

# **Expanding the Social Security Net in South Africa: Opportunities, Challenges and Constraints**

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## Abstract

For a large proportion of the South African population social welfare grants are an important source of income. Rapid increases in government expenditure on social security between 2000 and 2006 has further increased poor households' reliance on welfare grants and has been important in the fight against poverty. Given these apparent successes, many are calling for further expansions in social security provisioning, with the idea of developing conditional cash transfer schemes surfacing in policy circles from time to time. However, as we argue in this paper, various constraints to such expansions of the welfare net exist. Whereas in the past much of the increased expenditure on social security provisioning could be financed out of government revenue overruns, it is likely that further increases will only be possible through a reallocation of government expenditure. Already there is evidence of a substitution taking place within the social budget: expenditure on education and health seems to have declined in favour of increased welfare transfer expenditure. This, we argue, is untenable and may harm the already weak education and health services in South Africa. Conditional grants linked to school attendance and visits to health clinics will only put further pressure on health and education services, as well as the agency responsible for disbursing and monitoring welfare payments in the country. We argue, therefore, that budgetary and service delivery constraints, at the present moment, present a strong argument against any expansion of the social welfare system in the immediate future.

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# 1. Introduction

After coming into power in 1994 the ANC government committed itself to specific goals in the area of social policy, which included among other things, eliminating poverty, achieving an acceptable distribution of income, and lowering unemployment levels through programmes of social assistance (Taylor 2002). Government even went as far as to entrench the right to social assistance in the Constitution [s27(1)(c)] (see Haarmann 2001), a bold move that has made them vulnerable to Constitutional Court challenges as seen in the *State versus Grootboom* case in 2000 (Taylor 2002). Social welfare transfers to households have been stepped up significantly during the last decade, in part because social welfare was previously targeted mainly at White recipients. This meant that the number of people that became eligible for grants increased dramatically. However, there was also a clear policy decision to increase welfare spending, both in terms of the value of the grants paid and in terms of the scope or coverage of such grants.

In 2002 the Taylor Committee published a report on their investigations into the social security system in South Africa (Taylor 2002).<sup>1</sup> They noted that the current welfare system was inherited from the previous era without any substantial changes made in terms of its design. The underlying assumption of the “*old system*” was that the employed could support themselves through work and that unemployment was temporary (Taylor 2002: 15). However, South Africa’s unemployment problem has since been recognised as a structural one and full employment is an unlikely prospect. Furthermore, since a large proportion of the population lives outside the economic mainstream the trickle-down effect of growth has been inadequate to address poverty. These unique circumstances, the Taylor Committee argues, require a fresh look at social protection systems and one that is more appropriate to the environments and the needs of society.

In this country study we first examine the use of cash transfers as a policy tool in developing countries, and particularly at the design of such systems (Section 2). In Section 3 we look at social security provisioning in South Africa in more detail, focussing on the history of social security provisioning, the types of grants that are currently in place, government expenditure on welfare and increases in expenditure in the last decade, and a review of the debates that are taking place around further possible expansions of social security provisioning (specifically the basic income grant debate). Section 4 looks at the

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1 An overview of the Taylor Report is presented in the Appendix.

fiscal and service delivery constraints to further expansion of the social security system in South Africa, with a specific focus on conditional grants attached to education and health services. Section 5 draws some general conclusions, makes policy recommendations and offer suggestions for further research.

## 2. Cash Transfers in Developing Countries

### 2.1 What are Social Security Nets and Cash Transfers?

The World Bank's Social Protection sector defines social safety nets, also called social assistance or social welfare programmes, as “*non-contributory transfer programmes [usually] targeted to the poor or those vulnerable to poverty and shocks*”.<sup>2</sup> Such programmes are distinguished from contributory transfer programmes. Contributory programmes are typically linked to employment. In South Africa these include private pension schemes, retirement plans and private unemployment benefits. The government also manages a public unemployment insurance scheme. Social security as a non-contributory programme is meant to fill the void where households either failed to or were unable to manage their own risk through private or public contributory schemes.

Poor people often rely on informal safety nets. Such informal safety nets may include inter-household transfers, informal arrangements of food provisioning for needy people in a society and so on. However, the types of safety nets we have in mind in these discussions are formal government-funded programmes. These include programmes to provide needy people with cash transfers, in kind transfers, or vouchers to purchase specific items, e.g. food coupons.

Cash transfers are often preferred to in-kind transfers, vouchers or even public works programmes. They are easier and cheaper to administer than schemes that involve transportation and storage of physical goods as is the case with in-kind transfers, or schemes that require supervision and equipment such as public works programmes. Compared to schemes that utilise coupons or vouchers to monitor or direct spending, cash transfers give the recipient households more freedom in deciding how to spend the money, thus allowing beneficiaries to choose those bundles of goods that would satisfy their own preferences.

Safety nets have two primary functions, namely that of reducing inequality through redistribution of income, and to mitigate short-term poverty. For these reasons cash transfers are typically targeted at either those that are poor or those that face the risk of falling into poverty in the absence of the transfer. A secondary objective of safety nets

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2 Published on the Social Protection and Labor website, which can be accessed at [www.worldbank.org/sp](http://www.worldbank.org/sp).

is to assist households to manage risk. Safety nets give people the opportunity to take business risks, potentially leading to higher returns, knowing that the social welfare net exists to fall back on.

## **2.2 Designing Cash Transfer Schemes**

Countries have various types of welfare programmes, depending on the socio-economic and political conditions, as well as the preferences of society. However, any country faces constraints to the size and number of programmes that can be implemented. These constraints typically exist due to limited financial capabilities or a lack of administrative capacity of government or the agency tasked with implementing the programmes. However, other constraints relating to service delivery, politics and socio-economic conditions may also play a role.

With regard to the specific design of cash transfer programmes, there are various considerations that need to be taken into account by policymakers. One design issue concerns coverage of a grant. At the one extreme grants can either be universal (all members of society are beneficiaries) or targeted at specific sub-groups of the population. Policymakers also need to decide whether to attach specific conditions to receiving the grants. Most often these so-called conditional grants require beneficiaries to attend schools or visit health clinics regularly. These issues are considered in more detail below.

### **2.2.1 Universalism versus Targeting**

A number of factors come into play when making choices between narrow and broad targeting. These include “*political economy*” decisions, firstly, around the choice of instruments used for redistributing resources, and secondly, around the level of social expenditure that can be afforded given the budget constraints (Mkandawire 2006: 4).

A universal grant involves no targeting and all members of society are eligible. The advantages of a universal grant means that there is no stigmatisation and it also lower administrative costs. However, it can be expensive given the sheer magnitude of such a programme. Even broadly targeted grants are often regarded as fiscally unsustainable, especially when a small proportion of society is required to finance grants to a large proportion of society who are recipients. The proposed Basic Income Grant (BIG) in South Africa, for example, was criticised for being too expensive to finance internally (see discussions later). One consideration was to reduce the per capita value of the grant

rather than changing the coverage. This, however, reduces the welfare effects, especially for the poorer segments of society who rely more on such grants. Consequently, governments, including South Africa, generally show support for targeted measures.

Targeting, however, brings with it various administrative complexities. The trade-offs involved in targeting are widely recognised: the narrower (or more precisely) the target group is defined the more costly the administration becomes, especially when complicated means tests are involved. This raises the issue of the cost-effectiveness of limiting direct spending by introducing targeting – often the administrative implications of programmes are overlooked during the design stages of policies. As Mkandawire (2006: 4) points out, *“in practice targeting is faced with formidable administrative hurdles, especially in poor countries where the informal sector is a major source of livelihood and poor people’s ‘visibility’ to the state is low, and the overall capacity is weak”*.

There are various targeting methods. The most preferable method is means testing. In a means test, information on household income is collected. On the basis of this data it is then decided whether a person or household is eligible for social assistance. Means testing can be administratively complex, especially when stringent verification procedures are in place. Means testing is only advisable where administrative capacity is high and where the benefit values are large enough to justify administrative costs.

Although alternative methods exist for identifying beneficiaries of targeted welfare programmes, many of these often result in targeting errors, such as ‘under coverage’ of the poor and leakages to the non-poor (Mkandawire 2006: 4). Thus, when policymakers try to implement targeting procedures that are administratively less burdensome, the targeting often ends up being less effective.

Below is a list of these alternative methods of targeting. Although not discussed in detail here, the limitations of each are fairly obvious.

- *Proxy Means Testing*: Rather than asking for the actual income level, other demographic characteristics of an applicant is gathered, and on the basis of previous statistical analyses a ‘score’ or predicted income level is calculated.
- *Community-Based Targeting*: Community members or community leaders are asked to identify beneficiaries of a transfer programme.



- *Geographical Targeting*: Specific geographical regions are identified for targeting, with the selection of regions based on, for example, a poverty map. This method is only efficient where poverty is spatially concentrated.
- *Demographic Targeting*: Targeting based on specific demographic characteristics, most commonly age, for example, for child welfare grants and pensions.
- *Self-Targeting*: Technically the programme is open to all, but since the benefit is so low, many people do not partake. An example is the public works programmes that pay such low wages. Those people that can command higher wages elsewhere will not partake. Also, if it takes a day to queue to collect payouts, for example, many people will not partake if the opportunity cost of queuing (that is, potential wage forgone) is higher than the benefit.

Targeting has a number of implications. Firstly, the design of a means-tested programme, and particularly the income cut-off level used to determine eligibility, may have important implications for the take-up rate and, hence, the total cost of a programme. If the income distribution function is particularly dense around the income cut off, as is often the case in developing countries, a relatively small change in this cut off value would significantly change the number of households that would be eligible for a welfare transfer (Alderman 1999).

A number of other factors may also affect take-up rates. In South Africa the combined effect of transition towards a more inclusive social security system and increased awareness of the existence of social welfare programmes among the previously excluded section of the population meant that the number of beneficiaries increased dramatically. Also, misrepresentation by households about their income levels may affect the uptake. Put simply, if more people report themselves poor than anticipated, the cost of the programme will exceed projections and the budget allocated (Alderman 1999).

Secondly, the way in which outcomes (in terms of poverty) are measured may affect people's perception of the effectiveness of a welfare programme. The idea behind targeting is that it allows more resources to be directed at the poorest in society so that the welfare impact is generally larger for those that are most needy. However, different targeting mechanisms may affect poverty outcomes. A cash transfer may appear to be successful in reducing the poverty rate if the recipients are close enough to the poverty

line to be pushed over it when receiving the grant. Targeting those further away from the poverty line may reduce the depth of poverty, but perhaps not the poverty headcount rate at a given poverty line, depending of course on the size of the grant.

Finally, an unintended consequence of targeting is that it creates “*perverse incentives for changes in people’s behaviour in attempts to become or remain beneficiaries of welfare policies*” (Mkandawire 2006: 5). In particular it creates an incentive for the poor to reduce their supply of labour. In South Africa, for example, most of the welfare transfers are means tested. The value of pensions in particular depends on the level of other income earned by the recipient or other household members. As Alderman (1999) points out, means tests often introduce a disincentive to increased labour supply, especially if this reduces earnings from the welfare transfer.

### **2.2.2 Conditional versus Unconditional Grants**

Social welfare policies often have very broad objectives. In addition to alleviating poverty, they often form part of a broader agenda of economic development and social transformation (Mkandawire 2006). One of the “*greatest tragedies*” of poverty, to quote Gertler (2005), is its intergenerational transmission: children who grow up in poor households tend to remain poor. Due to malnourishment and poor quality or low levels of education they lack the capabilities of escaping poverty. It is therefore crucial that social policy, that aims to help people escape chronic or long-term poverty, provide incentives for people to invest in human capital development, especially of the youth. This would allow the broader goals of economic development and economic transformation to be reached in the long run.

There are various ways of creating incentives for people to invest more in human capital development. One option is to make social services, especially health and education, more affordable, more accessible and to improve the quality of service delivery. This can be achieved by investing in social services, that is, a supply-side approach. Alternatively, demand for these services can be stimulated. This can be achieved through welfare transfers to poor households, the idea being that additional income will be spent, among other things, on human capital investment. However, there is evidence that poor households do not always spend their additional income in this way (Das *et al.* 2004). For this reason conditional cash transfers (CCTs) have become popular in recent years.

CCTs are provided to targeted households on the condition that they invest in human capital, thus “*combining short-term objectives of safety nets with long-term goals of*

*breaking intergenerational poverty traps*” (Britto 2006: 15). Most often the conditions attached to receiving a grant pertain to school attendance by children or regular visits to health clinics. They not only relax the income constraint on poor households, but they also provide an incentive to use services linked to the programme (Gertler 2005). Of course, if this does lead to an increase in demand for education and health services the authorities have to ensure that service providers can cope with the increased demand. If not, a crucial component of such a study is to increase supply and improve the service delivery.

Targeted CCT programmes often have the added administrative requirement of monitoring recipients to ensure that they comply with the conditions. Using the Progresa scheme in Mexico as a case study (see Section 2.2.3) Gertler (2005) finds, however, that the cost of monitoring was quite small – about one per cent of the total cost of the programme. This depends of course on the size of the grants and the number of recipients. For example, Progresa happens to be a relatively large scheme in terms of grant values, thus making the relative cost of monitoring small. The type of conditions attached to the grant also determines how easily compliance can be monitored. For example, it is probably easier to monitor school attendance, where teachers know who should be in class on a daily basis, than it is to monitor visits to a health clinic. Finally, the extent of the administrative and monitoring costs also depends on the administrative capacity of the agency responsible for implementing, administering and monitoring the CCT programme.

It is difficult to determine whether conditional grants necessarily have more favourable outcomes than unconditional cash grants. As Britto (2006) notes, the assumption that poor people would not choose to invest in human capital under a normal cash transfer programme cannot be taken for granted. A DFID report claims that in many instances people are well-informed enough to prioritise spending on health and education even when it is not a condition (DFID 2006). The spending propensities of households often depend on a variety of things: firstly, the gender of the decision-maker or recipient of the grant often impacts on expenditure patterns. Evidence from a South African study on old age pensions found positive health effects in young children when pensions went to grandmothers, and no effects when the pension was paid to grandfathers (Duflo 2003). Secondly, the culture in society may affect outcomes. For example, where societies discriminate against girls by not sending them to school, conditional grants can be effective (DFID 2006). In countries where child labour is used the opportunity cost of sending a child to school is higher, and hence, conditional grants may be preferable.

On the other hand, limited use of education and health services could simply be due to prohibitive costs or insufficient income (assuming there is not a supply problem), in which case unconditional cash grant or subsidies/vouchers may be equally effective. It is, therefore, important to view each case in isolation before deciding whether conditionalities should be attached to grants programmes.

### **2.2.3 CCT Programmes in Developing Countries: Two Case Studies**

#### **a. Bolsa Escola and Bolsa Familia in Brazil**

The Bolsa Escola programme in Brazil became a nationwide federal programme in 2001. In 2003 it was unified with a number of other federal CCT programmes and renamed Bolsa Familia. Bolsa Escola provided cash transfers to mothers of children, provided that their children continued to attend school. Targeting was implemented in two stages. First, based on information about regional needs, the federal government decided how many stipends each municipality could award. The second stage then involved municipalities identifying those most in need (Britto 2006, De Janvry *et al.* 2005).

Bolsa Familia combined beneficiaries from Bolsa Escola and a range of other programs, eventually expanding to over eight million beneficiary households by the end of 2005. Two subsets of the population were identified for targeting under this programme, namely the extreme poor (households with a monthly per capita income below R\$50) and the moderately poor (per capita income between R\$50 and R\$100). Households received monthly payments of between R\$15 and R\$95, depending on the household income and composition.<sup>3</sup> Conditions attached to Bolsa Familia include the following: (i) Children aged 6 to 15 have to enrol in school and attend at least 85 per cent of their classes. (ii) Children under 7 have to visit clinics for growth monitoring and immunisations. (iii) Prenatal care for pregnant women is compulsory (De Janvry *et al.* 2005).

#### **b. Progres a and Oportunidades in Mexico**

Mexico's Progres a, introduced in 1997, was the first nation-wide CCT programme in the world. It was expanded in 2002 and renamed Oportunidades. Britto (2006: 15) describes Progres a as an "*innovative and apolitical*" programme, which consists of cash and in-kind transfers linked to school attendance and regular health check-ups. The apolitical claims relate to the transfer and targeting mechanisms, which cuts out intermediation

<sup>3</sup> At the time of writing one Brazilian Real (R\$) was equivalent to R3.66 (South African Rand) and \$0.46 (US Dollar) (<http://www.x-rates.com>).

through sub-national budgets, that is, transfers are paid directly from the programme administration to beneficiaries.

Targeting is done in three stages. First demographic data is used to identify the most needy communities. Next, household surveys were used to identify households within each of these communities, and finally the selected households are reviewed in a community meeting. The programme is innovative for a number of reasons, including the fact that it represented an “*integrated approach to poverty*”, while a gender bias was introduced by directing transfers to mothers and paying higher subsidies for female school pupils (Britto 2006: 15).

### c. Outcomes

Since Progresa has been in place for a few years longer than Bolsa Escola and Bolsa Familia, more information on its outcomes is available. In general, however, Britto (2006) claims that initial evaluations of both the Brazilian and Mexican CCT programmes have shown positive effects on both schooling and nutrition. Some specific outcomes of these two programmes are briefly mentioned below.

As far as child health is concerned, evaluations of changes in anaemia and height have shown that Progresa has had a “*big effect*” (Gertler 2005: 2). Growth monitoring visits among children have increased by between 30 and 60 per cent, while beneficiaries between the ages of 0 and 5 had a 12 per cent lower incidence of illnesses compared to non-Progresa children (Rawlings 2004). Improved food consumption levels were also observed in Mexico. Gertler (2005) further states that one of the hopes of Progresa was that improved nutrition among young children would contribute positively to their cognitive abilities and, hence, have a positive impact on school readiness. However, this was found not to be the case, which suggests that other types of interventions may have to be considered to improve intellectual stimulation of children.

The educational effects of Progresa were also positive. Although primary school enrolment rates were already quite high prior to the intervention (between 90 and 94 per cent) the programme has succeeded in further increasing enrolment. The rate increased by between 0.74 and 1.07 percentage points for boys and between 0.96 and 1.45 percentage points for girls. The secondary school effects were much larger, partly due to the lower enrolment rates prior to the implementation of Progresa. Enrolment rates were 67 and 73 per cent for girls and boys respectively, but these increased by between 7.2 and

9.3 percentage points for girls, and by between 3.5 and 5.8 percentage points for boys (Rawlings 2004). Britto (2006: 16) feels the impact of CCT programmes on child labour is inconclusive “*since school attendance can be ... combined with work*”. Rawlings (2004), however, suggests that Progresa has caused the probability of working among 8- to 17-year-olds to fall by between 10 and 14 per cent compared to the probabilities prior to the intervention.

In terms of poverty Britto (2006) feels that the impact of CCT programmes is not clear. However, in a more recent in-depth analysis, on the poverty and inequality effects of Bolsa Familia, Veras *et al.* (2006) found that 80 per cent of the grant was targeted at families below the poverty line. The Bolsa Familia grants, old age pensions and disability grants jointly led to a 28 per cent fall in the Gini coefficient between 1995 and 2004, mostly due to the Bolsa Familia programme, which accounted for 21 percentage points of the fall.

### 3. Social Security Provisioning in South Africa

#### 3.1 History of Social Assistance

During the apartheid days a welfare state was erected for Whites with all the features required to protect them against various contingencies by means of a social insurance (see Van der Berg, 2002). Social security provisioning was eventually extended to other groups over time, but remained unequal along racial lines well into the 1980s. The Taylor Report (2002) called for a comprehensive system of social assistance in order to meet the medium- to long-term goals of social and economic transformation in South Africa. This, the report argued, would indicate a commitment to addressing the socio-economic backlogs of apartheid.

South Africa's first social assistance programme was initiated with the enactment of the Children's Protection Act of 1913 which provided maintenance grants for children. However, very few of these grants reached African parents and none were given to rural Africans (Bhorat 1995). Maintenance grants were largely restricted to non-Africans. In 1990, 54 per cent of all maintenance and foster care grants went to Coloureds. In 1993, of the children covered, 13 per cent were Coloured, eight per cent Asian, two per cent White and 0.5 per cent were Africans, despite this latter group making up well over three-quarters of the population at the time. African applicants were restricted by a lower income cut off for the means test and a lack of outreach and advocacy to educate them about their rights (Alderman 1999).

The Old Age Pensions Act of 1928 provided grants in the form of social (non-contributory) pensions for Coloureds and Whites. Africans and Indians were initially excluded. It was argued that Africans could rely on their rural kinship ties to provide security in their old age. The blind and old age pension scheme was only extended to Africans and Indians in 1944. However, the value of the grant received differed between race groups. For example, Bhorat (1995) notes that in 1947, the maximum pension for Whites was five times that of Africans while Coloured and Indian pensioners were paid half as much as Whites. Coloureds and Whites would also benefit from the disability grant introduced in 1937. Disability grants were extended to Africans and Indians in 1947.

State old age pensions for Whites saw a constant increase over the years while African pensions were reduced. The gap between the two widened until 1971. In the early 1970s,

the South African economy began to stagnate. Van der Berg (2002) describes the period between 1972 to 1990 as “a trend towards re-incorporation and reduced inequality”. According to Bhorat (1995), the National Party realised during this period that the economy could no longer rely purely on a small pool of White workers to sustain economic progress. This led to an increase in the demand for Black workers. Job reservation laws were abandoned and trade unions for non-White workers were legalised for the first time. These changes also resulted in a move towards greater inclusivity in the social security system. For example, African old age pensions as a percentage of White pensions, increased from 16 per cent in 1972 to 85 per cent in 1993 (Bhorat 1995). Van der Berg (2002) argues that, while African pension values were on the rise, fiscal constraints were still a reality. These constraints were overcome by substantially reducing White benefit levels, especially old age pensions. Relatively poor elderly Whites were a small and politically marginal group whose benefits could be reduced with little fear of a political backlash.

In 1994, the new ANC government faced the challenge of transforming the existing fragmented social security system to one based on comprehensive coverage for the population as a whole. The Lund Committee on Child and Family Support convened in February 1996 after concerns were raised about the financial viability of extending state maintenance grants to Africans at the level then enjoyed by non-Africans. The Committee stressed that some kind of benefit needed to be continued, especially given the importance of the early, vulnerable years in a child’s life. It pointed to the possibility of even greater costs in the absence of a benefit.<sup>4</sup> The Committee then recommended that the grant be given to the primary caregiver. Given financial constraints, the Committee recommended that each qualifying child be given a much smaller amount than was previously the case, and that the grant be restricted to children under the age of seven years so that it could reach a larger number of those most in need.<sup>5</sup> The Committee’s recommendations were largely accepted by Cabinet. Hence, the child support grant introduced in 1998 replaced the state maintenance grant. The introduction of the child support grant marked a major policy shift in government as it signalled the government’s intention to support children in poverty, and those poor households, particularly in rural areas, who had been excluded from social assistance programmes in the past.<sup>6</sup>

4 Families might be forced to abandon or hand over children into the care of others (requiring a more expensive foster care grant), or into the care of the state.

5 The grant was extended to children under the age of 14 in 2005.

6 For a discussion on the Lund Committee and its recommendations (see May 1998)



The approach that the new government chose was based on the concept of developmental social welfare. It emphasised that social development cannot take place without economic development and that economic development is meaningless unless it is accompanied by improvements in social welfare (Midgley 1996). The White Paper on Social Welfare published by the Department of Welfare in 1997 contained the policy framework for restructuring of social welfare in South Africa.

The White Paper based its policy framework on the interrelationship between social and economic development. It pointed out that *“social welfare policies will be developed which will be targeted at poverty prevention, alleviation and reduction and the development of people’s capacity to take charge of their own circumstances in a meaningful way”* (Department of Welfare 1997). The ultimate aim of the White Paper was to *“facilitate the provision of appropriate developmental social welfare services to all South Africans, especially those living in poverty, those who are vulnerable and those who have special needs”* (Department of Welfare 1997). The ANC government sought not only to restructure the existing welfare system in an equitable and non-racial way, but also to radically define the role and responsibilities of welfare. Thus, post-apartheid South Africa committed itself to proactively use and devise welfare as a poverty alleviation programme, linking social and economic development strategies and assigning an interventionist role to the state to bring about change and well-being in society as a whole (Haarmann 2001).

The Social Assistance Act (2004) makes national government responsible for social security grants. The National Department of Social Development (formerly the Department of Welfare) performs a regulatory role by setting the policy framework on who qualifies for social assistance grants and monitoring the operations of the newly formed South African Social Security Agency (SASSA). SASSA is responsible for administering social assistance by implementing policies, programmes and procedures for an effective and efficient social assistance grants administration system. Therefore, since the establishment of this agency in 2005 all grants are administered nationally, whereas previously provinces carried out this function under the Social Assistance Act (1992).

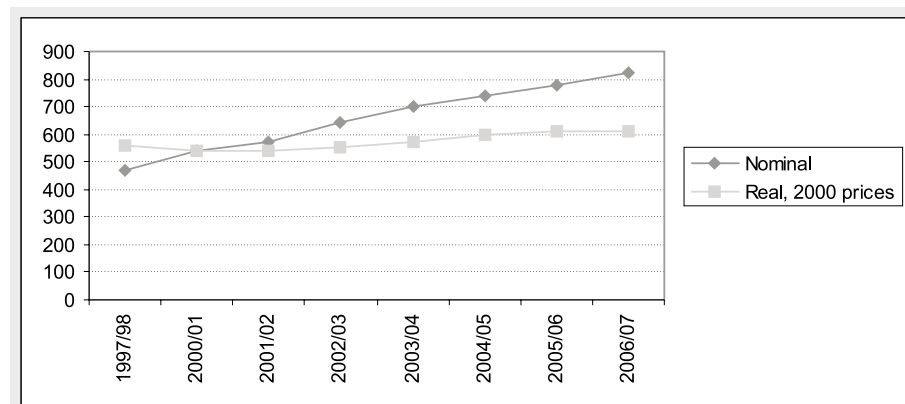
## 3.2 Current Social Assistance Programmes: Design and Implementation

South Africa has developed an extensive social security system. The types of grants provided by the state include old age pensions, disability grants, foster care grants and the child support grants. Social assistance transfers are aimed at providing income support to the eligible poor and vulnerable individuals, mostly the elderly, people with disabilities and children under the age of 14. This subsection briefly describes the existing social assistance programmes, looking at *inter alia* targeting, grant values and changes over time.

### 3.2.1 Social Old Age Pensions

The old age grant, or social old age pension, is a means tested benefit and is payable to people of retirement age or older. Retirement age is defined as 65 years or older for males and 60 years or older for females. The applicant must not be maintained or cared for in a State Institution or be in receipt of another social grant. The maximum monthly value is currently R820. According to Woolard (2003) the size of the grant for an unmarried person is calculated using the formula  $D = 1.15A - 0.5B$  and for a married person, using the formula  $D = 1.075A - 0.5B$ .  $A$  equals the maximum grant payable per annum as approved,  $B$  is the annual income of the applicant in the case of an unmarried person, or half the applicant and his or her spouse's combined annual income in the case of a married person.  $D$  is the annual grant amount payable.

Figure 1 shows that the level of the old age grant has increased, in real terms, from about R540 to R613 between 2000 and 2006. This is equivalent to an average annual real growth rate of about 2.1 per cent since 2000. The number of pensioners benefiting from the grant increased from about 1.7 million in 1997 at an average annual growth rate of 2.7 per cent to about 2.1 million by the beginning of 2006. This currently amounts to about 5 per cent of the total population and about 70 per cent of all the people eligible for old age grant. The increase in the number of old age grant beneficiaries indicates that there are fewer people with private pensions and there is an increase in awareness of the existence of the grant.

**Figure 1: Level of the Old Age Grant**

**Source:** Department of Social Development

The impact of the old age pension in mitigating poverty at the household level has been well documented. Ardington and Lund (1995) as cited in Case and Deaton (1998) found that pensions are a significant and reliable source of income, which leads to household security and contributes towards food security. Because of its wide reach – not only are there many beneficiaries, but the pensioner households are also typically larger in size than other households – old age pensions have been found to have a noteworthy effect on reducing poverty. Woolard (2003) analyses the poverty impact of various types of welfare grants. Her approach is based on a ranking of individuals by their pre-transfer per capita income. Starting from the assumption that the poorest 40 per cent of the population are defined as poor, and the poorest 20 per cent are ultra-poor, she finds that in the absence of any social assistance grants, 55.9 per cent of the elderly would be in poverty and 38.2 per cent would be in ultra-poverty. With the assumption that all those eligible for the old age pension register for the grant, overall poverty is reduced from 40 per cent (the base-poverty rate by definition) to 33.1 per cent. In addition, poverty amongst the elderly falls to 22.9 per cent and amongst the ultra-poor poverty falls to a remarkable 2.5 per cent.

Woolard's (2003) approach to measuring the poverty effect is based on a comparison of per capita incomes with and without pensions. From the evidence presented it is clear that an expansion of the pension scheme will have positive poverty effects, which is unsurprising given that pensions are means tested. However, it will be very difficult to determine what the exact poverty effects of such an expansion might be ex ante using such an incidence analysis approach. The first issue relates to the uptake of welfare grants, which is imperfect due to, among other things, self-selection and information asymmetries. It is also difficult to determine true eligibility given poor reporting on income in household surveys, a constraint noted by Woolard (2003). The second relates to the

issue of changes in household demographics in response to the expansion of the welfare system. Woolard's (2003) approach is a static one because household size and structure remain unchanged after the introduction of the pension. In the context of her approach this is fine, because her approach is backward-looking in the sense that the welfare levels of existing pensioner households are compared against a counterfactual situation where the pension is taken away from that household. However, if we are interested in understanding what the poverty effects might be if 'new' pensioners are added, behavioural responses should ideally be considered. There is enough evidence that suggests pensioner households are larger and contain relatively more children than non-pensioner households due to a 'clustering effect'. Thus, new pensioners may end up attracting grandchildren and other relatives to the household, thus increasing the household size of the pensioner household and reducing the per capita poverty impact of the pension. Such complex behavioural responses are, however, very difficult to incorporate into an economic model, and hence any efforts to do so are still subject to criticism.

The other grant available for persons aged 60 years or over, is the war veterans grant. Applicants for this grant must have fought in the Second World War (1939 to 1945) or the Korean War (1950 to 1953). The maximum monthly value of this grant is currently R820. This grant is means tested and applicants must be either aged 60 years and over or disabled. To receive this grant, the applicant must not be maintained or cared for in a State Institution. Furthermore, applicants must not be in receipt of another social grant. The war veterans grant is likely to be phased out over time as the beneficiary numbers are declining rapidly due to natural attrition among beneficiaries. ,

### **3.2.2 Disability Grants**

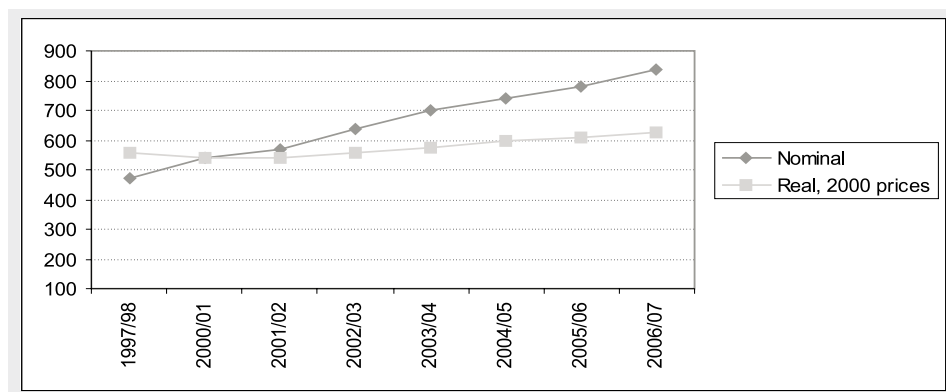
The state also provides disability grants. The disability grant is means tested and subject to a medical eligibility criteria. The same means test used for the social old age pensions applies to the disability grant. Applicants for this grant must be aged 18 years to the retirement age and must not be maintained or cared for in a State Institution or be in receipt of another social grant. A medical doctor has to examine a claimant and declare a person disabled before the grant is approved.<sup>7</sup> The maximum monthly value of the grant is currently R838.

7

According to Taylor (2002) the strict medical-based criteria to qualify for the disabled grant are often not met by the chronically ill, thus causing many disabled poor persons to be excluded from receiving the grant.

Figure 2 below shows that the level of the grant has increased from R540 to R626 in real terms between 2000 and 2006, which is equivalent to an average annual real growth rate of about 2.5 per cent. The number of disability grant beneficiaries increased from about 750 000 in 1997 an average annual growth rate of 7.1 per cent to about 1.3 million in 2006. This currently amounts to about 3 per cent of the total population.

**Figure 2: Level of the Disability Grant**

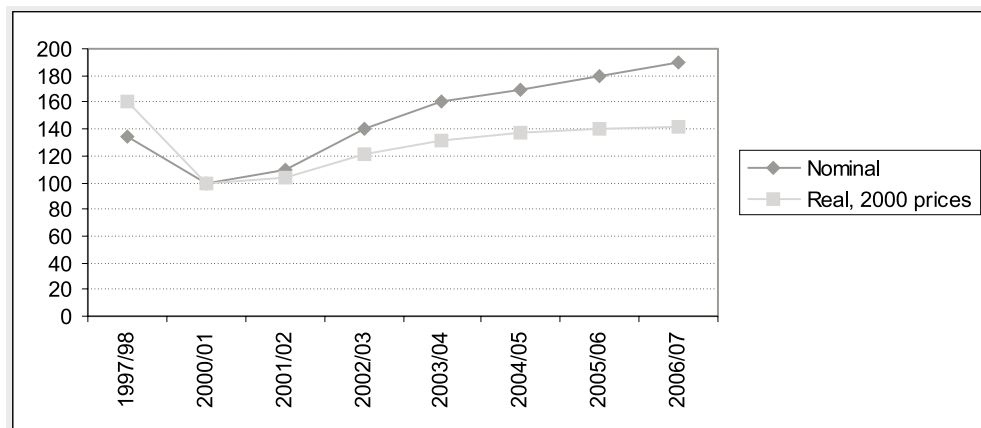


**Source:** Department of Social Development

### 3.2.3 Child Grants

Over the last five years, government has widened the safety net to children through the care dependency, child support and foster care grants. The child support grant was introduced in 1998 with the intention of providing social assistance to children in need. Initially the programme covered children under the age of seven years but was extended to children under the age of 14 years in 2005. The child support grant is paid though the primary care caregivers of children who qualify. It is a means tested grant. The means test measures the caregiver's financial ability to provide the necessary support to children.

The number of children receiving the grant increased by about 5.9 million, from just under one million in 2001 to about 6.8 million in 2006. This increase was due to an increasing take-up rate and the extension of the grant to children up to the age of 14. The maximum monthly value is currently R190 per child. Figure 3 shows that the level of the child support initially declined from R160 in 1997 to about R100 in 2000, mainly due to the Lund Committee recommendations. However, since then there has been a steady rise in the value of the grant. In real terms the grant increased from R100 in 2000 to R142 in 2006, which is equivalent to an average annual growth of 6 per cent. This growth is much higher than the growth in most of the other grants.

**Figure 3: Level of the Child Support Grant**

**Source:** Department of Social Development

Woolard (2003) also estimates the impact of the child support grant. Assuming all children eligible for the child support grant access the grant and this money is pooled with all other financial resources (including full uptake of the old age pension), poverty is estimated to be reduced from 33.1 per cent to 28.9 per cent. The impact on child poverty is much larger with a reduction in the percentage of children in poverty from 42.7 per cent to 34.3 per cent, with ultra-poverty falling from 13.1 per cent to 4.2 per cent

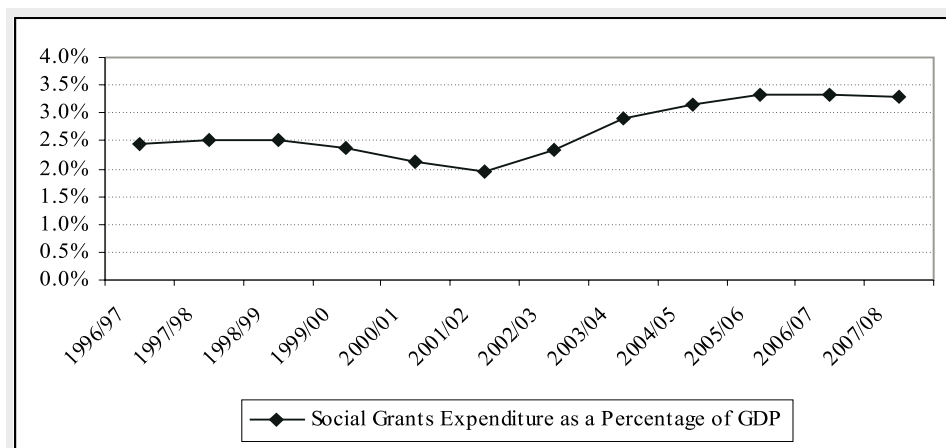
The care dependency grant is payable to children under the age of 18 years, in permanent home care and suffering from severe mental or physical disability. The applicant, spouse and child must meet the requirements of a means test. The care dependent child must not be permanently cared for in a State Institution. The value of the grant is currently R820 per month and the number of care dependency grant beneficiaries increased by about 84 000 between August 1997 and January 2006.

The foster care grant is provided when a court with relevant jurisdiction is satisfied that a child needs foster care. The child is placed in the custody of a suitable foster parent under the supervision of a social worker. The grant is not means tested like the other grants because fostering is not considered a poverty issue. The value of the foster care grant is currently R590 per month. The number of grants paid per month increased from about 43000 in 1997 to almost 300 000 in 2006.

### 3.3 Government Spending on Social Assistance

The Growth, Employment and Redistribution (GEAR) strategy adopted in 1996 had a four year implementation period. GEAR prioritised fiscal restraint over spending and redistribution. However, since 2001 government expenditure, especially social spending began to increase. Figure 4 illustrates the growth in social assistance transfers as a percentage of Gross Domestic Product (GDP) since 2001.

**Figure 4: Social Grants Expenditure as a Percentage of GDP**



**Source:** Department of Social Development

The share of social assistance transfers grew from 2 per cent of GDP in 2001/02 to about 3.3 per cent in 2006/07. This represents a major step in the fight against poverty. Further evidence of this increase in social assistance transfers is shown in Table 1. The Table shows growth trends of expenditure on different types of grants. The projections for 2006/7 and 2007/8 are based on the estimates of the Medium Term Expenditure Framework (MTEF).<sup>8</sup> Total spending on social assistance grants grew at an average annual rate of 20.2 per cent in real terms between 2001/02 and 2005/06. It is budgeted to grow further by R9.7 billion over the period 2006/07 to 2007/08 at an average nominal growth rate of 9 per cent per annum. Given the government's inflation target of between three and six per cent per annum it is clear that the period of real growth rates in excess of 20 per cent are over, with growth in social grant spending more likely to be between 3 and 6 per cent in real terms, depending on the inflation rate.

<sup>8</sup> These are three-year rolling budgets used by all government departments in South Africa.

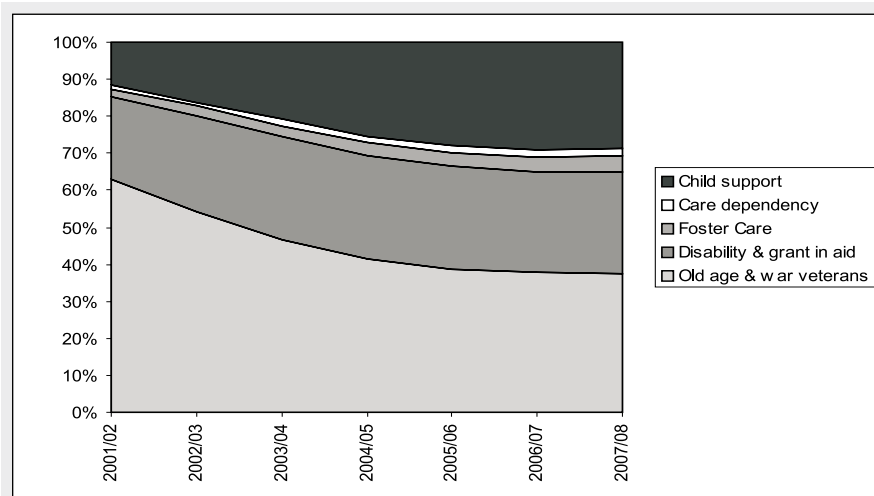
**Table 1: Social Grants Expenditure by Type of Grant, 2001/02 to 2007/08**

<b>R million</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
Old age	12954	15285	17146	18504	19996	21443	23105
War veterans	23	27	34	36	29	25	22
Disability	4585	7201	10329	12570	14438	15510	16932
Grant in aid	1	1	2	20			
Foster Care	364	787	1142	1563	2044	2340	2712
Care dependency	226	309	639	760	938	1040	1147
Child support	2400	4558	7690	11431	14483	16575	17805
<b>Total</b>	<b>20553</b>	<b>28168</b>	<b>36982</b>	<b>44885</b>	<b>51927</b>	<b>56969</b>	<b>61724</b>

**Source:** National Treasury (2005)

Over time the share of spending on the child support grant has increased relative to the other grants (see Figure 5). From Table 1 we can calculate growth rates of specific types of grants. Whereas total expenditure on pensions increased by about 6.3 per cent in real terms between 2001/02 and 2005/06, spending on foster care, care dependency and child support grants grew by 46.7, 36.1 and 49.4 per cent respectively. This large growth is attributed both to the relatively large increase in the value of the grant, as well as the large growth in the number of recipients. From the MTEF forecasts it appears as if the current composition of welfare spending will remain fairly stable in the next few years, provided no new programmes or changes to the eligibility criteria of the current programmes are introduced.



**Figure 5: Composition of Social Spending, 2001/02 to 2007/08**

**Source:** National Treasury (2005)

In 1995/96 expenditure on the child grants (child maintenance, foster care and care dependency) accounted for about 12 per cent of the total social grant expenditure (see Alderman, 1999). By 2006/07 this figure had increased to about 35 per cent of the total social grant expenditure. While expenditure on pensions (which accounted for over 63 per cent of the expenditures on social transfers in 1995/96) accounted for about 37 per cent of the social grant expenditure in 2006/07. This serves to show that child grants are becoming the key to the country's social assistance programmes.

The growth in government spending on social grants since 2001 has resulted in a massive increase in social grant beneficiaries. Table 2 shows social grant beneficiary numbers by type of grant between 1997 and 2006. Beneficiary numbers grew from about 3 million in 1997 to about 10.7 million by the beginning of 2006 (an increase of 7.7 million). The child support grant had the largest increase in the number of beneficiaries both as a result of the extension of the grant in 2005, with the inclusion of children up to the age of 14, and the increased public awareness of eligibility. Since the child support grant is much lower in value (R190) compared to, for example, the old age pension (R820), the compositional shift in grants beneficiaries have caused the average transfer per beneficiary to decline. Put differently, more people are reached but the endowments are spread more thinly. It is difficult to estimate exactly what the poverty implications are, but given that most of the grants (except the foster care grant) are means tested it is likely that most of the money is reaching the poor anyway.

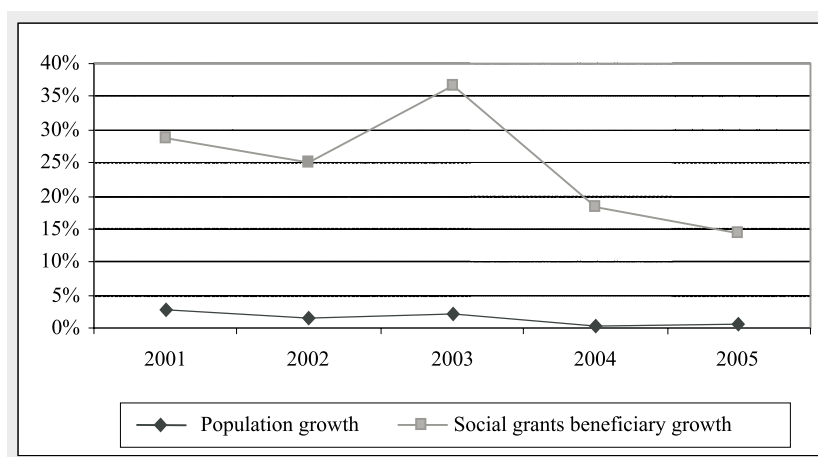
**Table 2: Social Grants Beneficiary Numbers by Type of Grant**

Type of Grant	Aug 1997	Apr 2001	Apr 2005	Jan 2006
<b>Old Age</b>	1 742 253	1 877 538	2 093 075	2 126 373
<b>War Veterans</b>	11 495	6 175	3 340	2 889
<b>Disability</b>	754 830	627 481	1 307 459	1 311 148
<b>Grant in Aid</b>	9 720	9 489	23 131	26 217
<b>Foster Care</b>	42 917	85 910	256 325	299 865
<b>Care Dependency</b>	3 815	28 897	85 818	88 679
<b>Child Support</b>	400 599	974 724	5 633 647	6 894 428
<b>Total</b>	2965629	3610214	9402795	10749599

**Source:** National Treasury (2005)

**Note:** The child support grant was introduced in 1998, the 1997 value shown in table corresponds to the maintenance grant.

Figure 6 shows that the year-on-year growth in social grant beneficiary numbers grew well above that of the year-on-year growth in the total population. This increase is a result of government committing itself to addressing the social welfare backlogs created by apartheid policies.

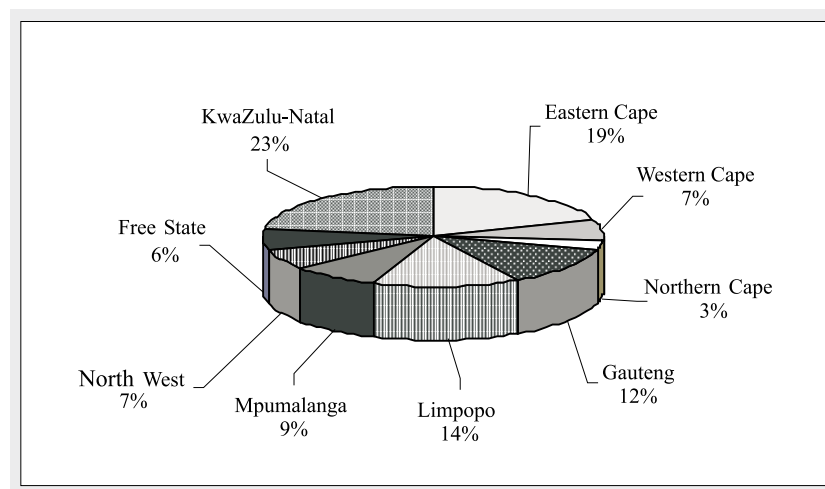
**Figure 6: Social Grant Beneficiary Growth and Population Growth, 2001 to 2005**

**Source:** StatsSA mid-year population estimates and Censuses (1996 and 2001) and National Treasury (2005).

Figure 7 shows the total number of beneficiaries per province. KwaZulu-Natal and the Eastern Cape have the largest number of beneficiaries of the social assistance grants with 23 per cent and 19 per cent respectively. Together these two provinces also account for the largest share of individuals in the poor quintiles and about 36 per cent of the total

population in South Africa. The Northern Cape has the lowest number of beneficiaries. This is not surprising because only about 2 per cent of the total population resides in the Northern Cape.

**Figure 7: Total Number of Beneficiaries per Province, Jan 2006**



**Source:** Department of Social Development

### 3.4 The Basic Income Grant Debate

Section 4 looks at some of the constraints to extending the social welfare system in South Africa. The Basic Income Grant (BIG) debate is an interesting precursor to the discussions in Section 4 as it highlights many of the concerns that were raised at the time (before 2000) when BIG gained widespread support as a welfare policy tool to fight poverty.

South African welfare transfers have always been targeted through means testing. However, in terms of its design, coverage of welfare transfers excludes poor people of working age who are not disabled or do not have children in their care. Although, in theory, the State's Unemployment Insurance Fund (UIF) should cover all the unemployed poor, it only reaches a small proportion of the unemployed as many unemployed people have never worked and were, therefore, never formally registered with the UIF. The Taylor Report (2002) lists a variety of other 'deficiencies' in social security provisioning in South Africa (see further discussions in the Appendix). These include findings that, at the time, 75 per cent of poor children under the age of seven did not receive the child support grant, while the strict medical-based criteria to qualify for the disability grant was often not met

by the chronically ill. The system further excluded non-citizens despite the Constitution's provision that everyone should be entitled to social security.

In addition to these deficiencies in the social security system, poverty remains widespread, with about half the population living below the minimum accepted standard of living.<sup>9</sup> A BIG, it is argued, would not only widen the current social welfare provisioning of the state, but would also target the unemployed, thus ensuring that no individual falls through gaps in the system. Since a BIG is not means tested it would not create disincentives to work. It would, however, create further administrative economies of scale.

Given these apparent advantages of a BIG the idea quickly gained widespread support. The Congress of South African Trade Unions (COSATU) placed it on the agenda at the Presidential Jobs Summit in 1998. In 2001, a civic society campaign was launched in support of the introduction of a BIG. The Taylor Report (2002) gave its support to a BIG, proposing that the grant value be set at R100 per person per month. They recommended against immediate implementation, favouring instead a phased implementation.

Although the Taylor Report presented a clear case for BIG as part of a comprehensive social protection framework, it also questioned the fiscal feasibility of a BIG. Bhorat (2001) presents evidence suggesting that for 1999 the cost of the scheme would have amounted to 39 per cent of government's total expenditures, and more than double the Department of Social Development's budget. He further suggests that financing the scheme through the VAT system, would mean increasing the VAT rate from 14 per cent to 32 per cent and if the deficit-financing route was taken, the budget deficit for 1999 would balloon from two per cent of GDP to about nine per cent of GDP.

Thurlow (2002) also expressed doubts about the feasibility of a BIG. His results from a number of simulations suggest that the cost of such a scheme could be debilitating to the economy, whether it is financed by raising income and/or sales taxes or by reducing other government expenditures. Thurlow also questions the merits of a universal grant over a targeted grant and calls for further research. McDonald and Punt (2003) focus more on the issue of targeting when they investigate the impact of a BIG in the Western Cape

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9 Estimates of the poverty headcount ratio in South Africa vary, depending on the data and poverty line used. However, most researchers seem to agree that a plausible poverty line (in 2000 prices) lies somewhere between R3 000 and R4 000 per capita per annum, which translates roughly to a poverty headcount rate of 50 per cent.

Province. Their results indicate, *ceteris paribus*, that when funded exogenously a BIG will achieve substantial reductions in poverty and inequality. However, when funded from tax revenues the degrees of poverty alleviation is much lower, thus supporting the notion of introducing a targeted grant rather than a universal one. In this regard McDonald and Punt argue that an “*enhanced but targeted income grant*” has the potential to achieve a higher degree of poverty alleviation than a universal BIG (2003: 1).

In July 2002 the government spokesman, reported that the Cabinet, which had just discussed the Taylor Report, was moving toward a rather different approach to that underlying the report: that only the sick and disabled should receive “*hand-outs*”, while able bodied adults should “*enjoy the opportunity, the dignity and the rewards of work*” (Matisonn and Seekings 2001). The strongest opposition to the BIG has come from the National Treasury arguing that it was unaffordable. Early in 2004 the National Treasury announced that the government’s approach would be to “*extend social security and income support through targeted measures*” rather than through a universal BIG, an approach regarded by the National Treasury as the “*more balanced strategy for social progress and sustainable development*” (Manuel, 2004). While the targeting of welfare transfer payments reduces the cost of the scheme, it also leads to high administration costs and potential administrative complexities. Because South Africa has a low administrative capacity, targeting errors often occur, including the exclusion of people that are eligible and the inclusion of beneficiaries who are not.

## **4. Constraints to Expanding the Coverage and Scope of the Welfare Grant System**

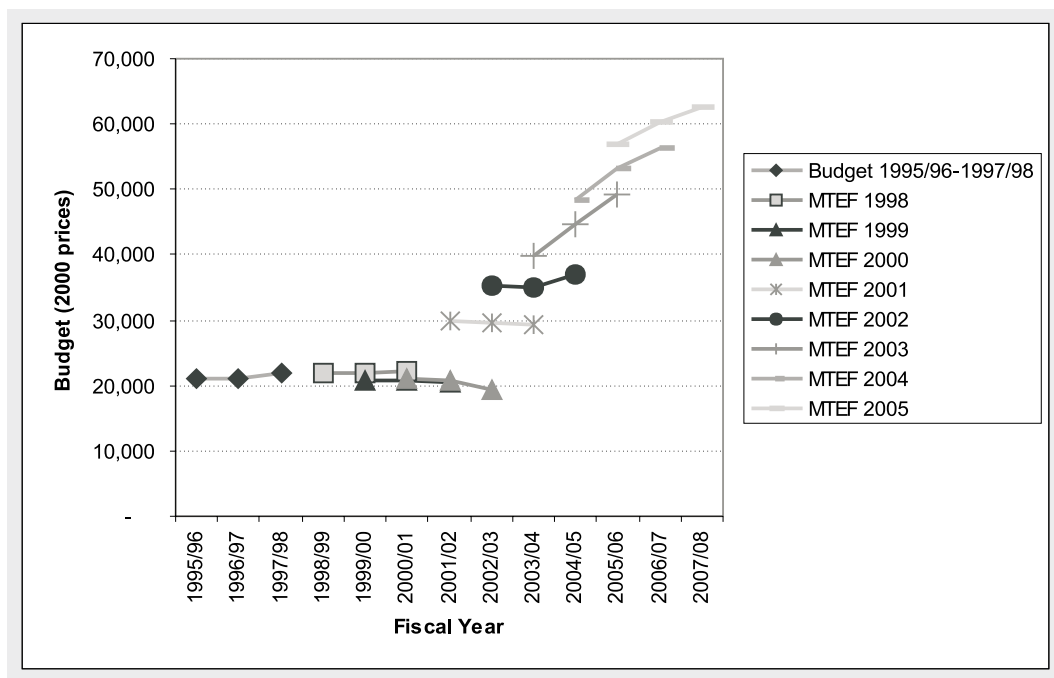
### **4.1 Fiscal Constraints**

Like any other country South Africa faces budget constraints to expanding fiscal spending. As priorities change, there is sometimes a need to increase spending in certain areas. However, this often comes at the expense of other government functions. South Africa's budgeting system is based on a rolling budget system adopted in 1998 called the MTEF. It allows the government to plan its spending over a three-year horizon in line with its medium-term policy priorities, taking into account the government's views on expected economic growth, inflation rate targets and revenue collection. Welfare forms one of the sub-functions of the social services function of government. Figure 8 shows the welfare budgets from 1995 to 2005 in real terms.<sup>10</sup> The dramatic shift observable between the MTEF for 2000 and the subsequent MTEFs is evidence of government's move away from its initial stance of conservatively increasing social welfare spending in line with inflation.

The GEAR policy strategy followed between 1996 and 2000 aimed to reduce the fiscal deficit, and this conservative stance was reflected in its spending. Between 1995 and 2000 the welfare budget remained fairly stable in real terms at around R20 000 million. Based on the MTEF 2000 projections welfare spending was expected to remain stable at this level. However, in the subsequent year there was a significant upward adjustment of the welfare budget to around R30 000 million in real prices. From there onwards, each revised MTEF made further upward adjustments.

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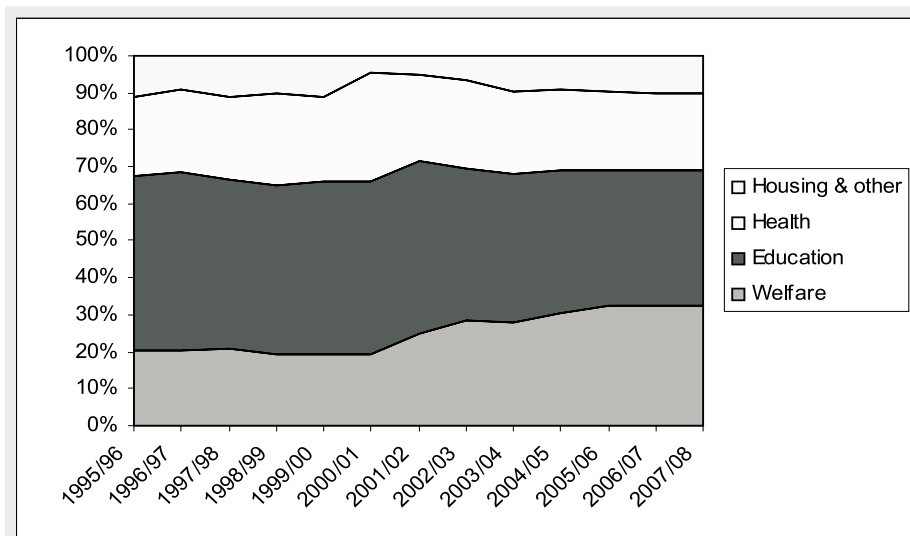
10 Nominal budgets from various Budget Reviews were adjusted for inflation using the CPI.

**Figure 8: Welfare Budgets, 1995 – 2005 (2000 prices)**

**Source:** Based on Budget Reviews published between 1999 and 2005 (National Treasury)

Figure 8 clearly shows how welfare was the great beneficiary of very efficient tax collection by SARS. According to the National Treasury the government could now afford to “*embrace a more confident and expansionary vision*” (Manuel 2001). Early evidence shows that the massive rise in spending on welfare transfers has had a big impact on poverty (see, for example, Van der Berg *et al.* 2005 and discussions in DPRU Working Paper 07/126). However, with tax overruns of the magnitude seen during the 1990s and early 2000s unlikely to be repeated, given that the tax base cannot be extended much further, government certainly cannot rely on this as a source of windfalls.

Figure 9, which shows the expenditure values for the different categories of social services as percentages of the total social services budget from 1995/96 to 2007/08, shows that the increase in welfare spending has inevitably resulted in a reduction in the share of spending allocated to education and health as a percentage of the total social services budget. Clearly, therefore, tax overruns were not the only source of funding for the increased expenditure on social service delivery.

**Figure 9: Expenditure by Budget Item, as Percentage of Total Social Services Budget**

**Source:** Based on Budget Reviews published between 1999 and 2005 (National Treasury)

The question now is whether we can afford to continue expanding welfare spending at the rates seen between 2000 and 2006, or whether we will return to the more conservative approach followed between 1995 and 2000. The affordability issue is important for the future path of the social security system. The National Treasury noted earlier in 2006 that the “*poor could not be taken care of on the basis of tax overruns*” as this is unsustainable (Daniels 2006). This statement seems to suggest that a more conservative approach is on the cards.

The current government strategy for economic development is called the Accelerated and Shared Growth Initiative of South Africa (ASGISA). Spending on infrastructure development is an integral part of ASGISA, and already plans to improve transport and electricity provisioning networks have been tabled. This probably has important implications for welfare spending. The central message from government is that more sustainable investment-type spending will be a priority in the future. Consequently the ‘structural breaks’ in the MTEF welfare budgeting seen between 2001 and 2006 are not likely to be repeated, with government sticking more closely to its three-year plans. As shown previously (see Table 1 and related discussions) spending on social assistance grants grew at an average annual rate of about 20 per cent in real terms between 2001 and 2006. However, in terms of the MTEF projections the average real growth in social grant spending is likely to be between three and six per cent, depending on the inflation



rate during this period. The realities of fiscal constraints and budgetary reprioritisation have set in.

## **4.2 Service Delivery and Conditional Cash Transfers**

Any expansion of social security provisioning will have implications for service delivery. In South Africa the Department of Social Development is responsible for administering and disbursing welfare grants via its subsidiary, the South African Social Security Agency (SASSA). If the current welfare grants system is changed or adapted in any of a variety of possible ways, this Department will have to play a central role. Options for expansion include extending current grants to a greater number of beneficiaries by relaxing the eligibility criteria, or the introduction of additional programmes, such as conditional cash transfers for poor households that are not currently covered by social security grants. Either of these options will imply more applications to be processed, and possibly, in the case of conditional grants, the implementation of monitoring and evaluation processes to ensure that beneficiaries comply with the conditions attached to grants.

Conditional grants attached to school attendance and visits to health clinics aim to stimulate demand for these services. Thus, education and health service provision, which are the responsibilities of the Departments of Education and Health respectively, will also become directly involved in the social security system. In this section we briefly consider the current service delivery records of the Departments of Social Development, Education and Health and consider whether these departments will be able to cope with additional pressure brought about by possible extensions to social security provisioning.

### **4.2.1 Social Development**

In 2001 government entered a period of dramatically stepping up spending on social security. Van der Westhuizen and Van Zyl (2002) report on the findings of a survey on social security capability in South Africa, which was conducted to determine whether government was up to the task of expanding social security at the rate planned. At the time it was suggested that *“the capacity to deliver [was] a greater obstacle to the rollout of grants than the lack of funds”* (Van der Westhuizen and Van Zyl 2002: 3). At that stage disbursement of grants was administered through the provincial departments, with the national Department of Social Development providing an overall co-ordination, planning and control function. The survey was conducted among relevant national and provincial departments.

Of the 14 respondents, only three suggested that budgetary constraints played a role, with most stressing non-budget constraints as the more crucial obstacle to service delivery. The lack of staff and staff training, the fact that clients (or grant beneficiaries) were widespread, often living in isolated rural areas, and claimants not being in possession of proper identification documents were identified as the main obstacles. The disability grant posed the most problems, given the medical assessment required for this grant to be paid. One of the specific problems identified in this regard was a lack of co-ordination and co-operation with the Department of Health (Van der Westhuizen and Van Zyl 2002).

Certainly, looking back at the last few years, and especially at the rapid rise in spending on social welfare transfers, the large increase in the number of beneficiaries and the successful introduction of the child maintenance grant, it appears as if the Department of Social Development has done a good job. However, there are “*some anecdotes that fraud exists at various levels in the [social security] system*” (Alderman 1999). During the past years numerous newspaper articles lamented the irregularities that exist in disbursing social welfare payments, either due to misrepresentation by claimants (claiming grants on behalf of non-existent or deceased people, faking identity documents, lying about income etc.), or due to illicit behaviour of government employees.

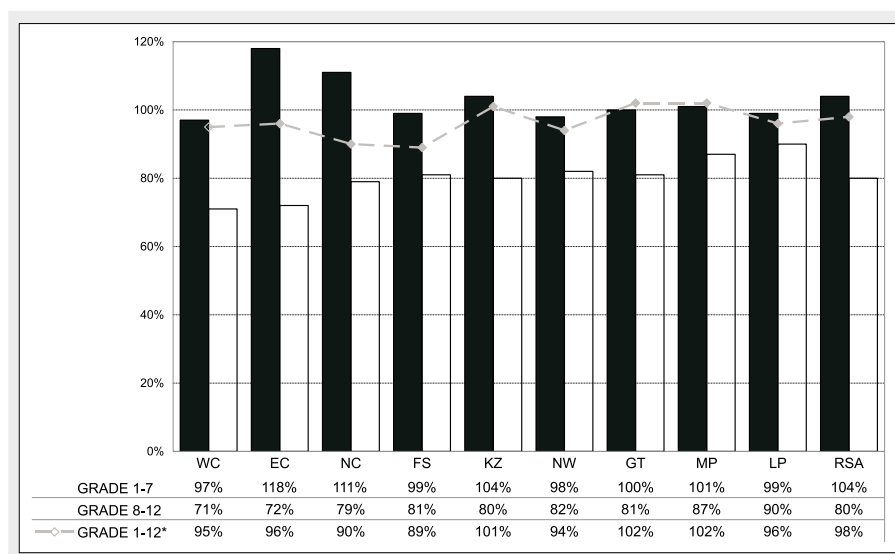
It now seems that evidence of fraud and corruption in the system is not only anecdotal. Recently the Special Investigations Unit (SIU) and the Department of Social Development embarked upon a major investigation into fraud and irregularities in the welfare system. According to a media statement by the Department of Social Development (2006) the enormous increase in the number of beneficiaries, especially under the child maintenance grant, as well as the fact that disability grants have become more accessible, meant that there were also more irregularities and incidents of fraud. Losses are “*conservatively*” estimated at R1.5 billion per annum, or approximately 2.6 per cent of the departmental budget for grants, which is in the order of R56 billion (see Table 1).

Although the Department of Social Development should be commended for the rapid increase in take-up of grants over the past few years, the problems in the system are a concern. In the past, many of these problems were related to the decentralisation of grants administration, with certain provinces not being able to cope due to a lack of administrative capacity. As a result, the Department of Social Development has decided to centralise grants administration with the formation of SASSA in 2004. Effectively SASSA only became operational in 2006, hence, the success of this move is as yet unknown.

Also, investigations by the SIU are heartening, but it is likely to take some time before corruption and fraud is removed from the system. Given these recent changes in the administration it is perhaps advisable at this stage to consolidate existing processes before expanding the coverage or introducing any new types of grants.

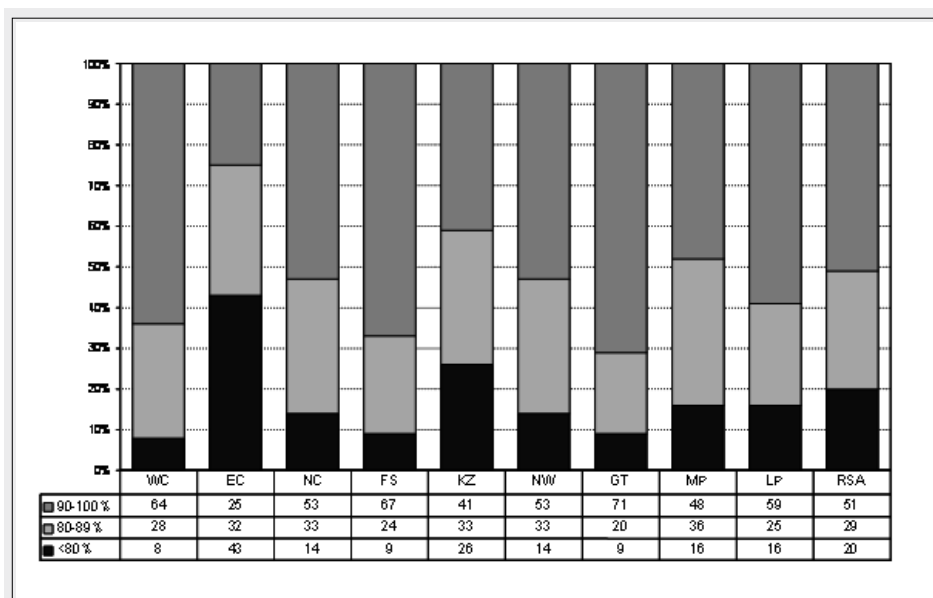
#### **4.2.2 Education**

Higher education levels are usually associated with higher earnings and better health and nutrition. The promotion of education, both in terms of increasing enrolment rates and improving on service delivery (quality of teachers, schooling facilities and pass rates), should therefore be a high priority in any developing country. South Africa has a fairly good record in terms of school enrolment but a poor one in terms of repetition and pass rates among scholars (May, 1998). Although good quality data is limited, it appears as if attendance is also low. Figure 10 shows the Gross Enrolment Ratio, defined as the number of learners enrolled in a specific school phase relative to the school-aged population for South African pupils across the nine provinces (Poswell, 2006). School enrolment in South Africa is compulsory up to Grade 9 (approximately age 15). Clearly school enrolment, especially at primary school level, is high and generally not a cause for concern.

**Figure 10: Gross Enrolment Ratio by Grade and Province, 2003**

**Source:** Poswell (2006), based on Department of Education (2005a) figures.

School attendance, however, has been raised as a concern in South African schools. Although the Labour Force Surveys contain questions on school attendance, the questions are too limited to get a clear picture of punctuality of pupils and how regular they attend school. Therefore, perhaps a better source of information on the regularity of school attendance is the Systemic Evaluation for Grade 6's undertaken by the Department of Education in 2004, where teachers were asked about average learners' attendance. Figure 11 shows the results from this initiative. At the national level (RSA) 51 per cent of teachers reported that children attended class between 90 and 100 per cent of the time. Of particular concern is the poor school attendance in the Eastern Cape (EC) and KwaZulu-Natal (KZ), where 43 per cent and 26 per cent of teachers respectively reported average learner attendance of below 80 per cent.

**Figure 11: Grade 6 Learner Attendance as Reported by Educators, 2004**

**Source:** Department of Education (2005b)

One of the biggest concerns in the South African schooling system is performance by pupils. Poor performance, which is likely due to a combination of poor quality teaching, poor facilities, under-funding in schools and low attendance rates, is reflected in high failure and repetition rates in schools. In an analysis of school attendance in age-appropriate grades Oosthuizen and Naidoo (2005) find that, for example, in 2003 less than 50 per cent of Grade 12 pupils were of appropriate age. Although the low rate partially reflects late school enrolment, it also points at high repetition rates in the South African schooling system.

As part of the Systemic Evaluation for Grade 6's school pupils were subjected to a variety of tests to establish their proficiency in a number of key study areas. Table 3 shows the results of standardised testing of a nationally representative survey of Grade 6 learners in Language, Mathematics and Natural Sciences.

**Table 3: Learner Performance in Language, Mathematics and Natural Sciences, 2004**

	Mean Scores	Percentage of Learners Achieving 50% or More
Language	38 %	28 %
Mathematics	27 %	12 %
Natural Sciences	41 %	31 %

**Source:** Department of Education (2005b)

The low mean scores and the low percentages of pupils who scored 50 per cent or more, especially in Mathematics, is a serious concern. Poor Mathematics and Science education at Secondary School level lies behind many problems in further education and the labour market in South Africa. In a recent study by the DPRU on graduate unemployment (DPRU, 2006) it was argued that, despite good employment prospects for students graduating with engineering and scientific qualifications, very few students enrol in these courses because Mathematics and Science are typically pre-requisites. Performance of many of those who do enrol is also poor, which affects students' employability. A further concern is language ability. The DPRU study quotes a report which finds that up to 82 per cent of first-years students at tertiary institutions are functionally illiterate, that is, their language abilities are below the requirement for 'functioning properly' within a tertiary academic environment.

The question is whether cash transfers – based on the models from Latin America – which distributes cash allowances to beneficiaries conditional upon children attending schools, would be able to address some of the problems in the South African schooling system. Certainly as far as enrolment numbers are concerned there seem to be no problems, since schooling is compulsory. However, school attendance is not always good, and perhaps scope exists to use conditional cash transfers to try and incentivise pupils who are enrolled to also attend school on a regular basis.

As far as school performance is concerned, a conditional grant may impact on schooling outcomes via its potential impact on school attendance, presuming of course that more regular attendance will have a positive effect on average grades. However, as pointed out by May (1998: 97), "*educators are key to quality education*". The South African education system suffers from "*severe deficiencies in terms of both quality and distribution*" of teachers. It may even be argued that low attendance rates are because of poor quality teachers not providing the impetus for students to attend school. From this point of view it is perhaps more important and sensible to focus on improving the quality of schooling, and if fiscal choices need to be made between CCTs linked to school attendance and

investment in education then the latter is perhaps the preferred strategy.

The only initiative that can be used as a 'proxy case study' for a CCT linked to school attendance and performance is the school feeding programme in the Department of Education. Poswell (2006: 27) finds that "*in terms of potential benefits of school feeding, the evidence suggests that daily delivery of a school meal may well encourage consistent school attendance*". Furthermore, "*a well nourished child should have a better chance of performing well at school than one who is too hungry to concentrate or often ill and therefore not attending school*" (2006: 29). A school feeding programme, thus, has the potential to address both the problems of school attendance and of health deficiencies among children, and is perhaps easier to administer than a large-scale CCT programme targeted at poor households.

#### **4.2.3 Health**

The health status of the South African population has often been raised as a concern. Table 4 shows the South Africa's Human Development Index (HDI), which is a measure of progress towards a better life and health, as well as the average life expectancy of South Africans between 1995 and 2001 (Henson and Owuso-Ampomah 2006). In 2001 the HDI declined from 0.741 in 1995 to 0.684. Life expectancy at birth declined from 64.1 years to 50.9 years over the same period. The decline in these two measures is certainly a concern. Much of it relates, of course, to the high incidence of HIV/AIDS in South Africa. According to Henson and Owuso-Ampomah (2005), the prevalence of HIV and AIDS rose from 0.7 per cent in 1990 to about 27 per cent of the total population in 2002. Projections suggest that between 4 and 7 million South Africans will die of AIDS between 2000 and 2010. The care needs of patients suffering from AIDS and related diseases have placed a severe strain on health care service delivery. These are the critical facts that drive concerns over service delivery in health care in South Africa.

**Table 4: Human Development Index and Life Expectancy Trends**

Year	HDI	Life Expectancy
1995	0.741	64.1
1997	n.a.	54.7
1998	n.a.	53.2
1999	0.702	53.9
2000	0.695	52.1
2001	0.684	50.9

**Source:** Henson and Owuso-Ampomah (2005)

It is generally supposed that trends in health outcomes reflect socio-economic patterns of a society such as education, housing, and access to water and sanitation. Improvements in water and sanitation provision have often been hailed as a major achievement of the ANC government (see, for example, Leibbrandt *et al.* 2005 for an analysis of service delivery improvements between 1996 and 2001). Water and sanitation have an acute effect on child and adult mortality rates. Households without piped water are found to have child mortality rates twice that of households with piped water, while households with flush sanitation are found to have child mortality rates four times that of households with flush sanitation. The proportion of people with access to clean water increased from 60 per cent in 1996 to 85 per cent in 2001 and the number of households with access to sanitation also increased from 49 per cent in 1994 to 63 per cent in 2003 (see Hemson and Owuso-Ampomah 2005). Such improvements have undoubtedly had a positive impact on health, given the strong relationships between water and sanitation provisioning and health. However, from the figures in Table 4 it is clear that even rapid improvements in water and sanitation services have not had the desired impact on the health status of the population and, therefore, pressures on health services are on the rise.

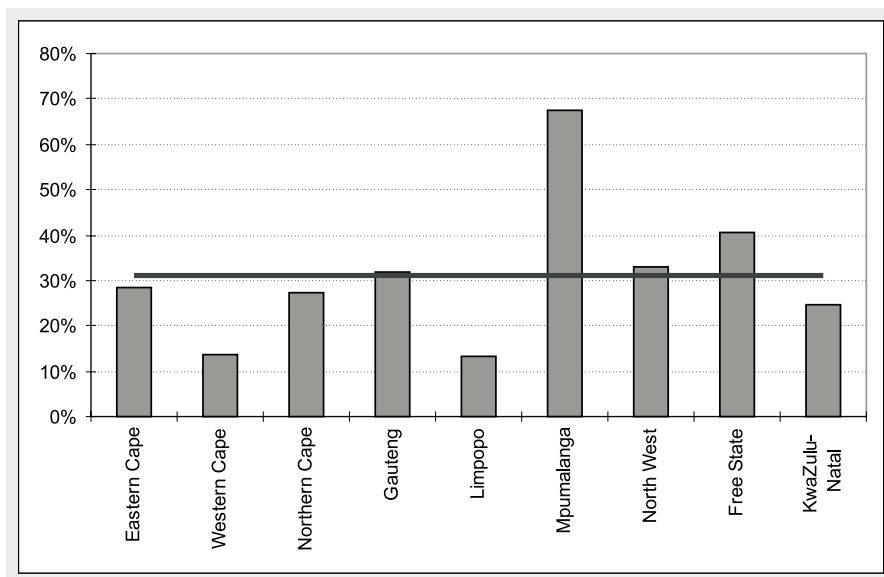
Various measures have been introduced by the ANC government to improve access to health care in South Africa. These include free health care for pregnant women and for children under the age of six as well as the introduction of free primary care for every citizen, while older persons in receipt of a social grant can receive secondary health care services free of charge at public hospitals. It is therefore arguable that for many people the cost of health care is not a prohibiting factor.

There are, however, various indirect costs to utilising health care services. In many instances, rural health care has been compromised by lack of infrastructure such as



roads, water and electricity. Many poor households are unable to access health care facilities such as clinics and hospitals due to the large distances, poor roads, or prohibitive cost of public transport from their homes to these facilities. It is estimated that people in the poorest quintile travel almost two hours on average to obtain medical attention, compared to an average of 34 minutes for the richest quintile (Henson and Owusu-Ampomah 2005). Time spent away from economic activity represents much greater private opportunity costs for the poor. These costs can dominate the decision to seek care.

The preceding discussions seem to suggest that a major factor impacting on the health status of the South African population is the supply constraint of health care. Government will have to address supply issues such as accessibility in order to accelerate delivery of health care services to the poor. Health care service delivery is further hampered by skills shortages. The health care industry faces severe problems with recruiting and retaining skilled personnel. Figure 12 shows the high number of vacancies in health professional posts. The horizontal line represents the national average vacancy rate of just over 30 per cent. The vacancy rates in Mpumalanga and, to a lesser extent, the Free State province are especially worrying. The high vacancy rates are indicative of the challenge faced by the country in improving health personnel ratios. The literature points to increasing numbers of health personnel migrating abroad. According to Ntuli and Day (2004), health personnel cite low levels of job satisfaction, poor working conditions, despondency in the face of the HIV epidemic as well as inadequate salaries as underlying their dissatisfaction. Without a stronger human resources pool the dream of equitable access to high quality health care will not be realised.

**Figure 12: Percentage of Health Professional Posts Vacant, 2003, By Province**

**Source:** Ntuli and Day (2004)

**Note:** The horizontal line represents the national average vacancy rate

In summary, Figure 9 showed that, while spending on welfare began to increase after 2001, this increase has inevitably resulted in a reduction in the share of spending allocated to health as a percentage of the total social services budget. This raises major concerns given the challenges of improving health outcomes. While government may eventually consider CCTs linked to hospital attendance in order to improve health outcomes of the poor and needy communities, it is crucial, first of all, that the supply constraints in health service delivery are addressed. Initiatives should include training of medical personnel, improving working conditions and remuneration packages of health personnel to curtail staff turnover and emigration, and investing in infrastructure (hospitals and equipment). It is also important that accessibility to health clinics is improved through improved or more affordable transport to clinics, especially in rural areas. Before the supply constraints are addressed it will be unwise to stimulate demand for health care further.<sup>11</sup>

<sup>11</sup> The increase in social transfers has to a large extent been financed by a substitution between social budgets (education and health) and transfer budgets. This means that the supply of education and health will be affected by this substitution. Further research is needed to identify any signs of deterioration of the quality and quantity dimension of the education and health supplies as a result of this substitution.

## 5. Concluding Remarks

Social security provisioning is important in the fight against chronic poverty in South Africa. A large proportion of the population falls outside the economic mainstream, and given their poor employment probabilities, they are often unlikely to gain from economic growth and new employment opportunities. For this portion of society, welfare grants are an important source of income. Rapid expansion of the social security net between 2000 and 2006 has undoubtedly had a large impact on poverty in South Africa, and although the precise poverty implications are still difficult to determine, the fact that most of the social welfare programmes are means tested suggests that the beneficiaries were largely the poor households. Today a relatively large share of the population relies on welfare transfers as a main or secondary source of income.

However, the poverty rate still remains high and many feel that social security provisioning should be expanded further. There are, however, those who question the sustainability of further expanding social security provisioning. Any situation where a small portion of the population is asked to finance welfare payments to a relatively large portion of the population is untenable. When looking at the welfare budget trends for the next few years – as forecasted by the MTEF and indicated in recent statements by the National Treasury about where welfare spending is likely to go – it would seem that the increases in welfare transfers, seen between 2001 and 2006, are unlikely to be repeated. More recently, the launch of ASGISA perhaps confirms government's change in policy stance. Government plans to significantly step up infrastructural expenditure as this is regarded as a more sustainable approach to achieving long term growth as well as meeting social goals such as job creation and poverty reduction.

Given the successes of CCT programmes elsewhere in developing countries, especially in Latin America, some are calling for these types of programmes to be implemented in South Africa. At this stage, very little research has been done in this area. For a start, it is unclear whether it is at all necessary to attach conditions to grants that act as incentives for recipients to invest in human capital development. Very little is known about the spending propensities of the poor, and more research is needed.

For a CCT programme to be implemented successfully in South Africa, the Departments of Social Development, Education and Health will not have only have to improve its

service delivery records, but they would also have to co-operate very closely. This country study briefly looked at service delivery issues in these three departments, and on the basis of that made the following recommendations with regards to CCT programmes:

- It is argued that what is most important for Social Service Delivery in the Department of Social Development at this stage is to consolidate the current systems and procedures. Investigations into irregularities should be completed before additional programmes are considered. By the Department's own admission, these irregularities were compounded by the rapid expansion of social security provisioning. Should further expansions be made, it may place too much strain on an already precarious system. The newly instituted SASSA should be given a few years to get the fundamentals in place, establish credibility and to improve its service delivery efficiency before new programmes such as CCT programmes are introduced.
- As far as Education Services are concerned, it is argued that CCT programmes are unlikely to have a major impact. School enrolment in South Africa is very high because schooling is compulsory up to the age of about 15. CCT programmes are often useful where undesirable labour market practices are common. However, the incidence of child labour and discrimination against girls (in terms of attending school) is low in South Africa. The quality of schooling is a concern, and perhaps it is more important to invest in school infrastructure and training of more and better teachers than it is to try and promote higher enrolment or better school attendance. It is crucial to address low functional literacy rates, poor numeracy skills and the low employment prospects of school leavers in South Africa as the main focus in education.
- Finally, regarding Health Services, it is argued in this paper that service delivery is the concern, and not necessarily the lack of demand for these services. Although CCT may address the affordability issue of utilising Health Services – especially indirect costs such as transport costs to and from clinics and the opportunity cost of not working – it is argued that the Health Care System in South Africa is not ready to accommodate additional demand for its services. The training of medical personnel, improvements in working conditions, and investment in infrastructure (hospitals and equipment) should be the main priority. It is also crucial that accessibility to health clinics is improved through improved or more affordable transport to clinics, especially in rural areas.

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## Appendix

### The Taylor Report

#### (a) Overview

The Taylor inquiry into a comprehensive system of social security for South Africa published its final document in 2002 (2002). The inquiry was preceded by the Poverty and Inequality Report (PIR) (May, 1998), which concluded that extreme poverty is likely to act as a deterrent to growth in South Africa. The notion that higher growth will lead to less poverty and inequality via the ‘trickle-down effect’ of growth has also been questioned in recent years. The Taylor Report therefore departs from the premises that “*economic development and social protection are mutually reinforcing – essentially they are elements of the same paradigm*” (United Nations Commission for Social Development, as cited in Taylor, 2002:44). This departure point of the Report implies that there is a cost to not acting or addressing social needs in South Africa. In fact, intervention sooner rather than later may be economically and fiscally prudent in the long run, despite the large short-term fiscal impacts it may have. As argued in the Report, “*the negative social externalities generated by a lack of state action [causes] the society ... or the affected communities [to] bear the cost*” (Taylor, 2002:44-45), which is certainly an undesirable outcome from a political and social point of view.<sup>12</sup>

The social goals of any government should be that of reducing poverty and reaching socially acceptable levels of inequality. Government should also provide for people in old age, provide health care to those who cannot afford it and look after the unemployed. However, the Taylor Report finds there are many gaps in the current system. The country’s social safety net was inherited from the apartheid labour and welfare policies that were racially biased. Policies were based on the assumption that unemployment is a short-term cyclical phenomenon. It was also assumed that the employed could support themselves through work. These views have been proven to be false – unemployment has worsened over the last decade due to structural labour market problems, while the existence of many ‘working poor’ people suggests that being employed does not necessarily imply escaping poverty (Taylor, 2002:15).

12 Interestingly, Thurlow (2002) asks whether South Africa can afford to become a welfare state. In the light of the Taylor Report’s viewpoint one can almost ask, “Can we afford *not* to become a welfare state?” Admittedly, in his paper Thurlow questions the fiscal feasibility of a comprehensive non-targeted Basic Income Grant. The question is therefore about the appropriate design of a welfare system given the short-term budgetary constraints.

The Social Assistance Act makes provision for various types of ‘non-contributory social assistance’ packages (see Taylor, 2002:30-31). These include (1) assistance to the aged (women over the age of 60 and men over the age of 65), (2) assistance to medically-diagnosed disabled people, (3) assistance to foster care families, (4) a care dependency grant, and (5) a child support grant. Despite this seemingly comprehensive coverage, the following people remain uncovered by the current system:

- *Children:* 75% of poor children under the age of 7 do not get the child support grant. All children over 7 do not get any support. Also, children without primary caregivers and child-headed households do not get any grant.
- *Disabled:* The strict medically based criteria to qualify for the disabled grant is often not met by the chronic ill.
- *Unemployed:* The Unemployment Insurance Fund (UIF) covers only 5% of the unemployed.
- *Poverty:* About 60% of the poor do not receive any income support.
- *Non-citizens:* The current system excludes non-citizens despite the Constitution’s provision that “everyone” should be entitled to social security.

Contribution-funded social insurance covers a relatively small number of persons in South Africa. These schemes are normally attached to formal employment, and hence an increasing number of people are largely excluded. Also, the better paid typically secure the largest share of the benefits. A further problem associated with contribution-funded schemes is that since publicly provided benefits are fairly limited, many of the costs are passed onto employers, thus increasing the non-wage cost of employment. This leads to more indirect employment, such as employing contract workers or temporary workers, and casualisation.<sup>13</sup> Thus, in addition to providing security to the poor and unemployed, a comprehensive social security program has to deal with two additional sets of needs

<sup>13</sup> Natrass (2000) argues that regulation in the labour market since 1994 has impacted on employment levels by increasing the non-wage cost of employing labour. In a recent survey of 325 large South African manufacturing firms, managers indicated that, in response to new labour market legislation (Labour Relations Act (1996), the Basic Conditions of Employment Act (1997), the Employment Equity Act (1998) and the Skills Development Levy (1998)), they hired fewer workers, substituted capital for labour when expanding, hired more temporary workers as opposed to permanent workers, and relied on sub-contracting (Chandra *et al.*, 2001).

of employed people, namely those of the poor in the formal sector of the economy that are excluded from the productive capacity and rewards of this sector, and those that are informally employed (Taylor, 2002:35).