Social Grants

Inter-Regional Inequality Facility

sharing ideas and policies across Africa, Asia and Latin America

Objectives

Since 2000, levels of investment and economic growth in South Africa have achieved their fastest increases in decades. Nevertheless, with an official unemployment rate of 26%, a poverty rate estimated at approximately 50%, and one of the most severe measures of inequality in the world, South Africa faces substantial challenges in addressing poverty, inequality and unemployment. While it ranks as an upper-middle income country based on average income, some of the nation’s social indicators are comparable to those of the poorest countries of the world.

South Africa’s social security system is the government’s chief initiative in tackling these problems. It has two main objectives. The first is to immediately reduce poverty among groups who are not expected to participate fully in the labour market, and therefore vulnerable to low income: the elderly, those with disabilities, and children. The second objective is to increase investment in health, education and nutrition, so as to increase economic growth and development. These twin objectives are reflected in the Government’s 1997 White Paper on Social Development, which states that “a social security system is essential for healthy economic development, particularly in a rapidly changing economy, and will contribute actively to the development process. It is important for immediate alleviation of poverty and is a mechanism for active redistribution.”

Description

There are five major social security grants in South Africa: the State Old Age Pension, the Disability Grant, the Child Support Grant, the Foster Child Grant and the Care Dependency Grant. Eligibility for each grant is dependent on an income-based means test. The grants are financed through general tax revenues, collected on a national basis. The amounts paid have increased significantly in real terms since 2001, while the coverage of the Child Support Grant has expanded, from all children below seven years to all children below fourteen years.

The grants are implemented and administered by a separate national government agency, the South African Social Security Agency. In 2003, approximately seven million South Africans, out of a total population of 45 million, received one of these grants. Total spending in 2004/05 amounted to ZAR41 billion (approximately US$7 billion), which represented 10.2% of total government spending, and 3.1% of GDP.

Lessons learned

The effectiveness of South Africa’s social security system, in terms of targeting and benefitting poor households, is widely recognised. A number of complementary factors have contributed to its success. These include a President who recognises their importance and actively supports appropriate policy, a Social Development Minister who effectively champions their effective implementation and extension, and a well-mobilised civil society that continually pushes government to move further. Current discussions focus on the case for a universal social grant available to all South Africans, called the Basic Income Grant, which would eliminate the income means-test and, it is argued, increase still further levels of take-up among the poorest households.
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Eligibility for social grants is currently dependent on an income-based means test, which varies according to the grant, the marital status of the beneficiary, and other characteristics. For example, to qualify for the SOAP, an individual must have an income lower than R1,226 if single, and an income lower than R2,226 if married (2000 figures). The grants are financed through general tax revenues, collected on a national basis.

There are no explicit conditionalities associated with the social grants, unlike a conditional cash transfer programme. Nevertheless, to qualify for the CSG, parents must provide proof of immunisation where such services are available, and proof of efforts to secure employment or to join a development programme. In addition, if one parent is no longer living with the custodial parent and child, the custodial parent must provide proof of efforts to obtain private maintenance from the other parent.

The broad features of social grants in South Africa have not changed significantly since the current system was introduced. However, the scope of the CSG was expanded, in 2002, from all children below the age of seven to all children below the age of 14. In addition, since 2000 the enforcement measures used to determine household eligibility for grants have become less burdensome on beneficiaries, particularly with the CSG.

<table>
<thead>
<tr>
<th>Grant</th>
<th>Amount (pcm)</th>
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<tbody>
<tr>
<td>State Old Age Pension (SOAP)</td>
<td>R780 ($130)</td>
</tr>
<tr>
<td>Disability Grant (DG)</td>
<td>R780 ($130)</td>
</tr>
<tr>
<td>Child Support Grant (CSG)</td>
<td>R180 ($30)</td>
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<tr>
<td>Foster Child Grant (FCG)</td>
<td>R560 ($90)</td>
</tr>
<tr>
<td>Care Dependency Grant (CDG)</td>
<td>R780 ($130)</td>
</tr>
<tr>
<td><strong>Source:</strong> Department of Social Development</td>
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Implementation

Initially, provincial governments were responsible for the implementation and administration of social grants. However, a Government review identified a number of problems associated with provincial administration, including fraudulent grants, delays in approving grant applications, and difficulties in accessing payment. In 2004 therefore, a national government agency was established to implement and administer social grants, the South African Social Security Agency (SASSA). This has a national office, and the provincial structures are under development. The SASSA is in turn monitored and evaluated by the national Department for Social Development (DSD).

Until 2004, finance for social grants was allocated to provinces through unconditional block grants, for disbursement primarily through contracted private companies. In 2004, the National Treasury revised this arrangement so that grants are paid through conditional grants managed by the DSD. The grants themselves are paid either in cash at specified pay points, or directly deposited into a beneficiary's bank account. However, given high costs of personal banking, and low rates of bank access for the poor, in practice most grants are paid out directly in cash.

Ongoing evaluation of the social security system has involved diverse stakeholders, including the Monitoring and Evaluation Unit and Economics and Finance Directorate in the DSD, the National Treasury, civil society institutions and research institutes. The evaluation techniques vary, and include auditing the beneficiaries, surveying the population to identify gaps and problems, and analysing national household surveys.

Impact

In September 2003, 6.8 million people, out of a total population of 45 million, received some form of social grant. This included 2.0 million adults receiving the SOAP, 1.1 million adults receiving the DG, and 3.7 million children receiving the CSG, FCG or CDG.

Total spending in the fiscal year 2004/05 amounted to R4.1 billion (approximately US$7 billion). This represented 10.2% of total government spending, and 3.1% of GDP. The government has steadily
increased spending on social grants, in both nominal and real terms. In 2000/01, spending amounted to R8 billion (approximately US$3 billion), which represented 2.0% of GDP. By 2006/07, the National Treasury projects nominal spending to increase to R14 billion (approximately US$5.9 billion), and 3.4% of GDP.

Results from the South African Labour Force Survey show that the social security system performs well in terms of targeting accuracy. Table 2 shows estimates of ‘type I’ targeting error associated with the SOAP, DG and CSG: the percentage of eligible individuals (i.e. pensioners, adults with disabilities, or children under fourteen) in poor households who did not receive each benefit. (Poor households are defined here as those that spend less than R3,000, approximately US$300 per month).

Table 2 Type I error rates (%)

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<tbody>
<tr>
<td>State Old Age Pension</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Eastern Cape</td>
<td>16.2</td>
<td>8.7</td>
<td>91.9</td>
<td>42.0</td>
<td>66.7</td>
<td>55.2</td>
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<tr>
<td>Free State</td>
<td>18.9</td>
<td>10.1</td>
<td>93.1</td>
<td>41.5</td>
<td>81.5</td>
<td>49.7</td>
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<tr>
<td>Gauteng</td>
<td>21.5</td>
<td>22.6</td>
<td>88.5</td>
<td>50.7</td>
<td>84.0</td>
<td>59.0</td>
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<tr>
<td>KwaZulu Natal</td>
<td>20.5</td>
<td>10.3</td>
<td>93.0</td>
<td>49.1</td>
<td>85.0</td>
<td>62.8</td>
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<td>Limpopo</td>
<td>13.1</td>
<td>5.3</td>
<td>91.7</td>
<td>28.6</td>
<td>87.0</td>
<td>56.1</td>
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<td>Mpumalanga</td>
<td>21.0</td>
<td>12.1</td>
<td>82.4</td>
<td>24.5</td>
<td>94.9</td>
<td>68.9</td>
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<tr>
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<td>9.0</td>
<td>91.1</td>
<td>49.5</td>
<td>75.3</td>
<td>54.7</td>
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<tr>
<td>Northern Cape</td>
<td>14.5</td>
<td>12.8</td>
<td>88.7</td>
<td>50.0</td>
<td>59.9</td>
<td>44.5</td>
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<tr>
<td>Western Cape</td>
<td>23.9</td>
<td>12.2</td>
<td>88.9</td>
<td>49.7</td>
<td>83.1</td>
<td>54.1</td>
</tr>
<tr>
<td>National</td>
<td>17.7</td>
<td>10.2</td>
<td>90.7</td>
<td>42.5</td>
<td>83.9</td>
<td>55.4</td>
</tr>
</tbody>
</table>

Source: Statistics South Africa

Table 2 shows estimates of ‘type I’ targeting error associated with the SOAP, DG and CSG: the percentage of eligible individuals (i.e. pensioners, adults with disabilities, or children under fourteen) in poor households who did not receive each benefit. (Poor households are defined here as those that spend less than R3,000, approximately US$300 per month).

Looking first at national averages, levels of type I error are either low, as with the SOAP (around 10%), or have declined significantly in recent years, as with the CSG and the DG (from 91% to 4% and from 84% to 3.5% respectively). In terms of the various provinces, levels of type I error are generally close to the national average, although there are certain exceptions. Gauteng province, for example, has a much higher level of type I error (relative to the national average) with the SOAP, while Limpopo has a much lower level (relative to the national average) with the CSG. However, the amount of type I error for each grant fell in all provinces from 2000 to 2004, and in virtually all cases substantially so. Levels of type II error are also relatively low, with less than one-fifth of each grant being paid to households with expenditure in excess of R1,200 per month.

Because of its relatively efficient targeting, social security is by far the category of government expenditure that most concentrates its benefits on the poorest. This is illustrated by Figure 1, which shows estimates of the amount of different items of government expenditure which goes to successive income groups, ranked from the poorest to the richest. (The data are based on a National Treasury study that compared spending on social security with that on education, health and housing, and with pre-transfer income as a reference). Each item of government expenditure is represented by a curve whose steepness over a range depicts the intensity with which the intervention benefits the indicated income group. The most notably pro-poor intervention is social security, as depicted by the steepness of that intervention’s curve for the lowest income group.

The effectiveness of South Africa's social security system in improving the welfare of beneficiaries has been widely recognised. Duflo (2000) finds that households including women eligible for a State Old Age Pension reported significantly better weight-for-height indicators for girls, although there was no significant difference for boys or in households with eligible men. Maitra and Ray (2003) show that the households that receive public pensions both have higher expenditure shares on food and education, and lower expenditure shares on alcohol, tobacco and entertainment than other households.

Studies by the Economic Policy Research Institute corroborate and extend these results, documenting the extent to which South Africa’s social grants reinforce developmental impacts within households in terms of nutrition, education, health, and vital services: see Samson et. al. (2004) for the latest study and a review of previous studies.

The effect of social security on labour markets likewise improves the poverty reducing impact. While economic theory suggests that social grants may undermine labour force participation, by reducing the opportunity cost of not working, evidence on South African social grants demonstrates otherwise. Evidence demonstrates that living in a household receiving social grants is correlated with a higher success rate in finding employment, and that individuals in households receiving social grants have increased both their labour force participation and employment rates faster than those who live in households that do not receive social grants (Samson et al. 2004, Posel et al. 2004). This is most likely because social grants provide potential labour market participants with the resources and economic security necessary to invest in high-risk/high-reward job search, while also improving the likelihood of finding employment.

Factors contributing to success

Political commitment
President Thabo Mbeki’s unequivocal commitment sent a clear message to the bureaucracy that social grants provided the central pillar for the poverty eradication strategy. In the 2002 State-of-the-Nation Address, he announced a government-led campaign to “register all who are eligible for the child grant”, and in 2003 reinforced his support for the ongoing effort by publicly thanking all those “who had rolled up their sleeves to lend a hand in the national effort to build a better life for all South Africans”, citing first “the campaign to register people for social grants”. The system has also benefited from a Social Development Minister, Dr. Zola Skwiyaya, who has effectively championed the effective implementation and extension of social grants within the Cabinet.

The Government has also been influenced by the Committee of Inquiry into Comprehensive Social Security (CICSS) – the so-called Taylor Com-mittee, named after its chair-person, Professor Vivienne
Taylor – which examined the shortcomings of social security in South Africa. Following the government’s acceptance of the report, the DSD extended the Child Support Grant from age seven to age fourteen, doubling its scope.

Civil society has been another important political force behind the implementation of the social security system. The Anglican Archbishop of Cape Town, Njongkulu Ndingane, has forcefully argued in favour of social assistance for all South Africans, as has the General Secretary of the labour union federation, Zwelenzima Xavi. A particularly effective non-governmental organisation – the Black Sash – maintains advice offices for the poor throughout the country, providing information and support that enables eligible individuals to access their social grants. A lawsuit co-ordinated on behalf of the poor successfully persuaded government to pay billions of rand in back payments to the poorest in the country.

International support

Strong research efforts have also contributed to the success of South Africa’s social grants. Two international researchers—Dr. Claudia Haarmann and Dr. Dirk Haarmann—provided the initial analysis that organised labour used at the 1998 Presidential Jobs Summit, which advocated social grants. The socio-economic security project of the International Labor Organisation (ILO), under the leadership of Dr. Guy Standing, provided important support to the CICSS and subsequently to civil society organisations mobilising for increasingly effective social security. Nevertheless, the design and financing of social security in South Africa has been a primarily domestic phenomenon.

Country characteristics

South Africa has one of the highest levels of measured income inequality in the world. A high degree of initial inequality creates a situation whereby those individuals in the upper end of the income distribution can afford the taxes required to pay for social grants. It is not therefore surprising that some of the most effective income transfer programmes are in countries like Brazil, Namibia and South Africa that are also characterised by some of the highest rates of measured income inequality. The South African macro-economist context has also contributed to the success of the system; in particular, the existence of substantial excess productive capacity enables the demand-increasing effects of social security to be met with an effective increase in supply with little if any inflationary impact.

Lessons learned

South Africa’s experience with social security has provided important lessons for countries concerned with eradicating poverty and reducing inequality. Research has identified social grants as effectively targeted, and as the most pro-poor item of government expenditure. Furthermore, social grants not only provide households with income, they also support second-order effects that further reduce poverty. In particular, households that receive social grants are more likely to send young children to school, provide better nutrition for children, and look for work more intensively, extensively and successfully than do workers in comparable households that do not receive social grants.

Nevertheless, there are still areas where policy-makers and analysts need to know more. Relatively little is known about the link between government social grants and the private social safety net (private remittances), and the amount by which government grants “crowd out” the private safety net. Relatively little is also known about the differential impacts of social grants, by gender and across spatial areas, or their effects on labour migration. Finally, a clearer picture of how social grants affect households, as well as the differential impacts across regions and households, could be obtained through the use of panel data analysis, as has been done in other countries.

Finally, a key obstacle in the implementation of the social security system since 1994 has been the means-test. Surveys of provincial departments responsible for the means test have identified contradictory interpretations of the test, undermining efforts to uniform delivery standards. The administrative requirements associated with the test are also generally thought to be the main barrier to greater take-up of social grants among poor households. This is particularly so in the poorest rural areas, where the poor have the least access to the official identification documents necessary to access social grants. It has also been argued that the income test discriminated against households with a large number of dependants.

In response to the problems associated with the means-test, the Taylor Committee recommended the introduction of a universal grant to all South Africans, termed the Basic Income Grant. This would be set up axiomatic at the size of the existing CSG, and introduced in a phased manner, beginning with the extension of the CSG to all children aged under 18. No means test would be required: everyone in the country, rich and poor, would receive the grant, which would therefore act like a tax rebate for upper-income recipients. The universal character of the grant would, it is argued, economise substantially on the government’s scarce administrative resources, while at the same time eliminating the econo-mic costs arising from the distortionary nature of the means-test. The scheme has been advocated widely by civil society groups, and also by the Minister for Social Development, who declared (following initial workshops organised by the Taylor committee), that “a Basic Income Grant system is one of the excellent ideas we might consider introducing”.

References and further information


