

SOUTH AFRICA'S STORY:

South Africa's social security system:
Expanding coverage
of grants and limiting
increases in inequality

Jessica Hagen-Zanker and Jenny Morgan
with Charles Meth



Development Progress



South Africa's social security system:

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Key messages

1. Provision of social grants has limited the growth of inequality and poverty among the poor in South Africa.
2. Coverage of social grants has increased significantly in the country, from just over 2 million beneficiaries in 1996/97 to almost 14 million in 2009/10.
3. The most important factors contributing to progress in increasing coverage are strong stable leadership, changes made to the Constitution and the building of new institutions. Social grants are affordable given budgetary prioritisation and the size of the tax base coupled with an efficient tax-gathering system.

“Provision of social grants has played an important role in limiting the growth of poverty.”

Summary

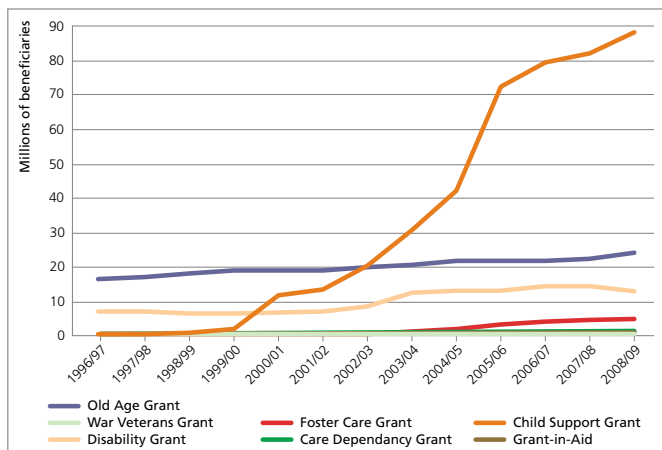
South Africa is one of the richest African countries, with per capita gross domestic product (GDP) at \$5,678 in 2008, compared with a sub-Saharan African mean of \$2,055 per capita.¹ However, it is also one of the most unequal, and rising aggregate levels of income hide stark differences in poverty across different racial groups and growing levels of income inequality. The country's Gini coefficient stood at 0.70 in 2008, compared with 0.66 in 1993.² The recent rapid extension in coverage of social grants has helped to limit this growth in inequality and the depth of poverty experienced in the country. For example, in 2008, 54% of the population lived below the poverty line, down from 56% in 1993. This would have been 60% without the social grants.³

Since 1994, the South African government has attempted to develop a comprehensive approach to poverty and inequality using a range of instruments and complementary programmes. These include social grants, unemployment insurance, public works programmes for the working poor and the 'social wage' package, which comprises access to education, health and other services. With its origins in the 1920s, but restricted for many years to the white and mixed race populations, the system has in the past 20 years expanded coverage significantly across racial groups. The range of instruments deployed has also increased. Coverage of non-contributory social grants is now larger than in any other African country, reaching 14 million people (28% of the population).

What has been achieved?

Coverage of social grants has increased significantly in South Africa, from just over 2 million beneficiaries in 1996/97 to almost 14 million in 2009/10⁴ (Figure 1), particularly through extension of eligibility for the Old Age Grant and the Child Support Grant. In the former case, the retirement age has been lowered to 60 for men, to match that of women. In the latter case, eligibility has gradually increased to cover children up to 18, rising from 320,000 grants in 2000 to 9.4 million in 2009/10; this accounts for more than 80% of the increase in the total number of social grants.

Figure 1: Coverage of social grants since 1996/97⁵



In 2008/09, 69,449 million rand (\$8,930 million) was spent on social grant payments (3.2% of GDP). This is higher than the sub-Saharan African average and also exceeds social assistance expenditures as a percentage of GDP for many European countries.⁷

The rising trend in expenditures in real terms has included expansion of the Child Support Grant, increases in the number of beneficiaries as a result of improved outreach and, very recently, small increases in the real value of some grants. It is important to note that targeting is carried out through means tests and, since these are not always implemented effectively, some leakage to the non-poor does occur.

1 <http://data.worldbank.org/country/south-africa>.

2 Leibbrandt, M., Woolard, I., Finn, A. and Argent, J. (2009) 'Trends in South African Income Distribution and Poverty Since the Fall of Apartheid.' Social, Employment and Migration Working Paper 101. Paris: OECD.

3 Ibid.

4 National Treasury (2010) 'Budget Review 2010.' RP: 04/2010. Pretoria: National Treasury.

5 SASSA (2009) 'Annual Report 2008/09.' Pretoria: Department of Social Development.

6 National Treasury (2010).

7 Seekings, J. (2002) 'The Broader Importance of Welfare Reform in South Africa.' *Social Dynamics* (Special Issue: Welfare Reform) 28(2): 1-38.



Figure 2: Total expenditure on social assistance grants between 2003/04 and 2008/09⁸

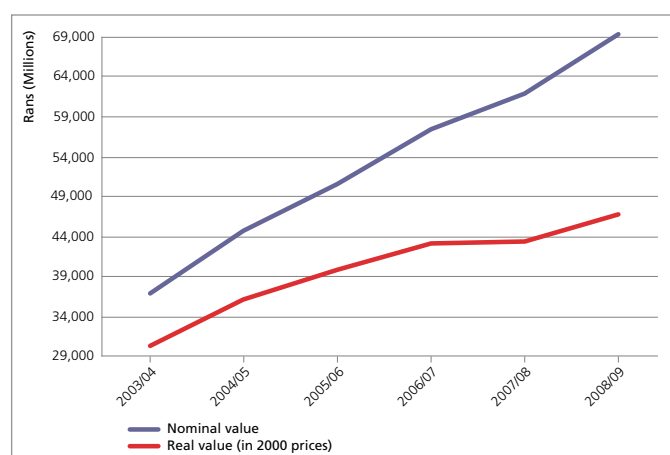
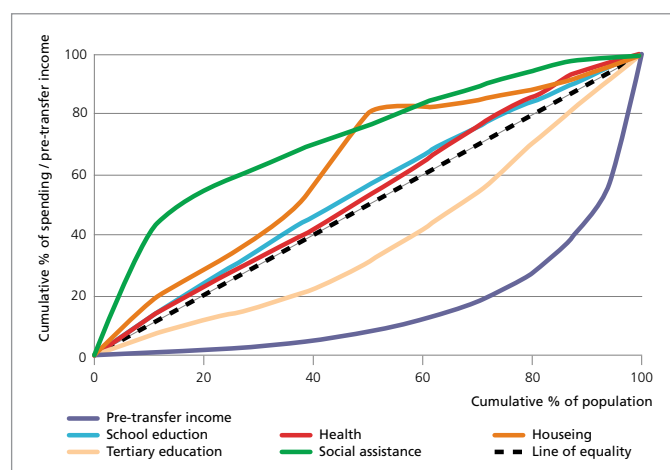


Figure 3: Pro-poor nature of social spending, 2001-2006⁹



Provision of social grants has played an important role in limiting the growth of poverty, reducing the depth of poverty among the poorest and stemming increases in inequality in South Africa. In Figure 3, the dashed line shows equal amounts going to rich and poor people; anything to the left is pro-poor, meaning more goes to the poor.

Figure 3 shows that, compared with other interventions to assist the poor (such as education provision, housing, health care), social assistance (i.e. social grants) is the most pro-poor and benefits the poorest population the most. Social grants have had a range of positive outcomes with regard to non-monetary aspects of poverty, relating to improved health of recipient household members, child growth rates, school attendance and adult household members being able to invest in job search activities.¹⁰

What has driven change?

Strong and consistent leadership

South Africa has had strong and stable leadership since the fall of Apartheid in 1994. The African National Congress (ANC) has been re-elected three times since 1994, each time with a significant majority. The ANC identifies itself as the party of the poor: in its 1994 election manifesto, it promised basic welfare rights, and it has continued campaigning on a social assistance platform. In the 2004 election manifesto, entitled 'A People's Contract to Create Work and Fight Poverty', Thabo Mbeki declared the following:¹¹

'At the heart of our challenges are two linked concerns – we must create work and roll back poverty. These two core objectives are the major focus of our programmes for the Second Decade of Freedom.'

Meanwhile, continued high levels of poverty and inequality threaten political, social and economic stability, and this has resulted in continued political motivation to increase coverage of social grants.

Constitutional change

The extension of social grants in South Africa has been particularly dramatic because it has been supported by constitutional change. The ANC's commitment to poverty reduction resulted in legislative and institutional changes that put social assistance right at the heart of South Africa's Constitution in 1996. Since then, people have had a constitutional right to adequate shelter, food, education and social security. This rights-based system means the state has a legal obligation to provide social assistance, which largely explains the emphasis on

⁸ SASSA (2009).

⁹ National Treasury, in Samson, M., MacQuene, K. and van Niekerk, I. (2005) 'Social Grants South Africa.' Policy Brief 1. London: ODI.

¹⁰ Samson et al. (2005).

¹¹ www.anc.org.za/elections/2004/index.html.

“Increases in social expenditure have been possible because of stable macroeconomic conditions and a successful and efficient tax system in South Africa.”

increasing social grant coverage in the country. South Africa is particularly unusual in the sub-Saharan African context, as the entire social assistance system was developed domestically without significant donor input in terms of policy or additional financial resources.

Institutional reform, macroeconomic stability and efficient tax collection

Historically, bureaucratic complexities constrained take-up, which meant many of those eligible for grants were not receiving them. Meanwhile, the Department of Social Development, responsible for administering the grants, had inadequate capacity. In recognition of this, the government attempted to simplify the process by establishing the South African Social Security Agency (SASSA), to administer the grants, while the Department of Social Development retained its responsibility for policy development. SASSA has introduced a range of successful accountability measures, including internal audit processes, regional audit steering committees and a fraud prevention strategy.

SASSA has also responded to difficulties obtaining documentation in rural areas, which have been a factor in differential rates of take-up in both rural and peri-urban areas. Through the Integrated Community Registration Outreach Programme (ICROP), SASSA sends in mobile units to remote areas in the form of customised trucks, which are equipped with information and the communication technology infrastructure necessary to process grant applications.¹²

Meanwhile, increases in social expenditure have been possible because of stable macroeconomic conditions and a successful and efficient tax system in South Africa. Stable and high tax returns are a prerequisite for grant sustainability.

Lessons learnt

South Africa still faces challenges in addressing poverty and inequality, but has been very successful in expanding the provision of social grants. The case holds five key lessons for other countries.

- Social grants have been effective in reducing the depth of poverty and the vulnerability of beneficiary households. However, they have not been able to counterbalance the forces causing inequality in South Africa to increase. Headcount poverty and inequality are increasing, owing to larger macroeconomic forces that the grants system cannot address.
- Social grants are affordable with an adequate tax base and an efficient tax-gathering system. Budgetary prioritisation of interventions to reduce poverty is of high importance, as governments have to choose in the context of limited budgets among competing policies, which all have an impact on poverty and inequality, directly or indirectly.
- Policy coherence is key. Social grants complement other forms of social assistance (including education, health and other service provision) and have different target audiences.
- A strong, stable institutional structure is required for social assistance. Enshrining the right to social assistance in the Constitution and creating strong new institutions means social grants are not subject to shifting government preferences.
- Provision of social grants is not sufficient to ensure social and political stability. Delays in service delivery, in particular in housing, frustration at the lack of change and exclusion of the working-age poor from grant provision have led to an increase in civil action and social unrest in South Africa in recent years.



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This publication is based on research funded by the Bill & Melinda Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Bill & Melinda Gates Foundation.

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**Overseas Development
Institute**

111 Westminster Bridge Road
London SE1 7JD
United Kingdom

Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399

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