has been successfully implemented in countries such as Chile.
3. **Proxy-indicator testing:** The idea is that certain proxies are identifiers, which indicate wealth or poverty. Examples of such a mechanism might be targeting either households without electricity, or making the payment dependent on the amount of electricity used. Targeting households without running water or a flush toilet might be another option. Households without such facilities or a limited access to them, are poor and hence need support. In 1993, only 53,6% of South African households were connected to electricity, only 52,1% had a flush toilet and only 39,4% had access to piped water.<sup>33</sup> However, using this type of targeting may create negative incentives, since under proxy-indicator testing specific improvements in socio-economic conditions can lead to the loss of the grant. In addition, the administrative costs for applying this mechanism are potentially high. It is in any case difficult to think of a type of grant for which a proxy will actually give good results.
4. **Geographic targeting** (e.g. rural areas): A precondition for this mechanism is the targeting of small and homogeneous regions. It might be possible to identify areas where such a mechanism could work (e.g. rural areas, formerly so-called “independent states”), but at the same time, in urban areas and on farms the administrative and equity complications might undermine the mechanism’s effectiveness. This test could also create an incentive for inefficient migration.

5. **Self-targeting:** This mechanism makes support ostensibly available to all, but take-up by non-poor individuals would be discouraged. A low level of support, as often used in public works programmes, would likely have that effect on higher income individuals. It is, however, difficult to fine-tune take-up under self-targeting. Self-targeting has advantages in terms of reducing administrative corruption and manipulation (and thereby also saving valuable resources), however, politically it might be difficult to justify. Also, self-targeting often is associated with a negative attitude towards the social support programme, potentially undermining the self-esteem of recipients.

#### 8.15.2.4 Target rate and take-up rate

The design of a means test determines and influences:

- The **target rate**, which refers to the percentage of people who fall under the group which is selected by the means test. For example, all the people who have no running water in their houses. The target rate should be decided upon with regard to a needs assessment, which itself depends on the kind of support the benefit can provide.
- The **take-up rate**, which refers to the percentage of people within the target group whom actually “take up” the support provided. The take-up rate hence recognises the fact that not all the people in the target group will claim the support or in the end will receive it. This can be for various reasons:
  - People might have other income sources, which the data does not pick up and they do not apply for the support.
  - The system is not accessible to all, e.g. pay-out points are too far away and the poor are often not mobile (e.g. people living in remote rural areas).
  - The information about the system is not readily available.
  - The cost of successfully applying for the grant is too great—for instance, it requires multiple expensive visits to the application point, or the required documentation is burdensome to acquire.
  - People feel stigmatised through claiming welfare support from the state and therefore do not apply.

In 1993, the State Old Age Pensions (SOAP) system had a take-up rate of about 75%<sup>34</sup> which is, by international standards, considered a high rate of coverage.<sup>35</sup> (Currently, the SOAP take-up rate is approximately 85%.) The take-up rate of the Child Support Grant is much lower (approximately 20%) for several reasons, including:

- The SOAPs provide a five times higher benefit, so that the incentive to take it up is greater. The CSG provides a relatively small amount, and a recent survey finds this to be a major impediment to households allocating the necessary resources to qualify for the grant.<sup>36</sup>

- The SOAPs have a long-standing history in South Africa. In the absence of an extensive mass education campaign, information about a new grant can be expected to take years to reach all areas in South Africa.
- The procedures for qualifying for the Child Support Grant were initially fairly complex, and compliance was relatively expensive for very poor households.
- SOAPs are socially more accepted as a ‘well-deserved’ benefit for the old and are less stigmatised than state support for child raising.

The practical consequence of this for the design of a means test is that the number of people who come under the target group as legally eligible is generally higher than the number of people actually expected to qualify as recipients.

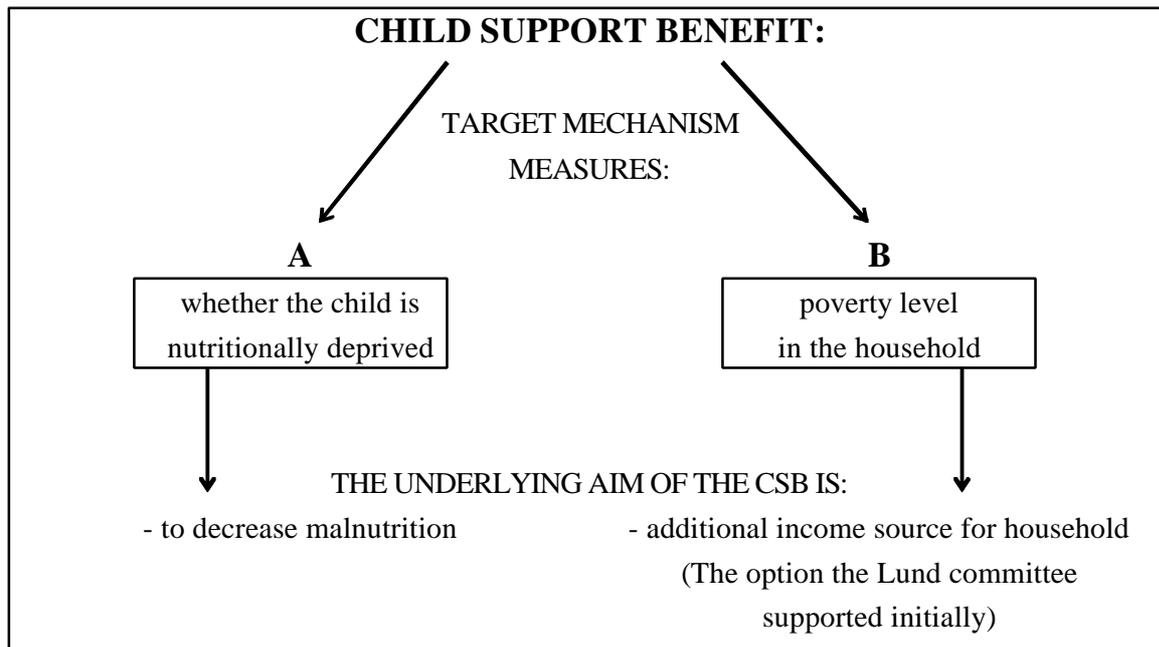
#### **8.15.2.5 The means test and the Child Support Grant**

The Lund report briefly addresses the issue of the means test, suggesting that the test should be simple and that the income of the caregiver/s or alternatively the nutritional status of the child should be tested.<sup>37</sup> The report states that the means test “...must not in any way depend on a definition of a family. The concept ‘follow the child’ via the primary care-giver solves the administrative problem of family definition. It would undermine the entire proposal to re-introduce the problem via the means test.”<sup>38</sup>

The Department of Welfare produced two different means test proposals during its formulation of the policy between April 1997 and the final regulations in March 1998. ??\* The basis for both of these proposals was the declared goal to support 3 million children. This goal was endorsed by two Cabinet decisions.<sup>39</sup> In March 1997, the Department said that these 3 million corresponded to 30% of the children under the age of seven in South Africa. The preliminary results of the 1996 Census, which were made public in June 1997, indicated a much lower population of South Africa than previously believed.<sup>40</sup> Three million children, according to the Department, equalled approximately 48% of the children in the respective age group. In light of this and with feedback from civil society, the Department moved away from nutritional targeting mechanisms.

The Department’s second proposal centred on testing household income. In addition, the area (rural/urban) and the kind of houses the children inhabited were added to the test. In addition, certain conditions were attached to the grant, including showing proof that the primary care-giver made an effort to obtain private maintenance and that the child was immunised. This second proposal was adopted and formulated into the regulations, which were made public in March 1998, the introduction date of the Child Support Grant.

**Figure 8.4: Child Support Benefit Targeting**



Engagement with civil society and the release of the preliminary results of the 1996 Census<sup>41</sup> prompted the Department to increase the target rate from 30% to 48% on the basis that there are fewer children than formerly believed. However, the plans discussed at the first targeting workshop to use health clinics and nutritional mechanisms were replaced by the idea of testing the household income in combination with geographical targeting and proxy indicator testing.

#### **8.15.2.5.1 The first CSG means test**

According to the initial CSG regulations [section 16(2)], a person qualified for the CSG if the household income was either less than R9,600 per annum (R800 per month) or R13,200 per annum (R1,100 per month) if the household lived in a rural area or the dwelling was informal. The means test, hence, favoured households living either in rural areas or in informal housing. The Department declared that the logic behind this means test was the targeting of disadvantaged areas and disadvantaged groups.

A ‘household’ is defined as “any group of people, whether related or not, who normally contribute to the cost of providing for their food and other household necessities and to the cost of their accommodation and who live together in one dwelling.”<sup>42</sup> ‘Household income’ is defined as “any contribution in the form of money, food or other household necessities to the household and any contribution to the cost of accommodation of the household.”<sup>43</sup> The applicant is required to provide proof of the household income. [section 9 (3)(a)] ‘Informal dwelling’ is defined as: “a house which is, whether partly or wholly, without brick, concrete or asbestos walls.”<sup>44</sup> In addition to the means test, the regulations have put certain conditions on the primary care-giver. The primary care-giver must provide:

- proof of immunisation where such services are available;
- proof of efforts to obtain maintenance from the parent;

- proof of efforts to secure employment or to join a development programme where such services are available [Section 9 (3) (c)-(e)]

Moreover, the primary care-giver has to comply with the following conditions:

- he/she shall continue to be the primary care-giver;
- the child shall have accommodation, be properly fed and clothed;
- he/she shall allow the DG reasonable access to the child and to the dwelling;
- he/she shall ensure that the child receives immunisation and other health services where such services are available without charge;
- he/she shall carry out any instructions regarding the use of the grant [Section 20 (a)-(e)]

#### **8.15.2.5.2 Critique of this means test**

There is a strong correlation between the poverty situation of a household and the average household size: the median for the children in the poorest two quintiles is 7 persons, while the richest group has a median of 4. Furthermore, children in poorer households tend to live with 2 to 4 children in a household, whereas the 'richest' children generally live with one other child in the household.

Given this situation testing the household income without taking into account household size or number of children creates distortions. Such a test will in its tendency discriminate against larger families. The Lund report made it clear that the means test must not be linked to any specific form of family structure. This stands in stark contrast to the objective of supporting the care-giver rather than single mothers, for example. The care-giver concept, due to the multiple household and family structures in South Africa, avoids discrimination against specific family types. A household of 6 to 11 people is more likely to have a combined income exceeding the cut-off point than is a single parent household with 2 people.

Furthermore, one also has to take account of the distribution of resources within households. While there is evidence that some kind of pooling exists in the household, it is clear that there is no equal access to the pool. Budlender rightly pointed to that fact in a conference paper on household food security:

One problem with the concept of household food security is that distribution problems within the individual household or family i.e. intra-household inequalities, can be ignored. If the household is the smallest category of analysis and regarded as indivisible, we might not see that certain people within the household, just as in the community, have greater control of access to resources, including food. In many international studies just such inequalities have been found. In general women have lesser access than men do.<sup>45</sup>

If the household means are the determining factor for eligibility, this sends out a strong signal, that the benefit is meant as a support for the household. However, the intention of the CSG was always that the money should be at the disposal of the care-giver (most likely women), who then would be empowered to look after the needs of the child in the best way: “Women generally put higher priority on the basic needs of family—including nutritional—than men rather than concentrating only on their own needs. We can argue that giving benefits to women is thus both more efficient and more equitable for the society as a whole.”<sup>46</sup> Case and Deaton make a similar point: “Female-headed households behave differently from male-headed households. They spend a great deal less on alcohol and tobacco and on transportation....”<sup>47</sup>

The permanent state of change in household composition poses another problem on the testing of household income. One of the major findings of the Lund report, which motivated the introduction of the concept of the primary care giver, was that: “Household boundaries are fluid, as kin come and go to seek work or care for children. Children are moved about too, because a school is nearer, or in response to a crisis in the household.”<sup>48</sup>

Household income tests are further undermined by the condition that “[applicants] have little idea of total household income.”<sup>49</sup> Since household boundaries are fluid, the household income is amorphous as well. In addition, the applicant has to provide ‘proof of efforts’ to obtain private maintenance from the parent, as well as provide proof of immunisation ‘where such services are available’.

#### ***8.15.2.5.3 Proof of efforts to secure employment or to join a development programme***

The terms ‘efforts’, ‘employment’ (formal or informal), ‘development programme’ and ‘available’ are not clearly defined. This absence of guidelines leaves the granting of the support entirely to the subjective interpretation of the officials. By doing so, power can easily be abused. In addition, development programmes are just starting to be implemented in South Africa at the moment and are hence not widely accessible.<sup>50</sup> In terms of seeking employment and in the absence of any employment agency, the question arises who would provide somebody with a proof of effort. The provision of ‘proof of efforts’ in both cases therefore puts a great burden on the applicant and any positive incentive of such a condition becomes highly questionable in such circumstances.

The testing of the individual income in contrast to the household income does not discriminate against any family form (e.g. larger families). Case and Deaton, while examining the effectiveness of cash transfers to the elderly in South Africa, also refer positively to the fact that the SOAPs take individual or combined income rather than household income: “The means test does not take account of other family members, so that, for example, there is no incentive for family dissolution or migration.”<sup>51</sup> This cut-off point is not meant as a poverty line. Klasen points out that “The income poverty measure seems to miss groups of people who have slightly higher incomes but are deprived in multiple other ways.”<sup>52</sup>

### 8.15.2.6 A simulation of extending the child support grant

In order to assess the effect of take-up on the impact of social grants, the extension of the Child Support Grant up to age 18 was simulated under two different scenarios: (1) with the current take-up rates of 20%, reflecting means tests, eligibility criteria, and other impediments to take-up, and (2) a universal Child Support Grant with the assumption of 100% take-up. This hypothetical comparison provides a quantification of various dimensions of the impact of social security take-up.

**Table 8.8: Extension of CSG up to Age 18 with 20% Take-up**

Only child.	Child. + work. Age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Total (households with children)
Total No. of people living in the bottom two quintiles:				
35,696	14,982,029	444,791	7,039,617	22,502,133
% of people living in the bottom two quintiles:				
0.1%	62.8%	1.9%	29.5%	94.30%
Total No. of people living in HH receiving no social assistance (bottom two quintiles):				
15,345	6,781,337	10,439	359,962	7,167,083
% of people living in HH receiving no social assistance (bottom two quintiles):				
43.0%	45.3%	2.3%	5.1%	
Average No. of people living in the HH (bottom two quintiles):				
4.2	7.4	4.7	9.3	
Average No. of people employed in the HH (bottom two quintiles):				
0.0	1.0	0.0	0.8	
Average No. of people receiving social assistance (bottom two quintiles):				
0.9	0.8	1.9	2.0	
Average % closed of the poverty gap by social assistance (bottom two quintiles):				
15.6%	13.8%	72.5%	49.5%	
Avg. per capita social assistance transfer through CSG (bottom two quintiles):				
R 22	R 11	R 17	R 10	

The simulation of the extension of the existing Child Support Grant up to age 18, with an assumed take-up equal to the existing rate of 20%, provides a starting point for the analysis. The simulation indicates that 7.2 million poor individuals would still live in households with children that receive no social security. The average reduction in the poverty gap varies substantially across households—from only 13.8% for children living with working age adults to 72.5% for children living with adults in pensionable age (“skip generation” households). Half the poverty gap is closed in three-generation households.

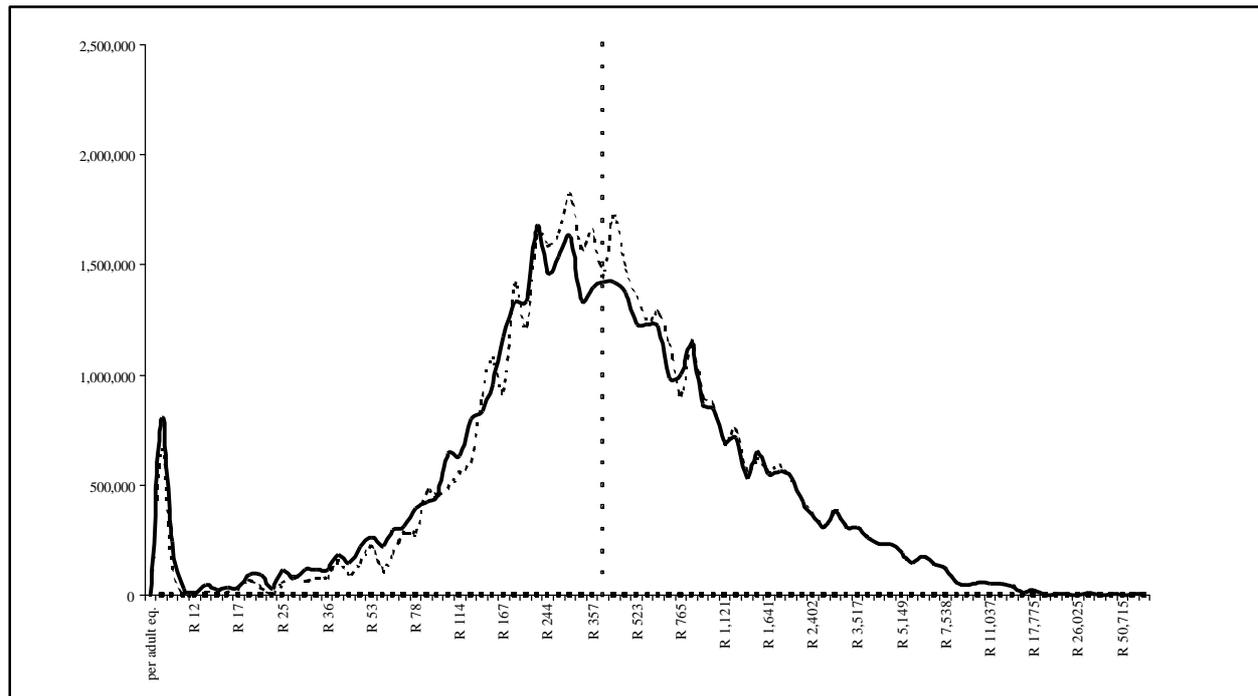
The total number of beneficiaries of the program amount to 2,877,298 children, nearly all of them in households that include working age adults. The total annual value of grant payments equals R3.8 billion. The table below documents the impact of the extension on the distribution of social security across quintiles, as well as the geographic and racial impact.

**Table 8.9: Extension of CSG up to Age 18 with 20% Take-up**

	Only child.	Child. + work. Age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Total (households with children)
Total number of people reached by social assistance programmes:					
CSG	11,300	2,015,114	84,708	766,176	2,877,298
Total annual transfers by social assistance programmes (in millions):					
CSG	R 15	R 2,660	R 112	R 1,011	R 3,798
Total annual transfer to quintiles (in millions):					
1. Qu.	1.3	1,911.7	516.5	4,559.1	6,988.6
2. Qu.	8.1	1,574.7	447.3	3,221.5	5,251.6
3. Qu.	4.1	1,108.5	257.7	2,058.3	3,428.6
4. Qu.	1.4	415.2	78.2	664.8	1,159.6
5. Qu.	0.0	131.0	5.7	203.3	340.0
Total annual transfer rural / urban. (in millions):					
Rural	15.0	3,144.3	1,043.2	7,104.2	11,306.7
Urban	0.0	1,977.2	259.2	3,549.1	5,785.5
Total annual transfer by race (in millions):					
“African”	14.9	4,507.4	1,232.7	9,669.2	15,424.2
“Coloured”	0.0	469.9	61.9	753.8	1285.6
“Indian”	0.0	83.3	8.0	117.8	209.1
“White”	0.0	130.8	3.7	166.1	300.6

The number of people below the poverty line is actually higher with the extension of the Child Support Grant to age 18. In the baseline scenario—with full take-up of all existing grants, the number of people below the poverty line is 21,955,935. With the extension of the Child Support Grant at existing take-up rates, the projected number of people who fall below the poverty line is 22,797,777. The analysis of the poverty gap reduction corroborates this result. The average reduction in the poverty gap under the baseline scenario is 36.6%, while the average reduction is only 27.5% with the extension of the Child Support Grant to age 18 with existing take-up rates. The figure below depicts the distribution of income with the extension of the Child Support Grant (the solid line), compared to the baseline scenario of full take-up of existing social security programmes (the dotted line). The figure demonstrates that extending the Child Support Grant to age 18 with current take-up rates does not yield an improvement over the baseline scenario. In the baseline scenario, the income distribution peaks around the poverty line. With the extension of the Child Support Grant at existing take-up rates, the distribution peaks at a level of income below the poverty line.

**Figure 8.5: Distribution of income—means tested CSG extension to age 18 (20% take-up)**



The second simulation examines the implications of an extension of the Child Support Grant to age 18, but with a universal grant that succeeds in achieving full take-up. This is a hypothetical extreme case designed to demonstrate at the limit the implications of promoting full take-up of social security programmes. In theory, eliminating the means test and guaranteeing a child support grant as a universal right promotes take-up of the programme in several ways. It eliminates much of the bureaucratic delay associated with the complex application process. It reduces corruption by guaranteeing children the right to social security benefits, removing the official discretion that can potentially be abused. A universal grant reduces social stigma—the social security benefit does not label a child as “poor”. The table below summarises key statistics indicating the social impact.

**Table 8.10: Universal CSG Extended to Age 18**

Only child.	Child. + work. age adults	Child. + adults in pen. Age	Child. + work. age adults + adults in pen. age	Total (households with children)
Total No. of people living in the bottom two quintiles:				
35,696	14,982,029	444,791	7,039,617	22,502,133
% of people living in the bottom two quintiles:				
0.1%	62.8%	1.9%	29.5%	94.3
Average No. of people living in the HH (bottom two quintiles):				
4.2	7.4	4.7	9.3	
Average No. of people employed in the HH (bottom two quintiles):				
0.0	1.0	0.0	0.8	
Average No. of people receiving social assistance (bottom two quintiles):				
4.2	4.2	4.6	5.9	
Average % closed of the poverty gap by social assistance (bottom two quintiles):				
70.1%	48.6%	91.1%	70.5%	

<b>Only child.</b>	<b>Child. + work. age adults</b>	<b>Child. + adults in pen. Age</b>	<b>Child. + work. age adults + adults in pen. age</b>	<b>Total (households with children)</b>
Avg. per capita social assistance transfer through CSG (bottom two quintiles):				
R 110	R 69	R 238	R 135	

By definition, the universal child support grant ensures that no poor household with children fails to receive social security benefits. The average reduction in the poverty gap increases substantially for all households with children, reaching 91.1% for “skip generation” households (up from 72.5% in the means tested extension with 20% take-up scenario). The average poverty gap reduction for households with only children and working age adults rises to 48.6% from 13.8%, and for three-generation households to 70.5% from 49.5%. The average per capita transfer to households with children increases dramatically, up to R238 for “skip generation” households from R17. The average per capita transfer for households with only children and working age adults rises to R69 from R11, and for three-generation households to R135 from R10.

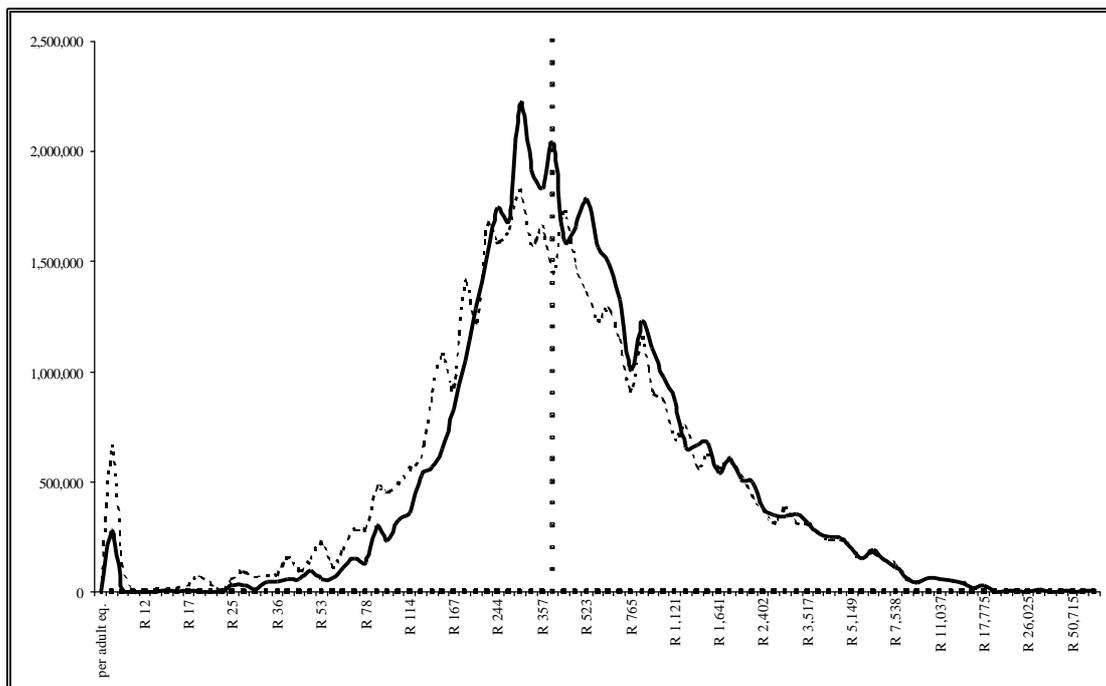
The total number of beneficiaries of the program increase substantially, from 2.9 million (in the means tested 20% take-up scenario) to 19.9 million children. The total annual value of grant payments rises to R26.3 billion. The table below documents the impact of the extension on the distribution of social security across quintiles, as well as the geographic and racial impact.

**Table 8.11: Universal CSG Extended to Age 18**

	<b>Only child.</b>	<b>Child. + work. age adults</b>	<b>Child. + adults in pen. age</b>	<b>Child. + work. age adults + adults in pen. age</b>	<b>Total (households with children)</b>
Total number of people reached by social assistance programmes:					
CSG	58,604	15,035,477	397,500	4,403,341	19,894,9227
Total annual transfers by social assistance programmes (in millions):					
CSG	R 77	R 19,847	R 525	R 5,812	R 26,261
Total annual transfer to quintiles (in millions):					
1. Qu.	10.8	6,716.5	695.6	6,755.1	14,178
2. Qu.	36.4	5,805.8	577.4	4,705.7	11,125.3
3. Qu.	21.7	4,720.9	332.7	2,860.9	7,936.2
4. Qu.	8.5	3,061.5	103.2	930.4	4,103.6
5. Qu.	0.0	2,114.2	10.5	279.4	2,404.1
Total annual transfer rural / urban. (in millions):					
Rural	72.5	12,039.2	1,386.4	10,364.8	23,862.9
Urban	4.9	10,292.0	329.7	5,098.7	15,725.3
Total annual transfer by race (in millions):					
“African”	77.4	17,655.7	1,630.9	14,116.4	33,480.4
“Coloured”	0.0	2,275.7	75.2	1,022.4	3,373.3
“Indian”	0.0	581.4	8.0	157.9	747.3
“White”	0.0	1,956.4	6.3	232.9	2,195.6

The number of people below the poverty line falls substantially with the universal Child Support Grant extension. In this scenario, the number of people below the poverty line is 19,755,874, compared to 21,955,935 people in the baseline scenario and 22,797,777 with the extension at existing take-up rates. Likewise, the poverty gap analysis shows a dramatic improvement. The average reduction in the poverty gap under this scenario is 55.8%, compared to 36.6% under the baseline scenario and 27.5% with the extension at existing take-up rates. The figure below depicts the distribution of income associated with the universal Child Support Grant scenario (the solid line), again compared to the baseline scenario of full take-up of existing social security programmes (the dotted line). The figure demonstrates that the universal extension significantly improves the distribution of income. At incomes above the poverty threshold, the solid line lies largely above the dotted line, indicating the greater number of people moved out of poverty by the universal CSG. At very low levels, the solid line lies below the dotted line, representing the number of people moved out of destitution.

**Figure 8.6: Distribution of income—universal CSG extension to age 18 (100%)**



### 8.15.3 Findings

The simulation exercise demonstrates the importance of take-up rates in determining the socio-economic impact of social security grants. Achieving full take-up of the existing programmes yields better results than a significant extension of the CSG at existing take-up rates. But achieving full take up with the current means test is highly unlikely. From evidence given to the committee it seems that the means test is often used by bureaucrats to exclude those that are in fact entitled to support.

One of the major causes of the social security system’s inability to secure social protection is the low rate of take-up of existing programmes. Only an estimated 43% of eligible individuals actually

succeed in receiving their qualified grants. The take-up rate is relatively high for the State Old Age Pensions—approximately 85%. For the Child Support Grant, however, the take-up rate is very low—approximately 20%—with negative consequences for the effectiveness of the social security system. The low take-up rate is in part a consequence of system failure. Extremely poor individuals are likely to fail in large numbers to qualify for a grant with a complicated and expensive means test and application process. Social security reform that fails to address the structural problem of low take-up is unlikely to yield substantial social benefits.

If it were possible to reach full take-up of the existing social security system, the cost of additional grants would require approximately R8 billion excluding the administrative costs. Because achieving incremental increases in take-up becomes more expensive as the take-up rate rises, the additional administrative expenses are likely to be high. Reaching out to the very poor with a cumbersome means test is an expensive proposition. The high cost of fully implementing the existing system—with its documented gaps in coverage—is another motivation for exploring alternative options that can more cost effectively deliver comprehensive social security.

Research and discussion of administrative systems such as the Federal Republic of Germany indicate that to effectively and fairly administer the means test, about a 100,000 civil servants will have to be trained and appointed to ensure fair access for those presently entitled to social grants. Should the age at which the CSG is paid be increased, the numbers will have to be further increased. Given the other priorities in South Africa, it would simply not make sense to appoint the people needed to effectively and fairly administer the existing system.

On the other hand, to do away with the means test and raise the age for the CSG to 18 would lead to a massive increase to about an annual disbursement of about R26 billion. Since a significant number of really poor families do not have any children, or only include one or two children, it would not be fair to recoup these expenditures by increases in VAT, since this would mean that many poor families would in fact be worse off. If one attempts to recoup the expenditures through increases in income tax, this would call for an increase in the marginal tax rate of 4%, which would impose a net additional burden of more than R10 billion<sup>53</sup>—virtually equal to the R13.5 billion net additional burden of paying a Basic Income Grant financed out of VAT increases of R100 to all South Africans.

The Child Support Grant is paid to the care-taker of the child and not directly to the child. If the care taker finds herself in a household where her parents who are too young to receive a pension and her brothers and sisters are unemployed, much of the child grant may go for other purposes than the need of the child per se. On the other hand, in other types of households the child may get the full benefit of the grant. Children do not therefore benefit equally from the existing CSG, for the simple reason that it is in fact an income grant to the household in which the care giver finds herself, and not a grant to the child only. It is an income grant of which the quantum is determined by the number of children in the household.

Another problem with the CSG is that it gives exactly the same support per child to families that are very poor, e.g. those spending only R50 per person per month, and families where the expenditure may be as high as R540 per person per month.

In some cases the cost of disbursing the grant is about a quarter of the value of the Child Support Grant. This is very high, and undermines one of the justifications for cash transfers—viz. that the poor directly gets most of the benefits of the transfers.

#### **8.15.4 Recommendations**

The most efficient way to eliminate destitution and to support all children would be to pay a universal income support grant to all, with the primary care taker of the children being the recipient of the grant to which (s)he and the children are entitled. The other poor adults in the household will in such circumstances also be getting a grant, so that the care taker will not be under pressure to support an entire household out of the grant aimed at children under 6. However, during the next three to four years this will not be possible.

In the mean time it is proposed that the child grant should be renamed simply an income support grant. Since the present means tests serves to exclude many of those desperately in need of the grant, it is recommended that the means test be simplified to bring it into line with practice in many provinces. This change would mean that at the very least every care taker of children with an income of less than R1100 annually adjusted for inflation should be entitled to such a grant. Furthermore this grant must be payable without further investigation once a sworn statement has been made by the recipient that she or he meets the means test. This will undermine the power of corrupt bureaucrats to refuse payment. Inspectors can always trace and bring to justice those who make false statements.

The next step would be to extend the age of the children whose care taker is entitled to the grant upwards step by step.

Every effort must be made to bring down the cost of administering the income support grant and OAP.

### **8.16 A targeted unemployment grant or dole**

#### **8.16.1 Critique of proposed system**

Given the fact that Child Support Grant does not give much support to poor households where there are many unemployed people, the committee received representations arguing for targeted unemployment grant (TUG), which is similar to what is called the dole in the UK. It is a grant paid only to those who have no employment and no income. In contrast to UIF discussed in chapter ..., TUG will be paid to all unemployed people with low household incomes as long as they are unemployed, regardless of whether they had paid insurance or not.

There are, however, a number of problems with this type of grant which have already been alluded to in the discussion above of the problems created by a means test.

1. The low income workers, e.g. domestic workers, do not qualify for support, except if they say up there jobs. The unintended consequence of such a grant may thus well be that a lot of people in low wage jobs would leave their employment in order to qualify for the grant.
2. Those who do get the grant lose it as soon as they take up employment—often the only employment available is in low income jobs, which may result in many being very reluctant to take up employment. As a consequence this type of grant can become a poverty trap.
3. The very reason why TUG seems attractive at the outset—the fact that it is targeted at the poor—thus has unintended consequences.
4. The administration of this type of grant is difficult enough in a first world country where one has thousands of well trained administrators and computer operators in the civil service. In a country where as many as 38% of the people is unemployed it becomes impossible to do the evaluation properly to see whether people have employment or not, and to see whether they have other non wage income.
5. As a consequence many of those earning high income in the informal sector or through crime will collect the grant, whereas the poor working in the low paid will not qualify for it.

### **8.16.2 Recommendation**

For the reasons discuss above, the committee does not recommend the implementation of a dole for all unemployed South Africans.

## **8.17 *The feasibility of a basic income grant for South Africa***

The coverage gaps within South Africa’s social security system combined with the structurally low rate of take-up of the Child Support Grant underscore the need for comprehensive reform. The nature of structural unemployment in the face of a changing global economy that marginalises unskilled workers and the need to expand the necessary scope of a social safety net. Not only do children, retirees and the disabled need social protection—millions of potential workers are vulnerable to unemployment and resulting impoverishment.

This section evaluates the potential of the basic income grant to address the severe poverty characterising South African society. The nature of an income transfer has important implications for its socio-economic benefits and fiscal feasibility.

### **8.17.1 What is a Basic Income Grant?**

A Basic Income Grant is provided as an entitlement and without a means test that will more readily reach the poorest population. By removing the stigma that labels the recipient as “poor”, the grant is said to bolster economic support without draining psychological resources. The Committee

understood the basic income grant as a social policy option, to be defined as “a general social assistance grant for all South Africans.” Further, the Committee had to determine what could be some of the concrete characteristics of this option.

In practice the grant could be calculated on a per person basis and be paid out to the primary caregiver in the household. For instance, a basic income grant of R100 would mean that a single person living alone receives R100 per month. A household with 6 people (the average for the South African population)<sup>54</sup> receives R600 a month, which would be paid to the person primarily responsible for childcare. The working assumption in the model used to evaluate the feasibility of the basic income grant is that there is no overlap between different grants. The grant is meant for people currently not receiving social assistance—those who fall through the social safety net.

A basic income grant would serve as a social entitlement for all South Africans. Such an entitlement supports the right to appropriate social assistance as entrenched in the South African constitution [27(1)(c);(2)] while furthering the vision of a comprehensive social security system as identified in the White Paper for Social Welfare.

#### **8.17.2 Will the Basic Income Grant Create Dependency?**

The Basic Income Grant has no means test and therefore avoids many of the disincentives to work inherent in other social assistance systems. This stands in stark contrast to the targeted unemployment grant or what is known as a ‘dole system’, which employs conventional means tests to target the unemployed, the unemployable or the very poor. Moreover, if such a grant is considered it may be necessary to link it to socially useful work (in the absence of formal work) to avoid an absence of a work ethic developing.

#### **8.17.3 Will the Basic Income Grant Target the Poorest?**

The targeting of the poor within the context of a basic income grant depends on the tax system. The South African Revenue Service is one of the most capable arms of Government, reflecting a transformation process that has supported consistent over-achievement of revenue targets over the past five years. Appropriate tax reform linked to the basic income grant can achieve very effective redistribution. Several financing mechanisms have been proposed. COSATU has proposed recuperating the amount of the grant from all low to middle income earners while implementing a ‘solidarity tax’ for higher income earners, and other proposals have focused on the Value Added Tax as well as progressive taxation.<sup>55</sup>

#### **8.17.4 Are There Efficiencies in Administration?**

The implementation of a basic income grant could develop administrative economies of scale that generate spill-over benefits for the payment of other social grants, the development of the financial system, and the collection of taxes. Using the tax system can also target the income grant, so that the net benefit is larger, the poorer the recipients are. If the costs of the basic income grant is recuperated, for example, through the VAT system, research shows that the grants can be more

effectively targeted. The lower the per capita expenditure of a household, the larger the benefit per person.

Evidence put to the Committee shows that the structure of the basic income grant is important. Paying a fixed grant per household or calculating the benefit on a per person basis yields very different social impacts. A basic income grant, which is calculated on a per person basis, favours larger households that on average are poorer than smaller ones. Pooling of income leads to economic efficiencies and a more equitable intra-household distribution of income, which could contribute to the empowerment of women and younger people in the family.<sup>56</sup>

### **8.17.5 The Impact of a Basic Income Grant**

The policy scenario analysed in this section is based on the implementation of a basic income grant of R100 per month for all South Africans.

With full take-up, the number of poor South Africans excluded from the social security system is reduced to zero. The dispersion among household types in the closing of the poverty gap is substantially reduced. The household type with the least reduction in the poverty gap is the household with only working age adults—the poverty gap is closed by 56.7%, compared to only 7.6% with the current system.

For households with children but no pensioners, the poverty gap is closed by two-thirds, and for households with children and pensioners, the gap is closed even more successfully. For “skip generation” households, 95% of the poverty gap is closed, for “three-generation” households, 85% of the poverty gap is closed. The gap between the average per capita transfers for households with children and no pensioners versus households with children and pensioners falls substantially.

The variance in average per capita social security transfers across household types narrows significantly. Under the existing system, poor households with just children and working age adults receive per capita transfers averaging R14, while poor pensioner households receive an average of R523, a ratio of 37 to one.

With the basic income grant, poor households with just children and working age adults receive per capita transfers averaging R109, while poor pensioner households receive an average of R568, a ratio of only five to one. Likewise, disparities among households with children narrow also. Under the existing system, a poor child fortunate enough to live with a pensioner grandparent benefits from an average per capita transfer as high as R154 (“skip generation” households), or R84 (“three generation” households). Children without pensioners in the household receive less than a tenth the transfer for “skip generation” households (R14). With a basic income grant, the child living with a pensioner grandparent benefits from an average per capita transfer of R250 (“skip generation” households), or R178 (“three generation” households). Children without pensioners in the household receive a little less than half the per capita transfer for “skip generation” households (R109).

The impact of the basic income grant on the number of beneficiaries and the costs of the transfers is summarised below.

**Table 8.12: Beneficiary and Transfer Statistics for a Basic Income Grant**

	Only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Only work. age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
<b>Total number of people reached by social assistance programmes:</b>								
SOAP	0	0	195,027	1,468,375	0	322,480	251,315	2,237,196
CSG	12,203	3,814,987	104,119	1,529,350	0	0	0	5,460,659
DG	0	417,967	2,917	170,825	118,001	8,339	0	718,050
BIG	46,401	24,525,143	301,568	6,277,567	4,494,307	666,805	149,639	36,461,431
Total	58,604	28,758,097	603,631	9,446,117	4,612,308	997,625	400,953	44,877,335
<b>Total annual transfers by social assistance programmes (in millions):</b>								
SOAP	R 0	R 0	R 1,310	R 9,800	R 0	R 2,106	R 1,554	R 14,770
CSG	R 16	R 5,036	R 137	R 2,019	R 0	R 0	R 0	R 7,208
DG	R 0	R 2,603	R 20	R 1,143	R 724	R 57	R 0	R 4,546
BIG	R 56	R 29,430	R 362	R 7,533	R 5,393	R 800	R 180	R 43,754
Total	R 72	R 37,069	R 1,829	R 20,494	R 6,117	R 2,963	R 1,734	R 70,278
<b>Total annual transfer to quintiles (in millions):</b>								
1. Qu.	10.0	10,439.1	719.9	8,869.3	529.8	632.2	139.6	21,350.8
2. Qu.	33.8	9,185.2	615.7	6,223.2	773.3	643.7	278.6	17,795.1
3. Qu.	20.1	7,891.1	363.4	3,809.3	1,119.1	568.7	341.2	14,211.7
4. Qu.	7.9	5,497.4	112.2	1,216.6	1,710.7	571.4	365.6	9,484.3
5. Qu.	0.0	4,043.2	12.3	401.0	1,999.4	547.7	618.4	7,616.0
<b>Total annual transfer rural / urban. (in millions):</b>								
Rural	67.4	18,600.9	1,463.5	13,447.8	1,851.8	1,302.8	637.7	37,417.5
Urban	4.4	18,463.6	358.0	7,050.8	4,280.2	1,654.6	1,113.2	32,947.3
<b>Total annual transfer by race (in millions):</b>								
“African”	71.8	28,303.1	1,724.4	18,607.8	3,986.2	1,846.6	843.0	55,648.6
“Coloured”	0.0	3,932.2	84.4	1,388.0	463.5	305.6	52.7	6,243.1
“Indian”	0.0	1,094.2	7.9	215.2	197.8	188.1	6.7	1,695.1
“White”	0.0	3,749.3	8.3	310.7	1,494.4	622.7	838.9	6,995.4

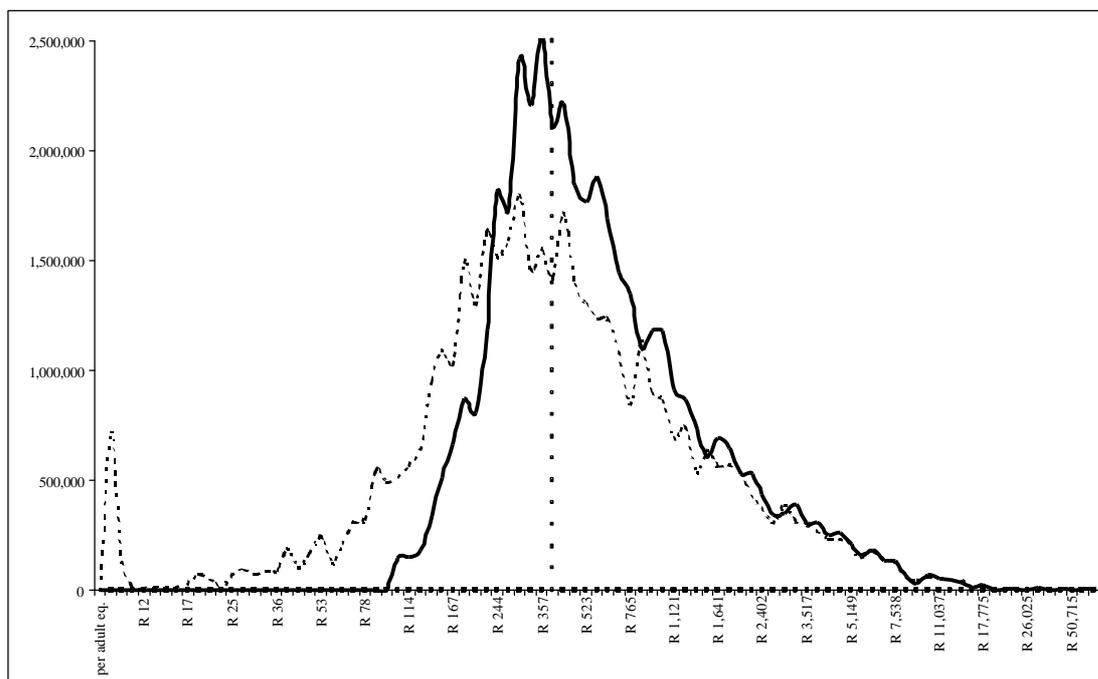
The number of people covered by the social security system increases more than five-fold, with the total rand value of transfers rising to seventy billion rand. The basic income grant accounts for R44 billion of this amount, and R22 billion of this amount is paid to people in the top three quintiles. This underscores the need to revise the tax structure in order to ensure an overall progressive impact. (The actual additional tax burden, as is discussed below, is much lower, and will be between R13.5 billion, if the grant is financed out of VAT increases, and R24 billion, if it is financed out of income tax increases).

Most of the benefits (53%) are distributed to rural households, reflecting the spatial character of South African poverty. Two-thirds of the transfers to three-generation and “skip generation”

households are to rural recipients, reflecting the household structure's role in coping with rural poverty.

The figure (figure 8.7) below depicts the impact of the basic income grant on the distribution of income. As in figure 8.6, the dotted curve replicates the distribution depicted in the baseline simulation (figure 8.2). The solid line represents the distribution of income with the basic income grant.

**Figure 8.7: Distribution of income with a Basic Income Grant**



The figure documents important impacts. The incidence of extreme poverty is nearly completely eliminated. The closing of the poverty gap improves to 74%. On a headcount basis, approximately 6.3 million are moved out of poverty. The number of destitute individuals (measured using half the poverty line) falls by 10.2 million people. Most of the remaining poor individuals are clustered fairly close to the poverty line, so that broad-based growth would demonstrate substantial success in moving additional numbers of people out of poverty.

### 8.17.6 Conclusions

The analysis of the micro-simulation model provides strong evidence of the capacity of a basic income grant to address some of the major shortcomings of the existing social security system. First, the universal nature of the grant addresses critical structural problems with social security take-up that undermine the effectiveness of the current system. Dispensing with the means test lowers the cost of accessing the grant to both the government and the beneficiaries. Providing the grant as a fundamental right reduces arbitrary discretion, minimising opportunities for corruption. Furthermore, the broad coverage that universal access provides fills the gaps of the existing system. The basic income grant enables the social security system to reduce the poverty gap for all groups

by at least fifty percent—compared to a reduction of as little as eight percent for households with just working age adults (or children and working age adults) under the current social security system. No other social security reform can provide the effective breadth of coverage demonstrated by the basic income grant.

### **8.17.7 Economic impact of a Basic Income Grant**

This section examines the transmission mechanisms through which the basic income grant may potentially support economic development. The report evaluates three major areas. First, it examines the linkages between the grant and the accumulation of social capital. Second, the report analyses the potential impact of the grant on the labour market. Third, the study evaluates the macro-economic consequences of the grant.

### **8.17.8 Social capital**

The preceding section documents the substantial positive social impact of the basic income grant in terms of reducing poverty and raising living standards. This section discusses an extensive body of research that supports the link between these results and consequent social capital development. Several transmission mechanisms are important: nutrition and health, education, and social stability. While these are addressed distinctly in the following discussion, the important linkages and complementarities are highlighted. Both nutrition and education support health, and health raises not only the absorption of learning but also the total return to education by extending lifespan. The expectation alone of imminent improvements in these social spheres can improve social stability. The recently Cabinet-approved human resource strategy recognises that poverty and inequality limit “the ability of individuals, households and the government to finance the enhancement of skills, education and training that are critical prerequisites for improved participation in the labour market, and therefore, improved income.”<sup>57</sup> In this way poverty reinforces a trap that keeps living standards low and growth prospects dim.

### **8.18 Malnutrition and Health**

One major transmission mechanism is the maintenance of proper nutrition supported by accessible social security. A recent United Nations report documents the extent to which inadequate early childhood nutrition contributes to long-term health and education problems, leading in turn to lower productivity through poorer health and higher absenteeism.<sup>58</sup> In addition, conditions resulting from childhood deprivation lead to long term strains on the nation’s health and education systems, draining resources that could efficiently target other social priorities. Childhood malnutrition often leads to “severe and costly physical and psychological complications in adulthood.”<sup>59</sup> The transmission mechanisms of early deprivation are manifold. For instance, the associated childhood stress leads to reduced life expectancy.<sup>60</sup>

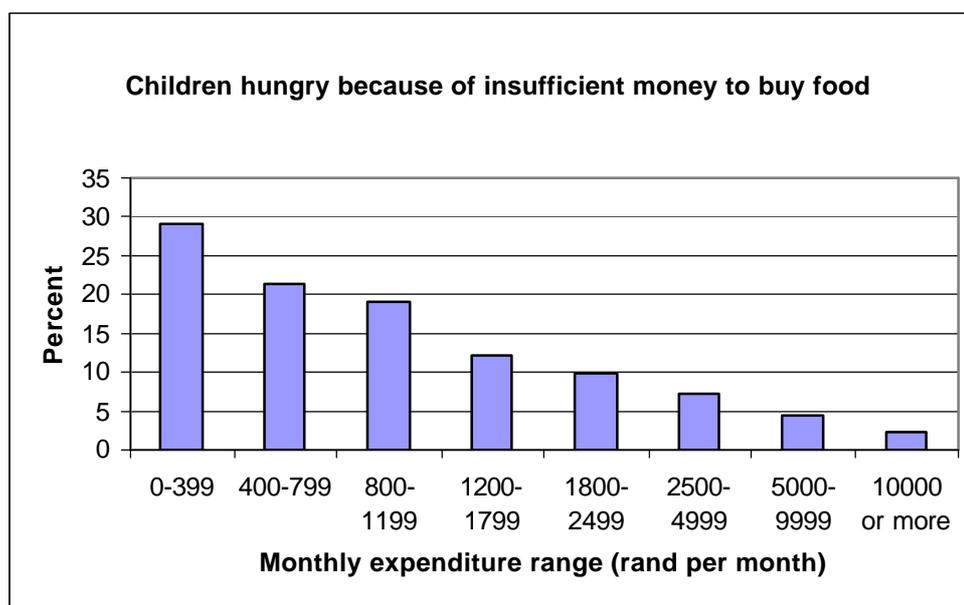
Early malnutrition reduces the capacity of the immune system to protect health.<sup>61</sup> Studies in South Africa find a strong link between poverty and low birth weight.<sup>62</sup> The long-term consequences include higher risks of heart disease, strokes, hypertension and diabetes.<sup>63</sup> The inertial effects are long lasting—the negative consequences of pre-natal malnutrition can be passed on to the next

generation. Women who themselves suffered from pre-natal malnutrition are more likely to give birth to low birth weight babies--even if they have proper nutrition during their own pregnancies.<sup>64</sup>

According to the 1999 October Household Survey, children in a quarter of the poorest households (household consumption less than R800 per month) experience hunger because of insufficient resources to buy food. A report issued by the South African Human Rights Commission identified fourteen million South Africans as vulnerable to food insecurity, with two-and-a-half million South Africans malnourished.<sup>65</sup> “One in four children under the age of six years (some 1.5 million) are stunted due to chronic malnutrition.”<sup>66</sup>

Figure 8.8, constructed from 1999 OHS data, shows how child hunger declines as resources for consumption increase.

**Figure 8.8: Child hunger**



“Integrated programs in early child development can do much to prevent malnutrition, stunted cognitive development, and insufficient preparation for school.... Such programs can improve primary and even secondary school performance, increase children’s prospects for higher productivity and future income, and reduce the probability that they will become burdens on public health and social service budgets.”<sup>67</sup> Social security reform provides the income security that effectively reduces the incidence of malnutrition. International studies demonstrate that more than half of additional income is allocated by poor families to increased food consumption.<sup>68</sup> The resulting improvements in health and nutrition directly improve not only the well-being but also the productivity of the very poor. International studies document the positive impact of improved nutrition on productivity and earnings.<sup>69</sup> A study in Colombia found that social interventions supporting improved health and nutrition raised lifetime earnings by factors between 2.5 and 8.9.<sup>70</sup> A study in Chile that tracked children over time found that preventing malnutrition yielded productivity returns six to eight times the cost of the social investment.<sup>71</sup>

## **8.19 Education**

The October Household Survey also provides evidence of the important linkages between social security transfers and educational attainment. Econometric tests document a strong impact of income grants (as measured by the State Old Age Pension in three-generation households) on school attendance. Pensions exert a significant and positive effect on the likelihood that a school-age child will attend school, this effect is stronger among the poorer segments of the population.

In theory, receiving an income grant affects school enrolment in two ways. First, to the extent that there are financial barriers to school attendance—purchasing school supplies, uniforms, tuition, transportation, etc.—the boost in disposable income provided by the grant could help pay the otherwise unaffordable costs of attending school. Second, a grant potentially reduces the opportunity cost of school attendance. With a grant in hand, a family might be more able to forgo a child's contribution to household income (or food production in the case of subsistence farmers) in favour of making a long-term investment in education.

The evidence supports this theory. The poorer the household, the stronger the impact of a grant in terms of promoting school attendance. Furthermore, the impact is greater for girls than for boys. The details of the formal econometric testing are discussed in the appendix.

In poor households, defined as those households falling into the lower quarter of all households in a given province ranked by expenditure per capita, school-age boys are 3 percent more likely to attend school full time if the household receives a pension benefit. The effect is even more pronounced for girls: girls who live in pensioner households are 7 percent more likely to be enrolled full time in school than are their peers who live in households without a pension. In general, a five hundred rand increase in income transfers to a poor household of five would increase the probability of attending school by an estimated 2 percent for a school-age boy and 5 percent for a girl.

Not only does increasing school attendance among poor children add to human capital, improving future productivity and prospects for economic growth; it also can have an important long-term effect on stemming the spread of HIV/AIDS. Indeed, the World Bank notes that increasing education, and in particular the education of women, is one of the most effective ways to combat the spread of HIV/AIDS. (Women receiving a basic income grant for herself and her children are also less likely to remain in abusive relationships).

Numerous international studies corroborate these findings. The positive link between improved household incomes and improved educational attainment by children is rigorously documented.<sup>72</sup> The strong result for girls in South Africa's case is particularly important. A recent study by Ranis and Stewart found that the most consistent predictor of successful human development was improved female education, particularly through the consequent improvements in infant survival and child nutrition.<sup>73</sup> Education also improves economic performance not only through improved labour productivity but also through improvement capital productivity. A more educated workforce is more likely to innovate, raising capital productivity.<sup>74</sup>

## **8.20 Poverty, Inequality and Social Instability: Development Implications**

The basic income grant provides a social stake for the economically disenfranchised, promoting social cohesiveness and investor confidence. “Research conducted in working class townships around Durban revealed a link between...violence and the erosive effects of apartheid and poverty....”<sup>75</sup> Poverty creates vulnerability to crime, and victimisation in turn erodes human and social capital and undermines access to employment.<sup>76</sup> “The shock of being victimised by crime makes the poor more vulnerable....In some cases, heightened vulnerability may force victims to resort to criminal activity as a means of survival...”<sup>77</sup> Theoretical economic and empirical cross-country evidence demonstrates that income transfers yield social benefits that increase private investment and stimulate economic growth.<sup>78</sup>

A recent World Bank report argues that “the foregone cost of not accounting for the poor may compromise economic growth in the long-run. In order to survive, the poor may... resort to criminal or marginalised activities....Moreover, denying the poor access to economic and educational opportunities accentuates inequality—an outcome likely to retard economic growth.”<sup>79</sup> An extensive literature documents the link between severe inequality and poor rates of economic growth. Cross-country empirical evidence include econometric studies which find a negative effect of inequality on economic growth.<sup>80</sup> These findings are supported by methodological studies.<sup>81</sup>

## **8.21 Labour market effects**

Theoretical and empirical evidence demonstrates that the basic income grant may positively influence both the supply and demand sides of the labour market.

### **8.21.1 Raising labour supply**

Closely linked to the optimal management of social risk, the labour supply transmission mechanism operates through the effect that higher living standards exert on the capacity of unemployed job-seekers to find work. The conventional wisdom stemming from economic theory argues that income transfers to the unemployed will tend to undermine their willingness to supply labour to the market, as additional income reduces the “opportunity cost” of not working. In the absence of income transfers, the alternative to working may be unacceptable living standards. Income transfers make the alternative living standards more tolerable. These studies usually refer to the various systems of dole, where the unemployed is supported until they get employment. In the case of a Basic Income Grant the income received will not be foregone once an unemployed person finds employment. It may well be that people who receive very low exploitative wages will be less willing to enter this type of employment when they do get some support from the state. However, since additional income will help with job search and training, the reverse is likely to be the case. The evidence from South Africa’s 1997 October Household Survey contradicts the fear that additional permanent income (in contrast to a dole income) will lead to lower participation rates.

The figure below demonstrates the link between prior living standards and the rate at which individuals wanting employment found jobs. The population of individuals in Gauteng, KwaZulu-

Natal, and the Western Cape who expressed an interest in employment in October 1997 was divided into five quintiles based on per capita household consumption in September 1997. Then the rates at which job-seekers in each quintile found jobs in October 1997 were calculated. The figure below maps the job-finding rates across quintiles for the three provinces, demonstrating that higher prior living standards are linked to higher job-finding rates. Individuals who can better afford leisure nevertheless choose to find jobs and are apparently better able to secure employment. The data raises questions about the applicability to poor households in South Africa of the conventional argument that income transfers will lead to reductions in labour supply.

**Figure 8.9: The Link between Living Standards and Finding a Job**



### 8.21.2 Labour demand

Income transfers to the poor act as a wage subsidy, allowing wage increases to more efficiently raise the productivity of workers. Currently, the imperative of providing remittances to family members, friends, and other individuals in need reduces the remaining wage available to sustain the worker’s productivity. Wage increases are in part “taxed” by associated increases in remittances, since the working poor provide the primary social safety net for the ultra-poor. As a result, the “efficiency wage” effect is diluted—wage increases do not lead to as powerful a productivity-enhancing effect as they would if the remittance pressures were reduced. This tends to create a low wage trap, as higher wages provide a public good, and market failure ensures that this “good” is insufficiently provided.

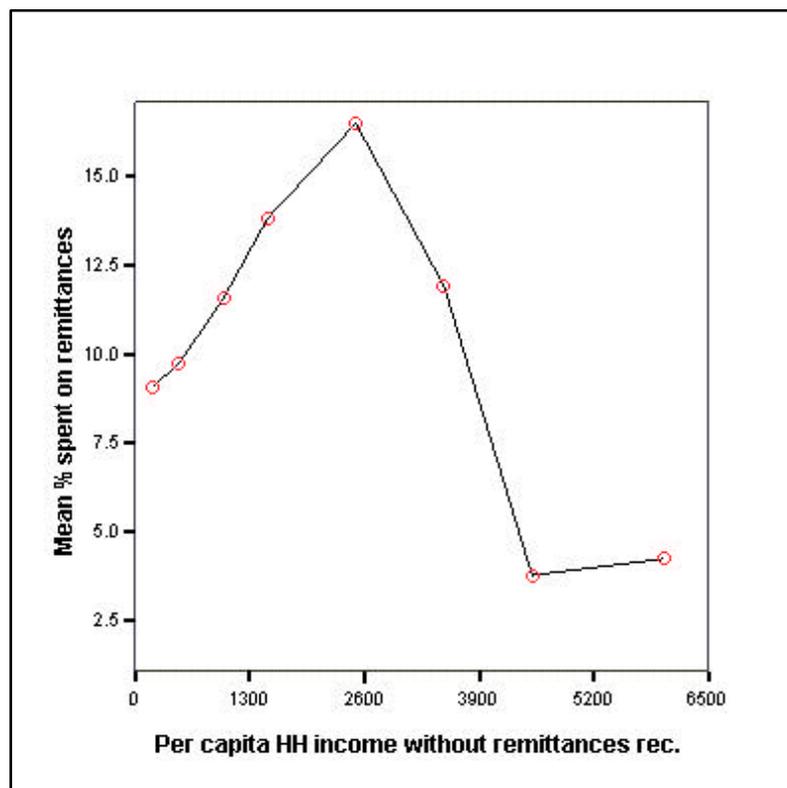
A theoretical model of firm behaviour reflecting these conditions (see Appendix II) demonstrates that providing income transfers to the poor leads to increased employment, even benefiting those who do not receive a net income transfer. Income transfers reduce poverty, mitigating the demands on workers for remittances. This allows workers to channel more of their wages to productivity-enhancing consumption and human capital investment, increasing firm competitiveness and thus raising production and the demand for labour.

Empirical evidence in South Africa and in other countries supports this hypothesis. An ILO study documents how the tendency for large family remittances to flow from urban to rural areas places South African firms at a structural disadvantage, resulting in reduced employment.<sup>82</sup> A large body of cross-country evidence documents the substantial role remittances from the working poor play in creating a social safety net for the very poor.

Empirical and theoretical analysis supports the applicability of the “efficiency wage” hypothesis to South Africa. Higher wages increase productivity in several ways: (1) higher wages improve equity, reducing social tension and economising on capital inputs through fuller utilisation—fewer strikes, more opportunities for extra shifts, etc. (2) Higher wages support improvements in health and education, contributing to higher labour productivity and the generation of capital-saving innovations, as discussed in the previous section under “Social capital”. (3) The improved distributional effects of higher wages increase expected returns to capital by reducing political risk.<sup>83</sup> . A Dresdner Bank study of South African manufacturing sectors found evidence of a positive efficiency wage effect in many industries.<sup>84</sup> This is consistent with international experience in many low wage developing countries.<sup>85</sup>

A basic income grant has the potential to increase the demand by employers for workers through its direct and indirect effects on productivity. Directly, a basic income grant supports the accumulation of human capital by a worker, and it supports the worker’s productivity-bolstering consumption. Better nutrition, health care, housing and transportation all support the increased productivity of the worker. Indirectly, the basic income grant supports higher worker productivity by reducing the informal “tax” on workers that results from the combination of severe poverty and a remittance-oriented social safety net. The figure below, estimated from SALDRU data, documents the extent to which remittances impose a burden on wage earners. The percentage of a household’s resources allocated to remittances rises steeply as per capita income increases. On average, remitting households earning R2600 per month pay nearly 17% of their income in remittances to family members, friends, and others in need who live outside the household.

**Figure 8.10: Remittances and household income**



A study of the interaction between public and private transfers in South Africa finds that a government grant of a hundred rand provided to a household receiving private transfers led to a reduction of twenty to forty rand in remittances to that household.<sup>86</sup> This suggests two important implications: (1) the implementation of the basic income grant will not erase the private social support network, (2) a basic income grant will release substantial resources to wage-earners to bolster their own productivity-improving consumption. The interaction of this effect and the tax effect discussed above has a further important implication. With a basic income grant in place, as employers increase the wages of workers, more of the wage increase goes to the employee's own consumption. This magnifies the increase in labour productivity, increasing the profits of the business enterprise and potentially increasing employment.

### **8.21.2.1 Macro-economic effects**

The Committee received contradictory evidence regarding the impact of the basic income grant on economic growth. Some argued that the basic income grant, by shifting resources from savings to consumption, stimulates the overall level of economic activity. Given the high rate of unemployment and large levels of excess capacity, the growth effects of this stimulus are likely to be substantial. A counter argument was that the higher taxation required to finance the Basic Income Grant, particularly if it is financed by increasing the income tax burden, will lead to lower economic growth.

### **8.21.2.2 Sectoral economic impacts: The composition of aggregate demand**

The spending of the lower income groups tends to concentrate on labour-absorbing sectors of the economy. Income transfers to the poor shift aggregate demand towards labour-intensive job-creating industries, because it increases the consumption of the poor, the composition of which is relatively labour-intensive. Relatively affluent consumers spend a relatively large share of expenditure on capital-intensive and import-intensive goods, creating a bias against labour-intensive production in the country. The largest components of South African imports (excluding capital goods) include appliances, electronics, automobiles, jewellery, and other goods consumed disproportionately by the relatively affluent. Redistributing income to lower income individuals is likely to stimulate job creation, particularly if appropriate policies are implemented to enable the unemployed to undertake productive activities that meet the resulting increased economic demand. Effective micro-credit policies combined with logistical support for entrepreneurs can effectively maximise the resulting job creation.

## **8.22 The financial feasibility of a Basic Income Grant**

### **8.22.1 Introduction**

A major factor affecting the feasibility of a basic income grant for South Africa is the question of affordability. The fiscal costs of the basic income grant are substantial. The fiscal impact of a basic income grant depends on several factors:

- the size of the grant,
- the associated adjustments to the income tax structure,
- the adjustments in the value added tax,
- the impact of the grant on other government expenditures,
- the take-up rates for the grant.

The size of the basic income grant, together with the demographic assumptions and the extent of existing social security programmes, determines the gross cost of the income transfers associated with the basic income grant. The micro-simulations of the South African economy indicate a total population in March 2001 of 44.9 million people, of which 8.4 million people are eligible for existing social security programmes. Assuming a basic income grant of a R100 per month, the gross cost of the additional income transfers would be R43.8 billion.

Out of the R43.8 billion gross additional cost of the basic income grant, people in the top three quintiles of the population receive R22.2 billion. Adjustments to the income tax structure can recuperate most of these transfers without significantly affecting the vertical equity of the net tax burden. Adjusting the tax rates and income thresholds at lower income levels gradually recuperates the basic income grant from middle and upper income earners. The value added tax, in turn, recuperates a significant portion of the expenditure associated with the net transfers. Micro-simulations of various tax adjustment options yield an average recuperation of R16.7 billion

through the income tax, and R3.3 billion through the value added tax. This results in a net cost of the basic income grant transfers of about R24 billion.

The results of a number of different simulations run for the committee are contained in the table below. If a Basic Income Grant of only R70 should be paid to every South African, and the VAT is at the same time increased by 4.9%, the tax increase would equal the total additional cost of the R70 per person BIG. The net new burden of this BIG will be only R9.4 billion. In the case of a R100 BIG the net new burden will be R13.5 billion. In the case of a R100 BIG every household that has a per person expenditure of less than about R1,400 per month will be better off, because the increase in VAT they have to pay will be less than the total value of the BIG received. It is only those above this cut off point that will have to carry an additional burden, and the further they are above this point, the higher this additional burden will be. Even though in total more than R40 billion additional funds will be paid out if a R100 BIG is introduced, every household that has any cash expenditure will also pay more VAT. The net additional burden that has to be carried will then only be R13.5 billion. The simulation model shows that about the poorest 70% of the households, containing about 80% of the population will be better off when a R100 BIG is paid out of a VAT increase.

In the case where a the payment of a BIG is combined with a VAT increase, the BIG will be perfectly targeted in the sense that the poorer a household is, the larger the net benefit and, once the per person expenditure is above the cut off point, the higher its expenditure, the bigger the net burden, both in absolute and in percentage terms. Thus, where as a VAT increase by itself is regressive, a VAT increase plus a BIG has a progressive impact.

**Table 8.13: Summary of total net new tax burden and net burden and benefits according to income group for different levels of BIG and other grants.**

BIG	Income tax + Rebate=4140	Vat etc increase %	Bottom 4 quintiles			Top 2 Deciles		Net new burden
			1&2 23.1 3.3	3 8.6 7.7	4 6.3 15.3	9 2.8 29.5	10 2.6 61.3	
<b>70</b>	R4140	<b>4.9</b>	11.1	1.8	-1.4	-1.6	-6.4	<b>-9.4</b>
<b>100</b>	-	<b>6.4%</b>	14.9	2.5	1.5	-3.2	-8.8	<b>-13.5</b>
<b>100</b>	R=0 3.2%	<b>0</b>	17.4	3.8	-4.1	-4.1	-8.9	<b>17.2?</b>
<b>100</b>	9.6%	<b>0</b>	21.1	7.0	3.4	-5.4	-15.8	<b>-24.0</b>
<b>130</b>		<b>8.4%</b>	18.9	3.2	2.2	4.3	11.7	<b>-18.2</b>
<b>130</b>	R=0 6.1%		23.3	5.7	-5.3	-5.8	-13.6	<b>24.6?</b>
<b>130</b>	12.8	<b>0</b>	27.4	9.1	4.6	7.2	-20.3	<b>-32.2</b>

Should the VAT be financed out of an increase in the marginal income tax rate, every household which does not pay income tax will have the full benefit of the VAT—thus even in cases where the per person expenditure is well over the R1500, the benefit will be R100 a month (minus the VAT

paid on the goods bought). The burden on those who pay tax will, however, be much higher, because a marginal tax rate increase of at least 9.6% will be acquired. The net new burden in this case will then also be much higher, viz. at least R24 billion. (Our model somehow underestimates this burden). The net benefit will, of course, also be much larger, because a much greater proportion of the people will get the full R100, where as in the case of a VAT increase this is clawed back as soon as people start having some expenditures.

Instead of increasing the marginal income tax rates income tax can be increased by doing away with the rebate. This would put the burden of the tax increases on the middle and low income people, who will carry proportionally more than the higher income groups. Such a taxation option will thus be regressive. To cover the cost of a R100 BIG would require that one does away with the R4140 rebate and, in addition, increase income tax rates by 3.2%.

A R130 BIG would require a VAT increase of 8.4% which would impose an additional burden of R18.5 billion. This is much lower than the net burden of a R100 BIG financed by income tax increase. In fact, a R165 BIG will, if financed by a VAT increase, impose the same net burden as a R100 BIG financed by an income tax rate increase. For any given net new burden far more money will go to the poorest people in the bottom deciles when a BIG is financed by VAT rather than by income tax increases.

### **8.22.2 Findings on Basic Income Grant**

The evidence in this report supports the conclusion that the basic income grant is feasible, affordable, and supportive of poverty reduction, economic development and job creation. Income grants have the potential to fortify the ability of the poor to manage risk while directly improving their livelihoods. In addition, income transfers can improve the efficiency of social capital and cohesiveness while stimulating overall economic activity. These factors may increase both the supply and demand for labour. Complementary public policy that supports job creation and socio-economic development can reinforce the process by which redistribution generates growth that in turn sustains further broad-based improvements in living standards.

In the South African context measures which attempt to directly address asset and capability poverty have only had a limited impact. Much of the funds that go into attempts to deal with capability poverty actually land up in the pockets of those who are paid to impart skills to the poor, without the poor themselves having any significant permanent benefit. By addressing income poverty directly the poor are enabled to deal themselves with capability poverty issues. However, income support that is conditional on a person being unemployed or poor or a single person, has many unintended consequences. It creates a poverty trap. In contrast to this a universal grant which is clawed back through taxation helps those in poverty, but does not create any poverty traps.

### **8.22.3 Recommendations**

#### **8.22.3.1 Poverty Measures and Indicators**

It is necessary for the Government to decide on a minimum poverty line. It is recommended that this should be an absolute poverty line, e.g. R400 per person per month in 1999 prices, and not a relative poverty line, e.g. the income per person of the household in the 40<sup>th</sup> percentile.

A destitution line should be set as a first realistic benchmark that could be used by Government to monitor progress in alleviating poverty. A destitution line could be set at half the poverty line.

When calculating the poverty line for a household, allowance must be made for the fact that there is differences in the cost of living for people of different ages, and that there is some benefits of scale.

#### **8.22.3.2 Recommendations on the Basic Income Grant**

Research evidence put to the Committee indicates that the social and development impacts of a Basic Income Grant are significant. Analysis shows that the Basic Income Grant has the potential to reduce poverty, promote human development and sustainable livelihoods. A universal basic income grant has the potential to fortify the ability of the poor to manage risk while directly improving their livelihoods. In addition, the grant can improve the efficiency of social capital and societal cohesiveness.

In the view of the Committee, with sufficient fiscal space, income support of this nature would assist in the effective implementation of Government's service delivery and social policy objectives.

In the immediate term the conditions for effective implementation of a Basic Income Grant do not yet exist, however. Capacity and institutional arrangements must first be put into place.

#### **8.22.3.3 A Comprehensive and Integrated Medium- to Long-term Framework For Income Support**

The primary objective of a more comprehensive social assistance grant support system is to eliminate destitution and poverty by 2015. The scenario examined in this section sets the objective of the elimination of poverty and destitution as its target, and examines the fiscal feasibility of the progressive expansion of the social assistance grant system when phased in over the long term.

##### **➤ Prioritisation and phasing:**

The option examined here is phased in to remain consistent with Government's fiscal framework. The phasing-in process prioritises the most vulnerable first, gradually expanding to all groups in need of basic poverty support over time. The vulnerable, not adequately covered by an existing grant, in order of priority are:

- a) Children;

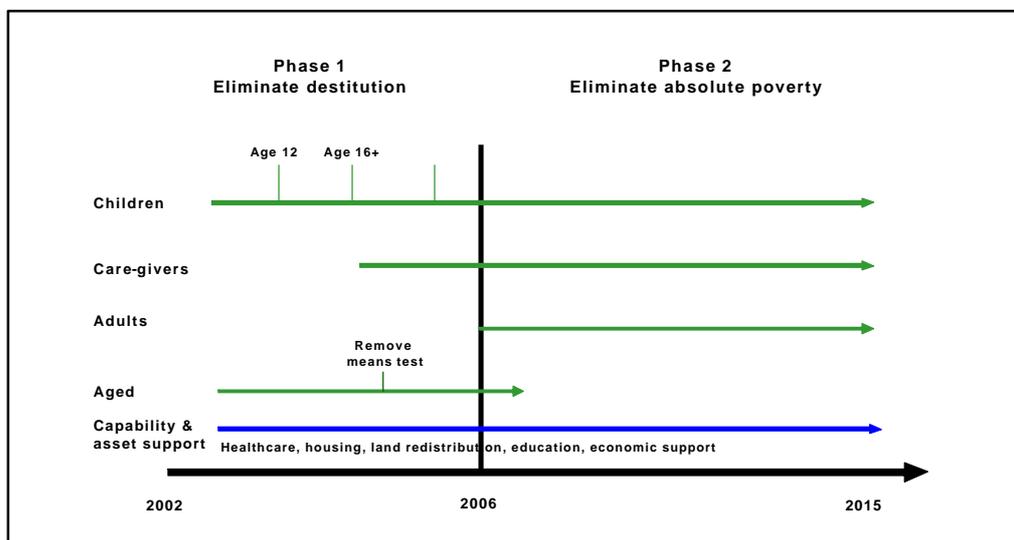
- b) Primary care-givers of children and those who are chronically ill and
- c) Unemployed adults in households with no other form of income support.

Two broad phases are envisaged:

- a) *Phase 1:* Eliminate destitution—here it is envisaged that Government focus its resources on eliminating the worst aspects of poverty that exist in South Africa.
- b) *Phase 2:* Eliminate absolute poverty—after having eliminated destitution during phase 1, Government needs to focus on eliminating poverty that exists below a designated level.

Although initially implemented with a means test, consideration can be given to phasing these out during phase 2 if this is feasible and desirable from a policy viewpoint.

**Figure 8.11: Suggested phasing in of an income support grant system**



## 8.23 Financial Arrangements and Options

### 8.23.1 Policy options and assumptions

The implementation of a system of income support measures becomes a feasible option when strategically phased in over the medium- to long-term. Two basic scenarios have been selected for evaluation and are presented in table 8.14. These reflect broad policy options considered seriously by the Committee. In each instance the net cost to Government of a grant is examined.

#### ➤ Child support grant / Income Support Grant:

The existing child support grant is expanded over time to include older age groups and at this point it becomes a generalised income support grant. The scenario considered here sees this enhancement phased in over a seven-year period beginning in the 2003/04 financial year. The title of the grant would be changed to “an income support grant”. The primary scenario sees the continuation of the means test. An alternative is to remove the means test from around 2007/08. This will give time for fiscal capacity to have developed to cope with the additional cost of the grant.

➤ Assumptions:

- Grant value in 2001: R110 per beneficiary per month.
- Eligible beneficiaries for the existing grant: 3,356,546.
- Eligible beneficiaries up to 18 years, with means test: 8,207,770.
- Eligible beneficiaries up to 18, with means test removed: 18,372,811.
- Reform begins in 2003/04, reaching 18 years by 2005/06; full take-up expected only by around 2009/10.
- It is assumed that the removal of the means test will only occur during phase 2, and occur in 2007/08.

➤ Income Support Grant to Primary Care-givers:

In order to provide general income support to a particularly vulnerable group, caregivers of children living in destitution and poverty as well as caregivers of those who are chronically ill, it is proposed that a grant at a similar level to the CSG be provided for caregivers. This grant will also reduce the general vulnerability of low-income families to HIV/AIDS and other chronic illness.

➤ Assumptions:

- Grant value in 2001: R110 per beneficiary per month;
- Eligible beneficiaries for child grant extended to 18 years, with means test: 3,204,471;
- Eligible beneficiaries for child grant extended to 18 years, with means test removed: 8,746,832.
- It is assumed that this grant will begin in 2004/05 and follow the fortunes of the child grant.
- The removal of the means test would only occur in phase 2 and is assumed to occur in 2007/08. Full take up is expected to occur only after three years.

➤ Income Support Grant to Adults:

- Value of grant in 2001: R100 per beneficiary per month.
- Beneficiaries with means test: 13,274,927.
- Beneficiaries with means test removed: 21,298,474.
- The adult grant would begin in 2006/07 and take four years to achieve full take-up.
- The removal of the means test is assumed to occur well into phase 2 and set for 2011/12. It is assumed that full take-up will take three years.

### 8.23.2 Fiscal capacity assumptions

As it is important that the phasing in of a system of minimum income supports be compatible with the fiscal framework, an assessment of fiscal capacity was performed. The basis for the figures used, as well as other analyses, are provided below. The estimates were performed only for the next two fiscal years to assess the trend. Two options were assessed:

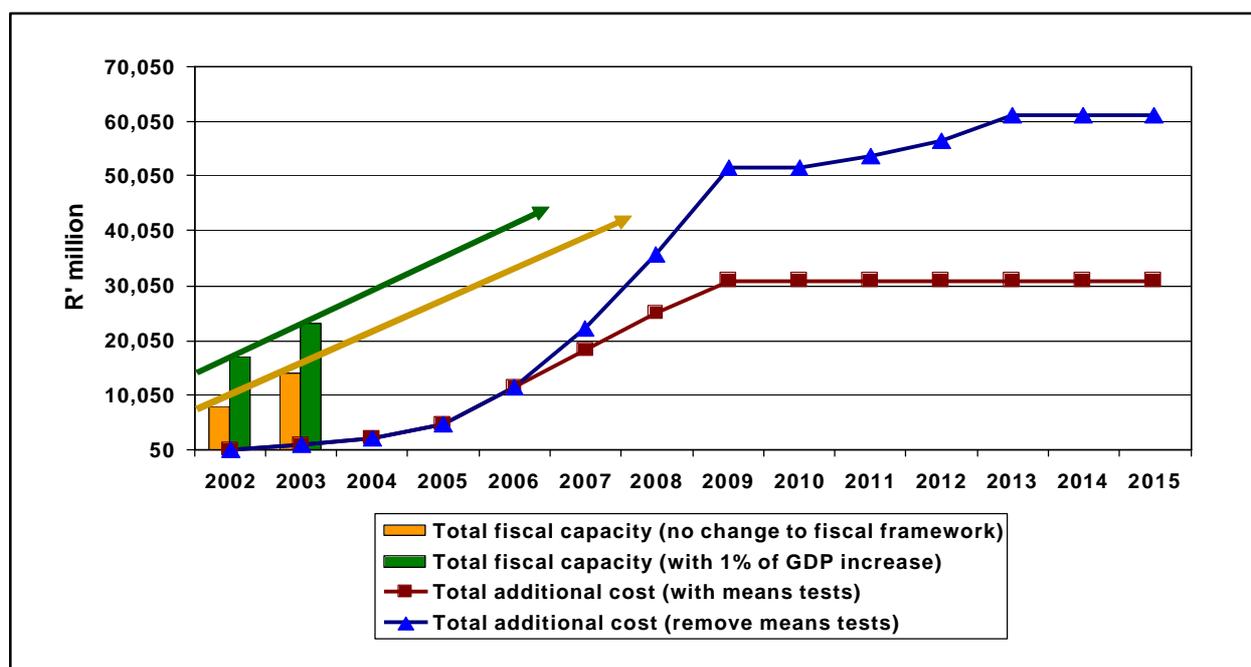
- (a) No change to the fiscal framework taking account of:
  - a. Economic growth; and
  - b. Decreases in debt servicing requirements.
- (b) A one percent of GDP increase in Government Expenditure outside of the fiscal framework in addition to the issues identified in (a) above.

### 8.23.3 Fiscal Implications—findings

Given the phasing in of a more comprehensive system of social assistance, there is less need to reconsider the fiscal framework. This is the case even if the removal of the means tests were to be implemented. The maximum fiscal impact of the grant system occurs only by around 2009/10, after which increases taper off. (See table 8.14 and figure 8.12).

During the period of the Medium-term Expenditure Framework (MTEF) improvements in fiscal capacity far exceed the financial cost of the redesigned income support system. Given the length of the period under consideration, it is very likely that fiscal capacity will far exceed the cost of the grant system by 2015. (Also see section 13).

**Figure 8.12: Income support system, with and without means test (2001 prices)**



**Table 8.14: Phasing in of income support grant system (with and without the removal of means tests)**

	Max net value (2001)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total additional cost</b>	<b>61,257</b>	<b>0</b>	<b>961</b>	<b>2,238</b>	<b>4,758</b>	<b>11,418</b>	<b>18,237</b>	<b>25,214</b>	<b>30,895</b>						
<b>Old Age Pension</b>															
<i>no means test</i>	4,331	0	0	0	1,083	2,166	3,248	4,331	4,331	4,331	4,331	4,331	4,331	4,331	4,331
<b>Child Support Grant</b>															
<i>extend to 18</i>	6,404	0	961	1,921	2,882	3,842	4,803	5,763	6,404	6,404	6,404	6,404	6,404	6,404	6,404
<b>Care-giver grant</b>															
<i>for children 0-18</i>	4,230	0	0	317	793	1,428	2,221	3,172	4,230	4,230	4,230	4,230	4,230	4,230	4,230
<b>Adult grant R100</b>															
<i>with means test</i>	15,930	0	0	0	0	3,982	7,965	11,947	15,930	15,930	15,930	15,930	15,930	15,930	15,930
<b>Total additional cost (removal of means tests)</b>	<b>61,257</b>	<b>0</b>	<b>961</b>	<b>2,238</b>	<b>4,758</b>	<b>11,418</b>	<b>22,384</b>	<b>35,581</b>	<b>51,628</b>	<b>51,628</b>	<b>53,554</b>	<b>56,443</b>	<b>61,257</b>	<b>61,257</b>	<b>61,257</b>
<b>Old Age Pension</b>															
<i>no means test</i>	4,331	0	0	0	1,083	2,166	3,248	4,331	4,331	4,331	4,331	4,331	4,331	4,331	4,331
<b>Child Support Grant</b>															
<i>extend to 18</i>	6,404	0	961	1,921	2,882	3,842	4,803	5,763	6,404	6,404	6,404	6,404	6,404	6,404	6,404
<i>no means test</i>	13,418	0	0	0	0	0	2,684	6,709	13,418	13,418	13,418	13,418	13,418	13,418	13,418
<b>Care-giver grant</b>															
<i>for children 0-18</i>	4,230	0	0	317	793	1,428	2,221	3,172	4,230	4,230	4,230	4,230	4,230	4,230	4,230
<i>no means test</i>	7,316	0	0	0	0	0	1,463	3,658	7,316	7,316	7,316	7,316	7,316	7,316	7,316
<b>Adult grant R100</b>															
<i>with means test</i>	15,930	0	0	0	0	3,982	7,965	11,947	15,930	15,930	15,930	15,930	15,930	15,930	15,930
<i>no means test</i>	9,628	0	0	0	0	0	0	0	0	0	1,926	4,814	9,628	9,628	9,628

## **8.24 Conclusions**

It is the view of the Committee that a more comprehensive system of social assistance can play an important role in achieving medium- to long-term social and economic transformation in South Africa. The Committee recommends that serious consideration needs to be given to fully utilising future improvements in fiscal capacity to build up this system of transfers.

The Committee also finds that although a “Basic Income Grant” is most able to eliminate destitution and have a developmental impact on the poorest, its implementation is not feasible in the short-term due to fiscal and administrative obstacles. It is, however, the view of the Committee that fiscal capacity for a phased and measured introduction of a more comprehensive system of income support through social assistance is feasible.

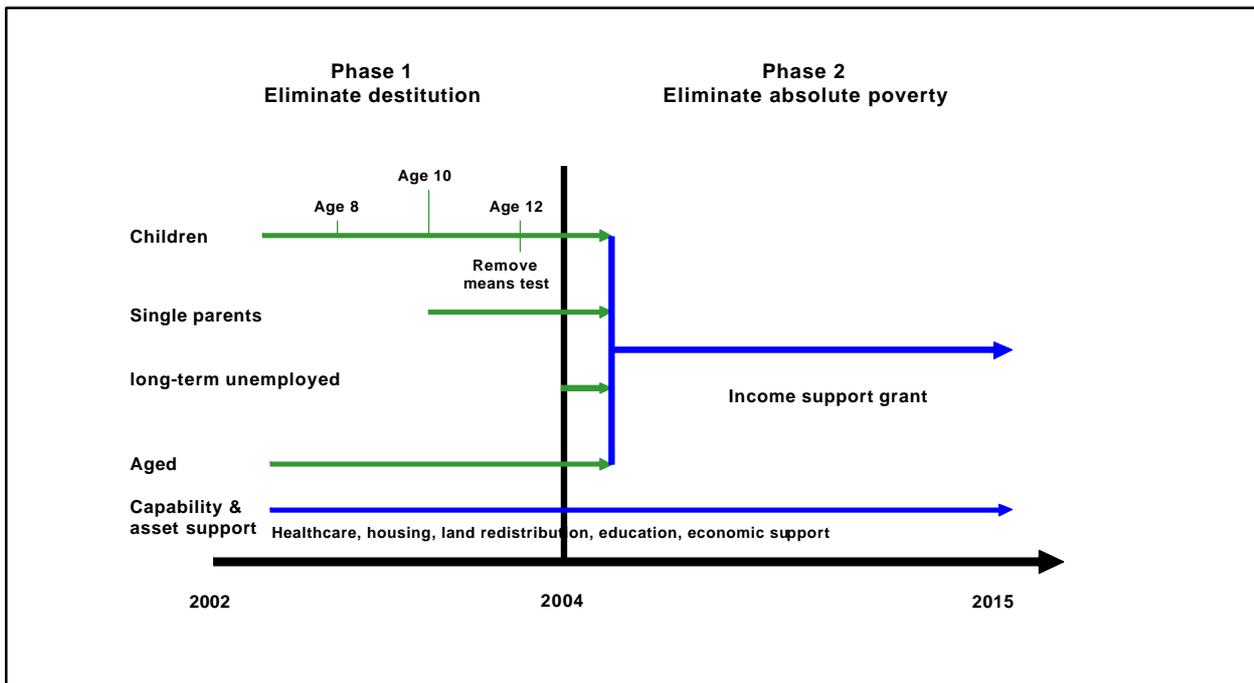
On the basis of submissions and research carried out for the Committee, an expansion of social assistance will have positive social and economic implications. Within this context, households in clear distress should be given priority in any expanded framework.

It is the view of the Committee that initial priority needs to be given to an expansion of the social assistance support for families with children living in destitution and poverty. This should initially involve an improvement of the qualifying age categories, and later should provide additional income support for the caregiver.

An expansion of the social assistance grant system to adults living in destitution and poverty can have positive social and economic implications, and prove fiscally feasible if seen as a long-term intervention.

The Committee understands that women are particularly vulnerable to HIV/AIDS when living in a situation of income poverty. The Committee therefore proposes that the expansion of the child support grant, with additional funding for caregivers, needs to be given additional priority in that it both prevents new infections, and provides income support to households most likely to have people living with HIV/AIDS.

**Figure 8.13: Suggested phasing in of a universal income support grant**



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## ENDNOTES

- <sup>1</sup> This information is drawn from the South Africa Human Development Report 2000, South Africa Transformation for Human Development 2000, United Nations Development Programme, Pretoria
- <sup>2</sup> Whiteford and Van Seventer, 2000
- <sup>3</sup> The poverty rate is calculated as the proportion of people in a particular group or area falling below the poverty line, and measures the rate at which people fall below the line and therefore how widespread poverty is.
- <sup>4</sup> The poverty gap is usually calculated as the annual amount needed to uplift the poor to the poverty line by means of a perfectly-targeted transfer of money, and measures how deep or intense poverty is.
- <sup>5</sup> Poverty and Inequality Report, 1998
- <sup>6</sup> South Africa Human Development Report 2000, South Africa Transformation for Human Development 2000, United Nations Development Programme, Pretoria
- <sup>7</sup> UNDP [1998] : 5
- <sup>8</sup> Bundy [1992] : 25
- <sup>9</sup> Sangoco, CGE & SAHRC [1998] : 17.
- <sup>10</sup> In South Africa: Transformation for Human Development, Human Development Report 2000, UNDP, Pretoria.
- <sup>11</sup> Information obtained in an interview with Julia de Bruin, National Treasury, 2001.
- <sup>12</sup> World Bank, Poverty Reduction Sourcebook
- <sup>13</sup> The SALDRU survey takes its name from the University of Cape Town's South African Labour and Development Research Unit, which undertook a national household survey in 1993 in cooperation with the World Bank.
- <sup>14</sup> Bonti-Ankomah et al, December 2000 NIEP Johannesburg
- <sup>15</sup> For a more detailed discussion see Haarmann (2000) and Haarmann (1998).
- <sup>16</sup> Payment Extraction Report for Pay Period April 2001, SOCPEN system—Department of Social Development, 5 April 2001. The figure counts beneficiaries for the Child Support Grant as the actual number of grant recipients, not the number of children. In March 2001, there were 842,892 beneficiaries, receiving grants for 1,084,659 children.
- <sup>17</sup> Finance Minister Trevor Manuel acknowledged the State Old Age Pension system as one of government's most important poverty alleviation programmes (Budget Speech 1997/98), a fact which is similarly recognised in the White Paper (1997): "The number of elderly South African beneficiaries has stabilised, with fairly good coverage (80%), but there are still particular pockets where many eligible people do not get a grant. The impact of a grant income on household income for people in poverty is dramatic. The majority of people in poverty who are not white live in three-generation households, and the grant is typically turned over for general family use. In 1993, there were 7.7 million people in households that received a state grant. For black South Africans, each pensioner's income helped five other people in the household." See also COSATU (1996), Ardington & Lund (1995), and Haarmann (2000).
- <sup>18</sup> Haarmann (2000) summarises the findings of the task team's report (Schneider & Marshall, 1998): "The task team recommends changing the test by moving from assessment of functional capacity only to evaluation of a range of needs and economic factors and hence developing a 'profile of needs' of the applicant. This profile should, besides the medical and financial indicators, also include indicators like the costs related to the specific disability, the support mechanisms, and a socio-economic profile of the area and possible vulnerability to discrimination. The rationale for this recommendation is the appreciation that each disability creates a range of needs. This is especially the case in the South African situation where other social security measures like accessible health care, re-training, vocational rehabilitation and transport are largely absent. The task team *inter alia* recommends the employment of 'evaluators' in each district for evaluating the needs of people with disabilities, an improvement in the administration and information system of the grant and a stronger inter-sectoral collaboration of the different departments. Strategies for people with disabilities that were already set out in the White Paper ranged from improvement of accessibility to the welfare system, to training opportunities, transport and the labour market.
- <sup>19</sup> Finance Minister Trevor Manuel, Budget Speech 2001.
- <sup>20</sup> For a comprehensive and detailed discussion of the assumptions and mechanics of the micro-simulation model employed for a similar analysis, see Haarmann (2000).
- <sup>21</sup> SALDRU (1994)
- <sup>22</sup> Haddad, Hoddinott, Alderman (1997)
- <sup>23</sup> Haarmann (2000)
- <sup>24</sup> World Bank (1995)
- <sup>25</sup> May (1998)

- 26 For a discussion, see Haarmann (2000).
- 27 Haarmann (2000)
- 28 Micro-simulations of the SOAP and CSG are relatively robust because all of the information required for determining grant eligibility can be captured using household surveys. This is not true, however, for the Disability Grant. As a result, somewhat arbitrary assumptions need to be made to model incomplete take-up when eligibility criteria—such as the results of medical tests—are not supported by data in household surveys. This study assumes a conservatively high take-up rate of 90%.
- 29 Department of Welfare (1998)
- 30 Fraser-Moleketi (1998)
- 31 Fraser-Moleketi (1999). See also Kola et al (2000), which reports approximately 45,000 beneficiaries in March 1999.
- 32 Department of Welfare (1999)
- 33 See SALDRU (1994).
- 34 The 75% take up rate is calculated on the basis of the SALDRU data, for more information see the thesis of Claudia Haarmann.
- 35 Ardington and Lund (1995)
- 36 Kola, et al. (2000)
- 37 Lund Committee (1996). See also C. Haarmann Thesis, Chapter 6.
- 38 Lund Committee (1996)
- 39 Haarmann (2000)
- 40 Haarmann (2000)
- 41 These results were made public in June 1997.
- 42 Department of Welfare (1998)
- 43 Department of Welfare (1998)
- 44 Department of Welfare (1998)
- 45 Budlender (1993)
- 46 Budlender (1993)
- 47 Case and Deaton (1996)
- 48 Lund Committee (1996)
- 49 Berg, Amde, Budlender (1997)
- 50 In the case of the Department of Welfare, for example, the Flagship programmes as one of the first developmental programmes reaches only ca. 1000 women nation wide. (Department of Finance, 1998)
- 51 Case and Deaton (1996)
- 52 Klasen (1996)
- 53 Le Roux (2001), p.60.
- 54 See Haarmann (2000).
- 55 COSATU (1998); Hazelhurst (2000); Samson, Babson, Mac Quene, van Niekerk (2000)
- 56 Haarmann and Haarmann (1998)
- 57 Human Resource Development Strategy for South Africa (2001)
- 58 Philip (2000)
- 59 Henry and Ulijaszek (1996)
- 60 Barker (1996)
- 61 Chandra (1975), Miler (1982)
- 62 Cameron (1996)
- 63 Barker (1996)
- 64 Lumey (1992)
- 65 Mgijima (1999)
- 66 Mgijima (1999)
- 67 Young (1996)

- <sup>68</sup> Strauss and Thomas (1995). See also Bouis and Haddad (1992).
- <sup>69</sup> Ranis and Stewart (2000), Cornia and Stewart (1995), Strauss (1986), Immink and Viteri (1981), and Wolgemuth (1982)
- <sup>70</sup> Selowsky (1981)
- <sup>71</sup> Selowsky and Taylor (1973)
- <sup>72</sup> Alderman (1996), Behrman and Wolf (1987a,b), Birdsall (1985), Deolalikar (1993) and King and Lillard (1987)
- <sup>73</sup> Ranis and Stewart (2000)
- <sup>74</sup> Lucas (1988)
- <sup>75</sup> Louw and Shaw (1997)
- <sup>76</sup> Moser, Holland, and Adam (1996)
- <sup>77</sup> Louw and Shaw (1997)
- <sup>78</sup> Cashin (1995)
- <sup>79</sup> Subbarao, Bonnerjee, Braithwaite (1997)
- <sup>80</sup> Alesina and Rodrik (1994), Persson and Tabellini (1994)
- <sup>81</sup> Perotti (1992, 1994, 1996), Lipton (1995).
- <sup>82</sup> Standing, Sender, and Weeks (1996)
- <sup>83</sup> “Hochtief, the multi-national German construction company, may have broken off talks with Murray and Roberts, the engineering and construction group, earlier this year as a result of fears arising from the Zimbabwe crisis.... This is one of the first concrete examples of a large investment decision that was directly affected by the events in the neighbouring country.” (Business Report, September 10, 2000, page 1.)
- <sup>84</sup> Piazzolo and Wurth (1995)
- <sup>85</sup> A recent World Bank study finds “significant efficiency wage effects” using firm-level data from Mexico (Maloney and Ribeiro 1999). Another World Bank study using an endogenous growth framework for Guatemala found similar results (Sakellariou 1995). Likewise, a study of Zimbabwean firm level data is consistent with positive efficiency wage effects (Valenchik 1997). Similarly, a study of the cement industry in Turkey finds that higher wages improve productivity by increasing technical efficiency (Saygili 1998).
- <sup>86</sup> Jensen (1996)