

OPENING REMARKS BY DR ZOLA SKWEYIYA, MINISTER FOR
SOCIAL DEVELOPMENT, AT THE LAUNCH OF THE REPORT ON
THE ECONOMIC AND SOCIAL IMPACT OF SOCIAL GRANTS,
PRETORIA 10TH DECEMBER 2004

Welcome to this public launch of the research report on the economic and social impact of social grants. This research study, which was conducted for the Department of Social Development by the Economic Policy Research Institute, evaluates the impact of Child Support Grants, the State Old Age Pensions, Disability Grants, Care Dependency Grants, Foster Care Grants, and Grants-in-Aid. These grants constitute government's programme of social assistance.

This report evaluates the role of social grants in reducing poverty and in promoting household development. It also examines the effects of social grants on health, education, housing and other social services. In addition, the study assesses the impact of social grants on labour market participation and labour productivity, thus providing an analysis that speaks to both the supply and demand sides of the labour market. The study also quantifies the macro-economic impact of social assistance grants, evaluating their impact on savings, consumption and the composition of aggregate demand.

The findings in this report are significant because they substantiate the fact that our system of social assistance has wide-ranging beneficial impacts that traverse and interlink the economic and social sectors of our society.

This does not detract from the fact a society in which large sections depend on social welfare cannot sustain its development. Government's

comprehensive programme to grow the economy, integrate the First and Second Economies, improve sustainable livelihoods, and create work will ensure that, over time, a smaller proportion of society relies on social grants for survival. We must, however, in the short and medium term also ensure that we achieve maximum value and leverage from existent government programmes. The findings in this report are significant because they identify some of these points of leverage.

Significance of the research findings

Specifically, the research findings indicate that social grants not only reduce poverty and contribute to social cohesion, but that they also have positive impacts on the economic opportunities of households receiving grants. The provision of social grants translates relatively quickly into enduring positive impacts on labour market participation, employment success, and realized wages. In addition, social grants have positive indirect effects on economic growth through improved education.

This research report substantiates the fact that our system of social assistance is an integral part of government's broad-based development strategy, and that social grants have wide-ranging beneficial impacts that underpin both the economic and social sectors of our society. These findings are not unexpected as they corroborate what our people across the length and breadth of our country have been saying in various Imbizos – that they are better off because of increased access to social grants, water, electricity, housing, schools and health clinics. The research report by the Economic Policy Research Institute (EPRI) benchmarks the economic benefits of what is traditionally conceived of as a social investment. The findings are also

significant because they relate directly to all the components of government's overall development strategy.

Relevance to government's development strategy

In response to the challenges identified in its Ten Year Review Discussion Document, government has indicated that its strategy in the struggle against poverty and underdevelopment is three-pronged. It involves:

1. Encouraging the growth and development of the First Economy, and increasing its possibility to create jobs;
2. Implementing a programme to address the challenges of the Second Economy; and
3. Building a social security net to meet the objective of poverty alleviation.

The research findings in the report on the economic and social impacts of grants support the contention that our system of social assistance is both integral to each prong of our strategy and has measurable positive impacts in each area. The social grants that government provides to the poorest households in our society combat social exclusion by enabling these households to pursue economic opportunities.

Through its system of social assistance, government currently provides income support to over 9 million beneficiaries and allocates more than 50 billion Rands per annum for this purpose. The research findings in the study by EPRI, reiterate the fact that this income support is more than a safety net for the poorest and most vulnerable people in our society. It is also a trampoline that enables many people in these households to jump over the

barriers of economic and social exclusion. It should be pointed out that this research report by EPRI extends the scope of many other previous research studies on the impact of South Africa's social assistance programme. It gives more emphasis to micro and macro economic linkages.

Expanding the scope of previous research studies

Research conducted by the Human Science Research Council as part of government's Ten Year Review showed that social grants played a significant role in our society by redistributing income, reducing inequality, and reducing poverty. The research work in this report is of particular value because it also conducts an analysis of the impact of grants at the household level. It also extends the more localized research studies by the University of KwaZulu Natal on livelihoods, unemployment and social safety nets. This work examined the economic and employment-creating roles played by old age pensions. In many parts of our country, especially in rural areas, pension day has become market day, and our analyses need to take greater account of this phenomenon.

The finding in this research report can be divided into four categories:

1. The overall poverty reducing impacts of social grants;
2. The developmental impacts of social grants at the household-level;
3. The labour market impacts of social grants; and
4. The macroeconomic impacts of social grants.

I will briefly summarize the key findings in each of these four areas.

The impact of social grants on poverty reduction

The research findings show that, regardless of which methodology is used to quantify impact or identify a poverty line, South Africa's social assistance programme successfully reduces poverty. According to the study, social grants reduce poverty by 66.6% when the destitution poverty line is used as benchmark. The destitution poverty line is a measure of relative destitution based on the household expenditures of households in the lowest 20% of the income distribution.

The research study also shows that a 10% increase in take-up of Old Age Pension reduces the poverty gap by 3.2%, and full take-up reduces the poverty gap by 6.2%. The greatest poverty reducing potential lies with the progressive extension of the Child Support Grant. The extension of the CSG up to the age of 14 will yield a 57.0% poverty gap reduction.

The developmental impacts of social grants at the household-level

The findings of this study with respect to the impact of social grants at the household level show that grants increase school attendance and promote job searching. These findings are consistent with international experience and studies of the social assistance programmes in Brazil, Argentina, Namibia and Botswana. Poverty and its associated consequences erode the opportunities for children and youth to attend school, generating a vicious cycle of destitution by undermining the household's capacity to accumulate the human capital necessary to break the poverty trap. The statistical evidence in this research report documents the extent to which poverty exerts a negative impact on school enrolment rates.

The report shows that children in households that receive social grants are more likely to attend school, even when controlling for the effect of income. The positive effects of social grants on education are also greater for girls than for boys, helping to remedy gender disparities. The report also shows that both the State Old Age Pension and the Child Support Grant are significantly associated, in statistical terms, with improvements in school attendance.

Social grants are also effective in addressing the prevalence of hunger in many poor households. Spending patterns in households that receive social grants are more focused on basic necessities like food, fuel, and housing than they are on other items. All the major social grants—the State Old Age Pension, the Child Support Grant and the Disability Grant—are significantly and positively associated with a greater share of household expenditure on food. This increased spending on food is associated with better nutritional outcomes. Significantly, households that receive social grants were found to have lower prevalence rates of hunger among young children than households with similar levels of income who did not receive grants.

The Labour Market impact of social security grants

The study also explicitly examines the impact of social grants on labour market participation, employment success and the realized wages of workers in households receiving social grants. While statistical analysis cannot prove causation, the empirical results are consistent with the hypotheses that:

- (1) Social grants provide potential labour market participants with the resources and economic security necessary to invest in high-risk / high-reward job search.

- (2) Living in a household receiving social grants is correlated with a higher success rates in finding employment. And,
- (3) Workers in households receiving social grants are better able to improve their productivity and as a result earn higher wage increases.

The empirical evidence in the Report demonstrates that people in households receiving social grants have increased both their labour force participation and employment rates faster than those who live in households that do not receive social grants. In addition, workers in households receiving social grants have realized more rapid wage increases. These findings are consistent with the hypothesis that South Africa's social grants increase both the supply and demand for labour.

The macroeconomic impacts of social grants

At the macroeconomic level, social grants impact economic growth indirectly through improved education. Numerous academic studies have underscored the link between improved access to education and higher rates of economic growth. This report shows that South Africa's system of social assistance tends to increase domestic employment while promoting a more equal distribution of income. The effects of social grants on national savings, trade imbalances and inflation are ambiguous; but the report concludes that on balance the macro economic impact of south Africa social assistance programme is largely positive.

Conclusion

I would like to conclude these opening remarks by noting that the micro-simulation model developed by EPRI will enable the department to

continuously monitor the economic and social impacts of grants. We will be tracking these impacts as more comprehensive household level data and revised data on economic indicators become available. The October 2004 Labour Force Survey will be particularly useful and Government will be conducting a socio-economic survey of the Second Economy in 2005 which should also yield very useful information.

This report confirms our strategy of using social assistance to fight poverty but underlines the need to make sure that only eligible beneficiaries receive grants. We will therefore continue to intensify our efforts to reduce fraud, corruption and inadequate administration in our social assistance programme. We will be making additional announcements about these efforts in the next few days.

The report on the economic and social impact of social grants is available from the web sites of both the Department of Social Development and EPRI. We hope this report will form the basis for inclusive consultations and wide ranging discussions that will hopefully enhance our programmes and policies aimed at creating employment and reducing poverty.

I thank you.