Southern Africa Labour and Development Research Unit

The Evolution and Impact of Unconditional Cash Transfers in South Africa

by
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The Evolution and Impact of Unconditional Cash Transfers in South Africa

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Introduction

At the time of the transition to democracy in 1994, the South African social security system was already notably well developed for a middle income country (Lund 1993; Van der Berg 1997; Case and Deaton 1998). This fact can be ascribed to the way in which the system developed under apartheid as a welfare state for whites which was then incrementally expanded under social and political pressure to incorporate other groups. Thus, at the advent of the new post-apartheid society some important planks for a social assistance system were in place. Since then, a set of policies have been implemented that have expanded this system substantially. Direct spending on cash transfers currently stands at 3.5 percent of GDP. This is more than twice the median spending of 1.4 percent of GDP across developing and transition economies (World Bank 2009).

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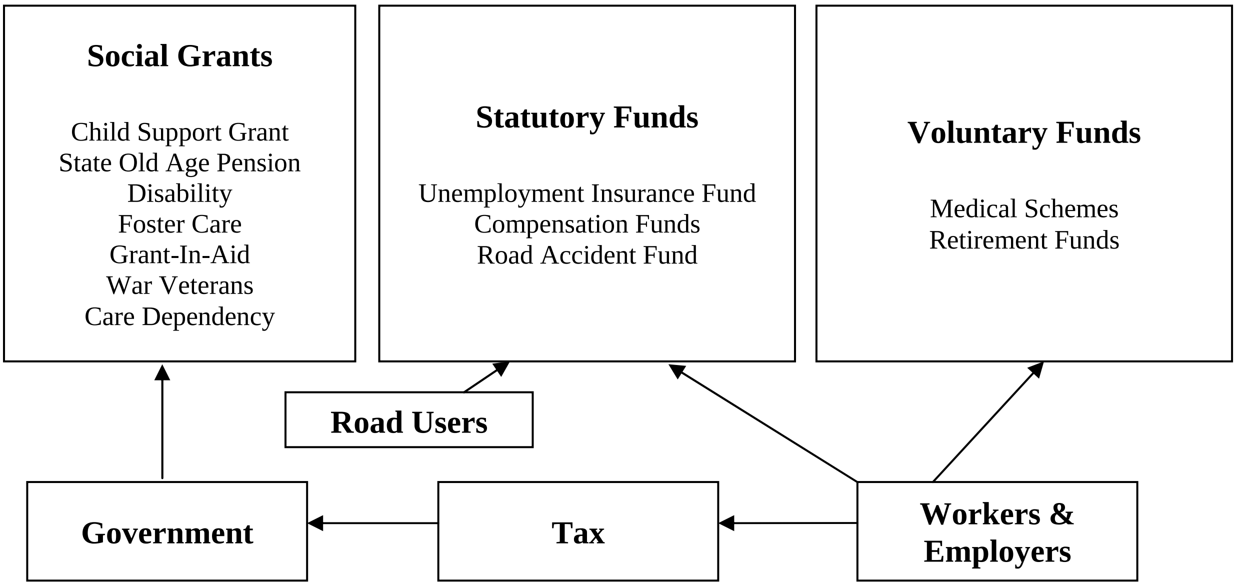
Most of these policies are implemented through unconditional cash transfers. The size, shape and design aspects of the social assistance system make South Africa an interesting case study and the objective of this paper is to provide a detailed interrogation of the South African case. Are cash transfers well-targeted and redistributive? Do we know if they enhance human capital accumulation? Are they fiscally sustainable? Have changes in social policy been evidence-based or rights based?

The paper begins by documenting the historical context for the current cash transfer programs. It goes on to look at evidence concerning the aggregate impact of these cash transfers on poverty levels. Thereafter, we review the literature that has attempted to evaluate the impact of the cash transfers on specific socio-economic outcomes and behaviours. Given this evidence, the paper concludes by looking at the feasibility and appropriateness of introducing conditionalities into what is currently an unconditional cash transfer program.

Social Security, Social Assistance and Social Insurance

There are two separate aspects of social security: the insurance concept (social insurance) and the redistribution concept (social assistance). The social insurance prong of South Africa's social security system is far smaller than the social assistance prong. However, we provide a brief review of the social insurance programs in order to ensure that our discussion is located within a complete picture of the social security system. Figure 1 below shows the basic architecture of this system.

Figure 1: Social security in South Africa



The insurance concept focuses on insuring workers against the risk of income loss and hence it increases lifetime income smoothening. Most programs based on this concept are financed out of premiums and contributions and benefits depend on contributions. In South Africa, the government is responsible for three primary social insurance mechanisms: the Unemployment Insurance Fund, the Compensation Funds and the Road Accident Fund.
The Compensation Funds provide medical care and income benefits to workers who are injured while at work or who develop occupational diseases. The Compensation Funds also pay survivor benefits to the families of workers that are fatally injured while on the job. The Road Accident Fund provides compensation for the loss of earnings and general damages to victims of road accidents caused by the negligent or wrongful driving of another motor vehicle. We do not consider these Funds further as they provide very specific risk benefits that are not directly related to poverty alleviation.

For the purposes of this paper, the Unemployment Insurance Fund (UIF) is of much greater significance. All private-sector formal-sector workers and their employers must contribute a levy of 1 per cent of salary to the UIF. The UIF pays benefits to contributors in cases of unemployment, illness, maternity or adoption of a child and pays benefits to the worker's dependants if the worker dies in service. It is estimated that in 2009 approximately 8 million workers (and their employers) contributed to the Fund but only 10 percent of the 4.1 million unemployed received any unemployment benefits[2] (Leibbrandt and others 2010). Part of the explanation for this large gap between the number of unemployed and the number of people with claims on the Fund lies in the fact that more than half of the unemployed report that they have never worked (Statistics SA 2008) and thus have not made contributions to the UIF. Of those that have worked before, almost half have been unemployed for more than a year and would have exhausted their benefits if they were ever eligible for them. Thus, while the UIF clearly has an important role to play in providing replacement income to the short-term unemployed with work experience, the vast majority of the unemployed fall outside of this system.

"Redistribution" programs, on the other hand, do not focus on workers alone and the key element is poverty relief. In South Africa, the term "social assistance grants" refers to non-contributory and income-tested benefits provided by the state to vulnerable groups such as the disabled, the elderly and children in poor households. Benefits are financed out of general tax revenues.

The major grant types in South Africa consist of the State Old Age Pension (for income-eligible persons over the age of 60), the Disability Grant (for income-eligible prime age adults that are temporarily or permanently unable to work because of poor heath or disability), the Child Support Grant (currently for children under 16, but being phased in up to age 18) that are residing with low-income caregivers and the Foster Care Grant (for children that have been placed with a foster parent by order of the court). By April 2010, 14 million people (out of a population of 49 million) were benefiting from social assistance grants. Of these, 2.5 million were receiving old age pensions, 1.3 million were receiving disability grants, 9.4 million children were benefiting from child support grants and 570 000 children were benefiting from foster care grants.

The rest of the paper focuses on these social grants rather than the UIF or other aspects of South Africa's social insurance system. Fiscally, these grants are completely dominant. In the

[2] Since the maximum benefit period is 238 days, this implies that less than 10 per cent of the unemployed are receiving unemployment benefits at any given time.

2009/10 fiscal year, the UIF paid out benefits amounting to R8.2 billion (PPP$1.7 billion) which is less than one-tenth of the amount spent on cash transfers in the same year. As UIF is the major prong of the social security system that is directed at vulnerable sections of the working age population, the system as a whole is heavily skewed towards income support for the young, the elderly and the disabled with little direct support to the unemployed. We return to this point in our conclusion. The next section provides the historical context which gave rise to this broad coverage of the young and the elderly while providing little direct support to prime age adults.

How the System Developed

Non-contributory social pensions were instituted in 1928 for Whites and Coloureds[3] who were not covered by occupational retirement insurance. Pensions were subject to age criteria and a means test to ensure that only the poor were targeted. The proportion of the white population that was dependent on social pensions remained relatively small despite an increasingly liberal means test, as occupational retirement insurance covered the majority of the white population. In 1943, take-up rates amongst the elderly were 40 per cent for Whites and 56 per cent for Coloureds (van der Berg 1997). By that year, only 4 per cent of all social assistance spending was on Africans and this consisted of targeted relief and pensions for the blind (van der Berg 1997).

In 1944 the Smuts government extended social old-age pensions to Africans, though benefit levels were less than one tenth of those for Whites. By 1958 (a decade into the apartheid era), Africans made up 60 per cent of the 347 000 social old-age pensioners, although they received only 19 per cent of all old-age pension spending (van der Berg 1997).

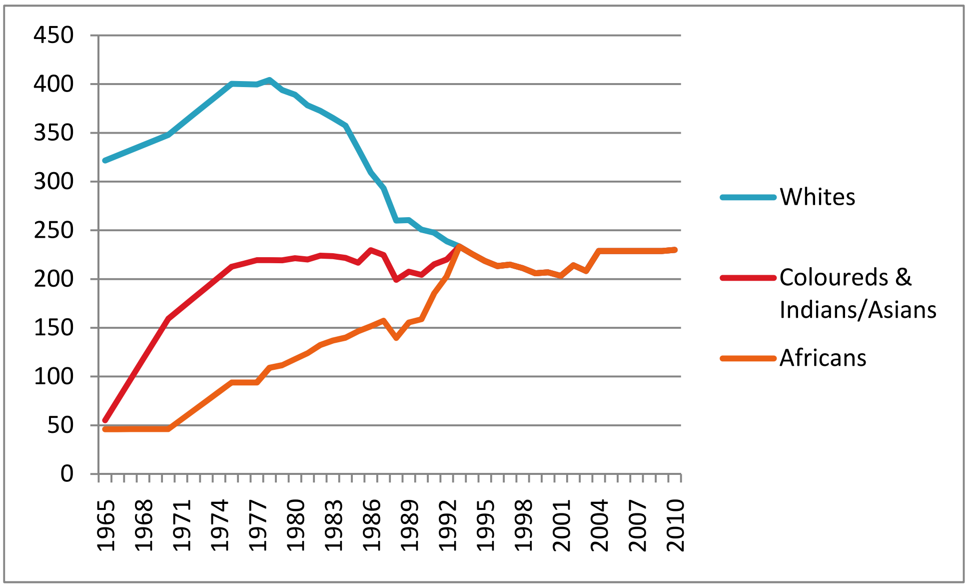
The 1970s and 80s were a period in which the apartheid government worked hard to give the “independent homelands” political legitimacy. Ironically, a major impetus for what Kruger (1992) describes as the “deracialisation” of social assistance came from attempts to

[3] South Africa under apartheid used race as a primary classification of the population into African, Coloured, Indian and White groups. Statistics continue to be collected using these classifications. The term “black” is used to signify African, Coloured and Indian people, in the context where black signifies all previously disenfranchised groups.

bolster the homeland system of racial separation. This led to a rapid increase in the funds flowing to the homelands for old age pensions. The coverage of the African elderly population increased steadily and by 1993 there were almost twice as many African pensioners inside the homelands as outside (van der Berg 1997).

In the late 1970s the principle of moving to parity in social spending levels was reluctantly accepted (van der Berg 1997). From that time onwards, fiscal expenditures on social assistance rose rapidly in an attempt to incorporate all race groups into the system and to provide similar levels of benefits. Spending on social old-age pensions rose from 0.6 per cent of GDP in 1970 to 1,8 per cent of GDP by 1993 (van der Berg 1997). Fiscal constraints precluded increasing the benefits for all race groups to those previously enjoyed by white pensioners and white benefits were eroded while African benefits were rapidly increased. As shown in Figure 2, African pension benefits rose five-fold in real terms between 1970 and 1993 while White pension benefits fell by a third.

Figure 2 Monthly value of pension benefits, by race, 1960-2010 (constant 2010 PPP$ prices)



Source: nominal data from 1960 to 1994 kindly provided by Servaas van der Berg (personal communication); data from 1995 onwards (Republic of South Africa, various years). Data deflated to 2010 prices using headline CPI and a PPP$ exchange rate of 4.67 in 2010.

The 1992 Social Assistance Act finally did away with all discriminatory provisions. Thus the social pensions and grants which were set up to protect the white population gradually expanded their eligibility rules to include all South Africans. “This [made] it... an unusually comprehensive system compared with that found in other developing countries” (Lund 1993).

Figure 2 shows that the real value of the pension declined somewhat through the late 1990s but then recovered from 2004 onwards to retain the same real levels as it offered at the start of the post-apartheid period. This grant, inherited from the apartheid era, remained the core component around which the other components of the post-apartheid social grants system were added or expanded.

One of the components that has expanded dramatically is the disability grant. This is the only grant intended for working age adults. It goes to disabled and chronically ill persons over the age of eighteen but below the age at which they would be eligible for the old age pension. The means test is the same as for the old age pension. The main criterion is that the person should be disabled to the extent that they are unable to support themselves. Permanent grants are awarded to those who are permanently disabled. Temporary grants are awarded for a shorter period, for example six months, to those who are expected to regain the ability to support themselves. Numbers for the disability grant increased significantly in the late 1990s but have levelled off in the last decade. Today, about 6 per cent of working age adults receive a disability grant each month.

Thus, improved coverage and parity in benefits occurred in the case of the old age pension and the disability grant. However, in the case of child grants the incoming post-apartheid government had to confront a highly inequitable inheritance. At the time of the political transition in 1994, little was being spent on children and expenditure was highly unequal by race. At that time, three grants were directed at children. A Foster Care Grant was available to children that had been placed with foster parents through a court order. A care dependency grant (CDG) was given to caregivers of children who were severely disabled to the extent that they needed full-time care. Finally, there was a State Maintenance Grant. We deal with this latter grant first as, fiscally, this is by far the most important of the three and its post-apartheid evolution holds important lessons.

The State Maintenance Grant was intended for a parent or guardian living with a child under eighteen years of age if the applicant was unmarried, widowed or separated; had been deserted by their spouse for more than six months; had a spouse who received a social grant or a had a spouse who was in prison, a drug treatment centre or similar institution for more than six months. Applicants had to prove that they had made efforts to apply for private maintenance from the other parent but had been unsuccessful in doing so. There were limitations not only on non-parents' receipt of the grant, but also on eligibility in respect of children born outside of marriage. As a result of significant differences in both rules and how the rules were applied, very few African children and their caregivers received the grant. In 1993, the last year for which racially disaggregated welfare spending data is available, only 0.2% of African children were in receipt of maintenance grants, while 1.4% of white children, 4.0% of Indian children and 5.0% of coloured children received this form of grant (Lund 2008).

The new ANC government quickly recognised that providing equal access to the State Maintenance Grant would have large fiscal implications. Simulations based on household survey data suggested that there would be a more than twenty-fold increase in expenditures if all caregivers became aware of their rights (Haarman and Haarman 1996). To be fair to the government of the day, the fiscal implications were not their only consideration. The State Maintenance Grant was also deemed to be inappropriate for the South African context, with its underlying basis that the only children in need were those living with single mothers. There were clearly many children in need who lived with both or neither of their parents. As Simkins and Dlamini (1992) put it at the time, "transfer payments in support of children have traditionally assumed a nuclear family context, whereas this is by no means the only basis of social organization."

The government moved swiftly to institute reform. In December 1995, the Lund Committee was established in order to evaluate the existing system of state support and to explore new alternative policy options targeting children and families. The Lund Committee recommended a new strategy which included a child-linked grant with a lower monetary value than that of the State Maintenance Grant, but targeted at a much wider group of beneficiaries.

The Child Support Grant (CSG) was introduced in April 1998, at a level of R100 (PPP$37) per month for each eligible child younger than seven years of age. The money was to be paid to the primary care giver of the child. Applicants for the grant were required to pass a means test (based on household income), produce certain documents, and demonstrate efforts to secure funds from other sources. The strict nature of the requirements prevented many genuine caregivers of poor children from applying for the grant. A year later, only 21 997 children had been signed up. In response to the low take-up rate, the government altered the means test from a household based measure to one which considered only the income of the primary caregiver plus that of his/her spouse (net of other social assistance grants).

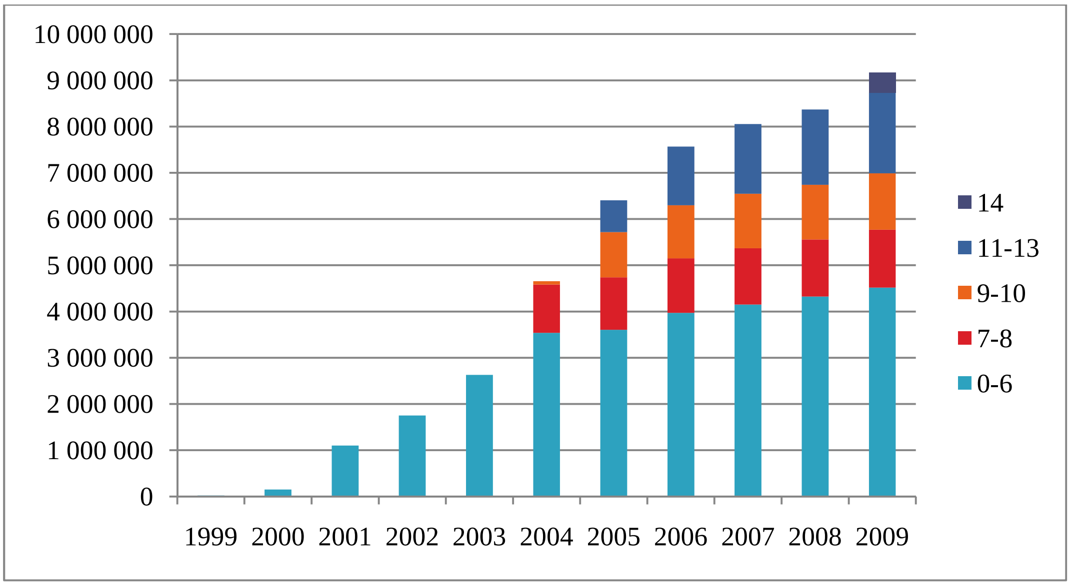
When the CSG was introduced, it included several conditionalities. Applicants were initially expected to participate in "development programs" and to have proof that the children for whom they were applying were immunised. The requirement in respect of development programs was dropped after it became obvious that such programs simply did not exist in many areas. The requirement in respect of immunisation was dropped out of recognition that it often discriminated against children who were already disadvantaged in terms of access to services.

The introduction of the Child Support Grant in 1998 provides a good example of how a program can be improved if it is found to be working ineffectively. Take-up of the CSG was very low in the first 3 years of the program. Surveys of provincial social development offices identified that take-up was being severely undermined by contradictory interpretations of the means tests, and conditionalities. Despite the changes to the law, some welfare offices still required single mothers to provide proof that they had tried to obtain private maintenance from the father of the child or were actively seeking work (Samson, van Niekerk, and McQuene 2006). As shown in Figure 3, by 2000 (two years into the program) only 150 000 children were receiving their entitlement.

In 2000 the South African Cabinet appointed a Committee of Inquiry into Comprehensive Social Security (the Taylor Committee), which examined the shortcomings of the existing system. Under the leadership of Viviene Taylor, the Committee recommended the introduction of a universal grant to all South Africans (a Basic Income Grant), beginning with the extension of the child support grant to all children. Following the submission of the report, the Department of Social Development extended the grant from age seven to age 14, doubling its scope. In his January 2002 State-of-the-Nation Address, President Mbeki announced a government-led campaign to "register all who are eligible for the child grant" (Samson, van Niekerk, and McQuene 2006). The President's strong commitment sent a clear message to the bureaucracy that social grants provided the central pillar for the poverty eradication strategy. By April 2003, 2.6 million children had been signed up for the grant and take-up continued to escalate.

Since that time, this grant has been further expanded. Older age groups have been gradually included. As from this year (2010), all (income eligible) children born after 1996 will receive the CSG until they turn eighteen. The means test has also been relaxed. In October 2008, the means test was increased to ten times the value of the grant for single caregivers (and double that for married caregivers). Up until that time the means test had been fixed at the same nominal level of R800 in urban areas and R1100 in rural areas for ten years. In the most extreme situation, this meant that the means test for a married caregiver in an urban area changed from an income ceiling of R800 (PPP$183) per month to R4600 (PPP$1053). Estimates based on survey data suggest that this change in the means test should have brought an additional 1.5 million children into the net (Leibbrandt and others 2010).

Figure 3: Number of children receiving the Child Support Grant, by year and age group



Source: South African Social Security Agency, special request

Let us return briefly to the two other child grants which have been in existence since before the CSG was established. Both have seen marked increases in take-up over recent years. This can be partly attributed to an increase in general awareness of grants, but is also related to the HIV/AIDS pandemic as both grants are used in some cases to provide for children affected or infected by AIDS.

The foster child grant (FCG) is paid to those who have gone through a court process to become registered as foster parents of the child. The grant is intended for children up to the age of 18 years "in need of care" and who are not receiving such care from their biological parents. This includes children who are abused as well as children in trouble with the law. The grant is not primarily intended to deal with poverty, and thus has no means test except if the child has independent income. Because the grant value is almost three times larger than the CSG, there is a clear incentive to caregivers to choose the FCG over the CSG if they have the opportunity to do so. The significant difference between the two amounts is a legacy of the haphazard way in which the grant system came into being. The Lund Committee was aware of this problem when it deliberated, but could not propose a higher amount for the CSG if it was to keep within the budget limit in its terms of reference and also did not want to recommend lowering the value of Foster Care Grant.

The care dependency grant (CDG) is given to caregivers of children who are severely disabled to the extent that they need full-time care. If such care was not available in the home, they would need to be institutionalised. The grant is available for children from one to 18 years.

All in all then, over the post-apartheid period social grants policy evolved in a way that continued and modified some inherited grants (the old age pension, the disability grant and the foster care grant), removed the state maintenance grant and replaced it with the child support grant. Table 1 provides a contemporary snapshot by showing the current value of the various cash transfer payments. The Old Age Pension and the Disability Grant are regarded as quite generous, equating to 1.75 times the average per capita household income. Another way to benchmark the amount is to consider the amount relative to the minimum wage. In South Africa minimum wages differ according to sector. In 2010, one of the lowest wage determinations was for domestic workers in non-metropolitan areas: at R1192 per month, this was only about 10 per cent more than the pension or disability benefit. The Child Support Grant is much smaller than the adult grants or the Foster Care Grant.

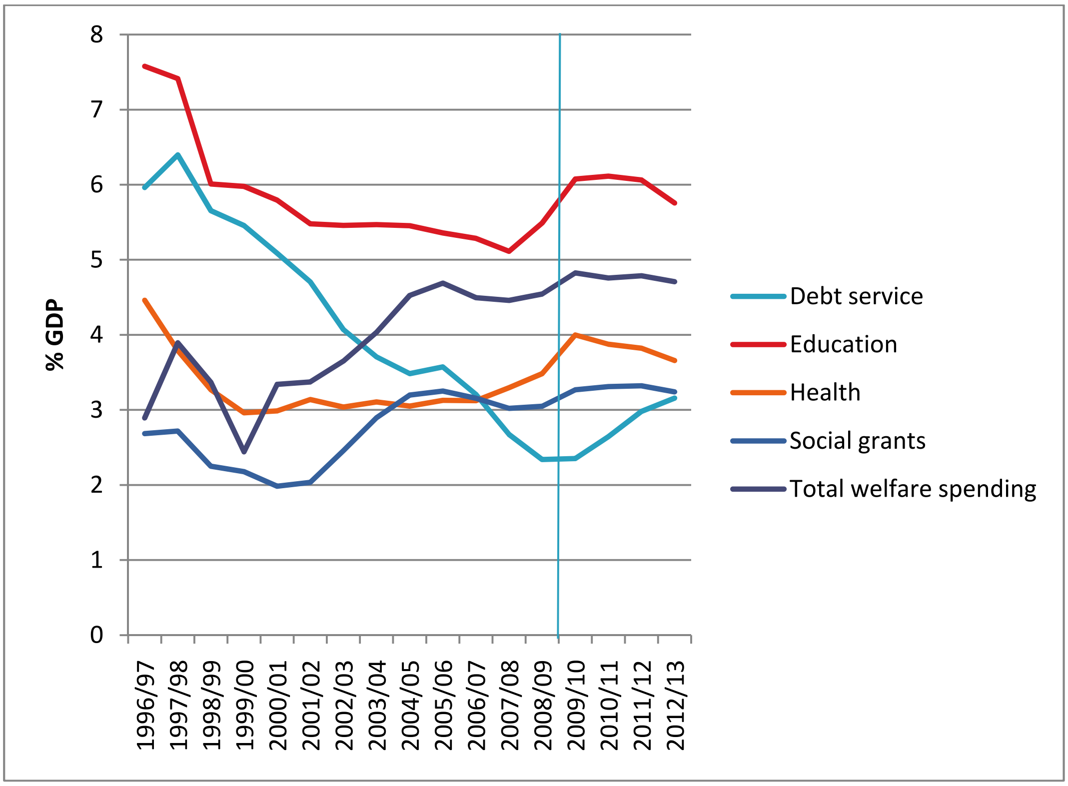
Table 1 Value of the grants in 2010

Grant type	2010 value in Rands (and PPP$) per month	Grant value as percentage of median monthly per capita income*
Old Age Pension	R1080 (PPP$230)	1.75
Disability Grant	R1080 (PPP$230)	1.75
Child Support Grant	R250 (PPP$53)	0.40
Foster Care Grant	R710 (PPP$150)	1.15

**Note*: per capita income is from the 2008 National Income Dynamics Study, inflated to 2010 prices using headline CPI.

Collectively the putting in place of this system of grants over the post-apartheid era amounted to a rapid increase in spending on social assistance. Figure 4 shows this. While spending on education and health have remained fairly constant in real terms, social assistance (excluding administration) now consumes 3.2% of GDP, up from 1.9% in 2000/01.

Figure 4 Social Expenditures as a percentage of GDP

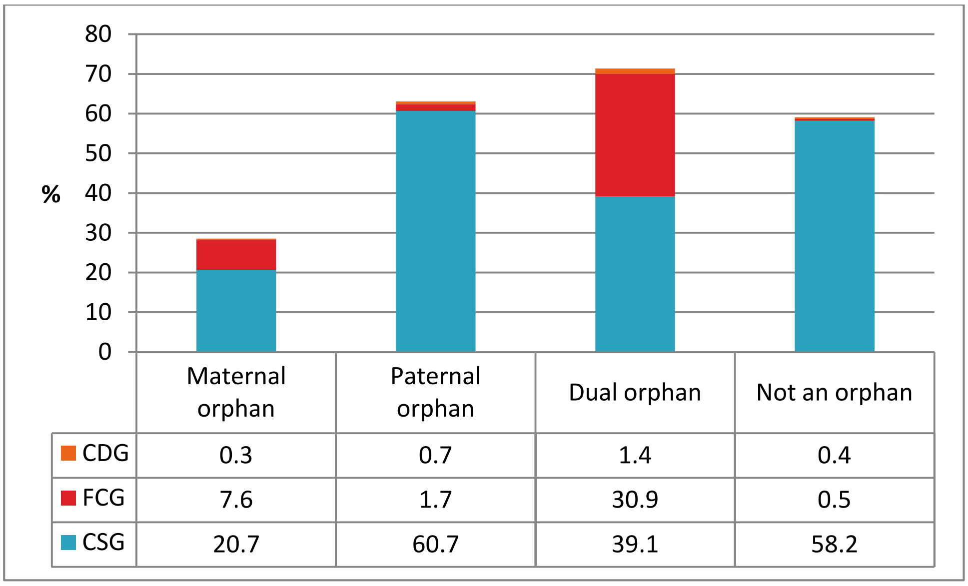


Source: South African National Treasury Annual Budget Reviews, 1999-2010 & Intergovernmental Fiscal Reviews, 1999-2000.

Coverage

The grants have an extensive reach. Simulations based on survey data suggest that about three-quarters of the elderly are income-eligible for the Old Age Pension and almost all report being in receipt of the grant. As already mentioned, about 6 per cent of the working age population receive disability grants. While 60 per cent of age eligible children receive a child grant of some form, our survey estimates suggest that 70 per cent are income-eligible for the Child Support Grant. There are a number of reasons for this. First, take-up among infants is very low partly because caregivers procrastinate and/or there is often a delay in obtaining a birth certificate for the child. Second, our simulations use the new means test which may not have been widely communicated. Third, and of greater concern, some groups seem to be outside of the reach of the grant. One of the most “at risk” segments of the child population is orphans. Figure 5 below indicates how many orphans under the age of 15 are currently receiving social assistance according to 2008 data from the National Income Dynamics Study.[4] What is most striking is the high number of paternal orphans receiving grants, particularly the Child Support Grant, and the low number of maternal orphans receiving grants. This concurs with evidence found in Case, Hosegood, and Lund (2005) that the probability of a child receiving a grant decreases when the mother is absent. The same conclusion is drawn by Woolard, Carter, and Agüero (2005) using the KwaZulu-Natal Income Dynamic Study (KIDS) data. Children living with their widowed fathers are the least likely to be receiving grants. Unsurprisingly, orphans who have lost both parents are the most likely to be receiving the Foster Care Grant. What is unexpected though is the fact that, aside from paternal orphans, orphans are less likely to be receiving the Child Support Grant than children with both parents. This may be a result of the more complex documentation required without the child’s mother as caregiver.

Figure 5: Percentage of children receiving social assistance, by vital status of parents



	Maternal orphan	Paternal orphan	Dual orphan	Not an orphan
CDG	0.3	0.7	1.4	0.4
FCG	7.6	1.7	30.9	0.5
CSG	20.7	60.7	39.1	58.2

Source: National Income Dynamics Study, 2008

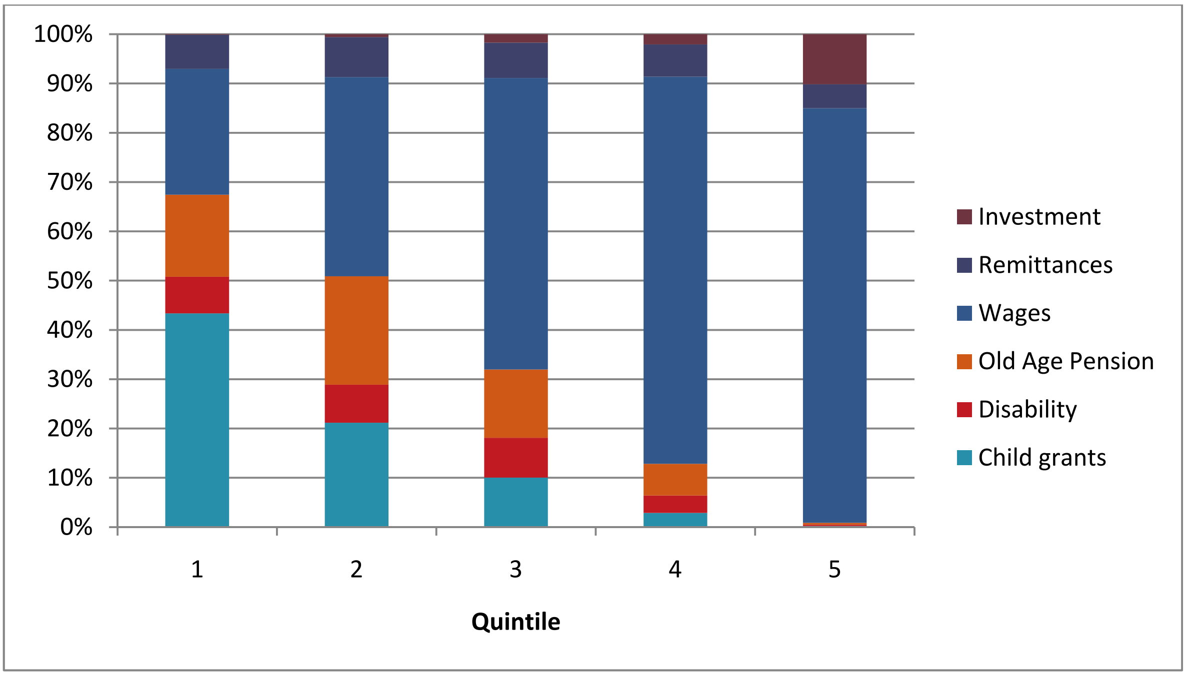
[4] Unfortunately there is no information on grant receipt in children over the age of 15.

The Impact of Cash Transfers on Household Poverty

The immediate objective of cash transfer programs is to alleviate hardship among vulnerable groups. In this part of the paper we take an aggregate look at the extent to which cash transfers in South Africa achieve this aim. Precise measurement of the impact of specific programs on poverty is a largely intractable problem because of the difficulties involved in establishing a legitimate counterfactual as a benchmark. As a result, studies tend to focus on determining whether cash transfer programs target the poor, and on comparing the adequacy of household income with and without the pension income component (Barrientos and Lloyd-Sherlock 2002). This is the approach that we follow in this section.

In Figure 6 we disaggregate household income sources by income quintile in order to highlight the role of social assistance grants in providing income support to the poorest households. It is striking that fully two-thirds of income to the bottom quintile comes from social assistance grants, with most of this income coming from child grants (the Child Support Grant, the Foster Care Grant and the Care Dependency Grant combined). As households move up the income distribution, labour market income becomes increasingly important and reliance on social assistance is commensurately reduced.

Figure 6 Sources of household income, by quintile



Source: NIDS, 2008

Table 2 shows the proportion of households reporting access to cash transfers. It is notable that in 1997 households in quintile 2 were much more likely to be getting a grant than households in quintile 1. The reason for this is straightforward: the magnitude of the Old Age Pension and the Disability Grant were large enough to lift all but the biggest households out of the first quintile (Leibbrandt and others 2010). The rapid roll-out of the much smaller Child Support Grant from 2000 onwards is clearly discerned in Table 2; whereas in 1997 just under one-third of households were receiving a grant, by 2006 this proportion had risen to about one-half. Most significantly, the percentage of households in the bottom quintile with access to social assistance rose from 16 per cent to 64 per cent between 1997 and 2008.

Table 2 Percentage of households reporting any income from grants

Quintile	1997	2002	2003	2004	2005	2006	2008
1	15.9	32.0	31.7	40.2	47.7	69.4	63.7
2	54.0	55.8	50.9	71.2	73.3	69.9	73.7
3	46.7	51.6	53.2	67.1	69.1	69.4	66.8
4	33.8	33.2	34.8	35.8	40.1	45.4	47.6
5	14.0	11.3	7.9	8.8	10.0	12.0	12.4
Total	32.9	36.8	32.0	38.6	45.5	55.2	52.2

Source: Own calculations using 1997 October Household Survey and 2002, 2003, 2004, 2005 and 2006 General Household Surveys, Statistics South Africa; 2008 National Income Dynamics Survey.

Table 3 shows the percentage of households in each income quintile that received income from specific social assistance grants in 2008. More than half of households in the bottom quintile receive some income from the Child Support Grant, in comparison with only 9% of households in the top quintile. In keeping with the earlier finding that the size of the Old Age Pension is sufficient to lift many households out of the poorest quintile, households receiving the Old Age Pension are more likely to be in the second and third quintile rather than the very poorest quintile.

Table 3 Percentage of households reporting any income from social grants, by quintile

Quintile	% reporting any income from Child Grants	% reporting any income from Disability Grant	% reporting any income from Old Age Pension
1	55.8%	5.7%	9.8%
2	57.9%	10.9%	27.1%
3	45.4%	14.7%	23.5%
4	26.5%	9.9%	17.7%
5	9.0%	2.8%	5.0%
All	33.6%	8.2%	15.3%

Source: National Income Dynamics Study, 2008

In table 4 we present a "morning after" simulation of the increase in poverty if the grants were abruptly discontinued overnight and households did not have the opportunity to dissolve and reconstitute. This is obviously a highly unrealistic counterfactual since many households would not be sustainable economic units in the absence of grants. Nevertheless, such simulations give some sense of the significance of grants in poverty alleviation. It can be seen from the table that government grant income does not change the headcount measure (P_0) substantially. However, when the depth (P_1) and severity (P_2) of poverty measures are used, then poverty is seen to improve markedly due to government grants. Moreover, this effect has become stronger between 1993 and 2008 and especially between 2000 and 2008. This time period accords with the substantial roll-out of the child support grant.

Table 4 Poverty with and without government grants

Poverty when income includes government grants						
Year	Poverty line=PPP$223 per capita per month			Poverty line=PPP$121 per capita per month		
	P_0	P_1	P_2	P_0	P_1	P_2
1993	0.72	0.47	0.36	0.56	0.32	0.22
2000	0.71	0.45	0.33	0.54	0.29	0.19
2008	0.70	0.44	0.32	0.54	0.28	0.18
Poverty when income excludes government grants						
Year	Poverty line=PPP$223 per capita per month			Poverty line=PPP$121 per capita per month		
	P_0	P_1	P_2	P_0	P_1	P_2
1993	0.73	0.53	0.43	0.60	0.4	0.32
2000	0.72	0.5	0.4	0.57	0.37	0.29
2008	0.71	0.54	0.46	0.60	0.44	0.37

Source: Own calculations using data from Project for Statistics on Living Standards and Development (SALDRU, 1993), Income and Expenditure Survey (Stats SA, 2000) and National Income Dynamics Study (SALDRU, 2008)

Table 4 suggests that, without government grants, poverty would have worsened over time rather than improved. A major reason for this is the fact that the post-apartheid labour market has operated in such a way as to leave an increasing number of South African households outside of its ambit. Households can be linked directly to the labour market through employment and earnings of residents or indirectly through remittance income from migrant workers and other remitters. Table 5 shows that the share of households with no direct or indirect link to the labour market has risen sharply, from 30% in 1997 to 42% in 2008. The rapid expansion of the grants has coincided with these substantial changes in the number of households with no link to the labour market. Thus, there is little doubt that the post-apartheid record on poverty alleviation would have been much more dismal than it has been without the expansion of the social security system.

Table 5 Household labour market attachment and access to grants of the unemployed (%)

	1997	2006	2008
No-one employed, no remittances, no social grants	11.8	13.2	16.9
No-one employed, no remittances, social grants	17.5	24.7	24.9
No-one employed, remittances	21.3	11.2	12.9
1 employed	35.8	39.4	36.6
2 or more employed	13.5	11.5	9.4
Total	100.0	100.0	100.0

Source: 1997 October Household Survey; September 2006 Labour Force Survey, Statistics South Africa and 2008 NIDS data.
Note: This table is only done for selected years owing to the absence of data on either remittances or labour market status in other surveys

Impact of the Grants in the Longer Run

The inability of poorer households to invest in the productive capacity of their members, especially the education and health of children, has implications for the persistence of poverty. Cash transfer programs provide a predictable and reliable source of income which can have significant effects upon the capacity of households to invest in human and physical capital, and thus break the intergenerational transmission of poverty. In this section, we review the existing evidence on the impact on cash transfers on education and health. We also review the substantial literature on the impact of the grants on labour supply. Most of the existing literature has focused on the Old Age Pension which has been in place much longer that the Child Support Grant. We focus here on papers that take an econometric approach. For a broader review of both quantitative and qualitative studies, see Budlender and Woolard (2006).

Case and Deaton (1998), using data from the 1993 Project for the Study of Living Standards and Development (PSLSD), found that pension income is spent like other income, i.e. “a

Rand is a Rand". They also found that because of the very high prevalence of three-generation and skip-generation households amongst South Africa's African population, young children were found disproportionately in households receiving pensions and pension money received by women was more likely to be spent in ways that enhance child outcomes (such as on food and school fees).

Also using the 1993 PSLSD data and focusing on children under five, Duflo (2000) examines the extent to which allocating resources to women rather than to men affects the distributional outcome and, in particular, investments in children. More than a quarter of African children of this age group are found to live in the same household as an Old Age Pension recipient. The impact on children is measured through weight for height and height for age. The presence of a woman eligible for the Old Age Pension results in an increase in girls' (but not boys') weight-for-height and height-for-age z-scores, She finds no effect on either boys' or girls' nutritional outcomes when pensions are received by men. The paper is important for two reasons. Firstly, she presents robust evidence that children are benefiting from a cash transfer program intended for a completely different target group. Secondly, because these effects differ by the gender of the person who receives the transfer, the paper rejects the unitary model of the household in which all household income is pooled and then allocated according to a joint household utility function.

Edmonds, Mammen, and Miller (2005) use a non-parametric regression discontinuity design to examine changes in household composition associated with the Old Age Pension. They find that households in which a person reaches pension age experience a decrease in women aged 30 to 39 and an increase in young children (under five) and women aged 18 to 23. Using data from a 1999 child labour survey, Edmonds (2006) identifies changes in schooling and child labour when a household member becomes pension eligible. School attendance and completed schooling rise and market work declines. The effects are limited to pension eligible men, a result that Edmonds attributes to greater liquidity constraints for men. Because Edmonds examines children above age five his results are not necessarily inconsistent with Duflo's results for younger children.

Case and Ardington (2008) investigated whether having a pensioner in the household reduces the negative impact of maternal orphanhood on schooling. They find that having a female pensioner mitigates the impact of orphanhood in respect of enrolment and progression, but does not do so in respect of school-related expenses. Having a male pensioner in the household has a negative effect on progression, and an insignificant effect on enrolment and school-related expenditure.

Hamoudi and Thomas (2005) examined the impact of the pension on educational attainment of children using the 1998 national Demographic and Health Survey. They look at children aged 6 to 19, and estimate total years of schooling based on current or last grade. Overall, the authors find that pension income has a greater beneficial impact on girls' education than boys' education. This accords with results of earlier analyses (such as Duflo 2000), but adds the nuance that for older children (aged 13 to 19), a male pension tends to increase education among boys and decrease education among girls, whereas a female pension has little effect on either. Among younger children (aged 6 to 12), female pension has a positive effect on girls and no effect on boys. Further analysis shows that overall boys aged 6 to 15 who are co-resident with their mothers are further ahead in school than those who are not. Boys living in pensioner households, however, are likely to have gone less far in education if they are co-resident with mothers. The same pattern is found among girls, although not as marked.

Case (2001) investigated the impact of Old Age Pensions on health status. Her analysis was based on a small sample of households in the Langeberg health district of the Western Cape. The study found that Old Age Pension income is pooled in 84 per cent of households. Where income was not pooled, beneficial health impacts are experienced only by the pensioner. Where income was pooled, children were taller, suggesting a beneficial impact beyond the pensioner. The study suggested that this impact works partly through improved sanitation, partly through improved nutritional status, and partly through reduction in psychosocial stress.

All in all, there is clear evidence of the positive impact of the Old Age Pension on human capital outcomes. The evidence on the labour market effects of grant receipt is more mixed. Early research on the Old Age Pension suggested that it had substantial negative effects on adult labour supply. Bertrand, Mullainathan, and Miller (2003) found a reduction in working hours of members of working age when another member of the household reaches pension age, suggesting that pension receipt represents an income shock on the household level. However, the reduction in hours is highest when the pensioner is a woman, evidence that is complementary to Duflo's in terms of a rejection of perfect household income pooling. Posel, Fairburn, and Lund (2006) followed the same methodology but expanded the definition of the household to include non-resident members. They found that African women were significantly more likely to be migrant workers when they were members of a household in receipt of a pension, especially when the pension recipient is female. The authors hypothesised that the reasons for the relationship between pension income and migration could be that the pension provides the means to migrate, and/or that the pension provides the means for the older person to care for the children of the migrant, freeing the migrant to seek work.

The work of Ardington, Case, and Hosegood (2009) also disputed the earlier findings of Bertrand, Mullainathan, and Miller (2003). This study made use of data on non-resident (migrant) household members and panel data which allowed the authors to control for time-invariant differences between pension recipients and non-recipients. Their results suggested that the Old Age Pension had a positive effect on adult labour supply - the probability that prime-age adults are employed is approximately 3 percentage points higher in households with at least one pension recipient. Like Posel, Fairburn, and Lund (2006) they argued that the Old Age Pension relieved financial and child care constraints, which were short-run impediments to migrating.

More recently, Ranchhod (2010) has used panel data from the national Labour Force Survey to look at the impact of the cessation of the pension (either due to a pensioner dying or out-migrating) on household formation and labour supply. For people who maintained their residency status across waves, he found large and statistically significant increases in employment rates for middle aged females and males (9.3 and 8.1 percentage points in each case), as well as for older adult females and males (10.3 percentage points in each case). These findings are consistent with those of Bertrand, Mullainathan, and Miller (2003) and not necessarily inconsistent with the findings of Posel, Fairburn, and Lund (2006) and Ardington, Case and Hosegood (2009) who broadened their definition of household membership to include migrants.

In one of the few analyses of the Child Support Grant, Agüero, Carter, and Woolard (2007) used data from the KwaZulu-Natal Income Dynamics Study (KIDS) to test whether receipt of the CSG during the first 36 months of a child's life had an impact on child nutrition as measured by height-for-age. The paper conditioned on a measure for eagerness of the mother in an attempt to capture the true causal effect of the CSG. The authors found that children who received the CSG during the first three years of their life (i.e. during the so-called "nutritional window" during which adult height is largely determined) had significantly higher height-for-age than those who did not.

In summary, we do not know a great deal with a high degree of certainty. It seems clear that access to either a pension or a child grant can improve the health status of beneficiaries and other household members, by improving their nutrition and access to health care. Second, there is some evidence that older people, particularly women, are inclined to allocate this income in ways which directly benefit more vulnerable household members, such as young children. Evidence about the impact of cash transfers on the labour supply of beneficiaries and their household members is mixed, however. Basic economic theory suggests that cash transfers are an injection of non-labour income into the households and, as such, should therefore have an income effect on direct and indirect beneficiaries in the household. Thus these transfers may well have the effect of reducing incentives for work. The empirical analysis in two of the papers that we reviewed supported this theory. On the other hand, a cash transfer might assist in overcoming a liquidity constraint if migrant labourers initially need to draw resources from the original sending household. There also seems to be some empirical support for this theory.

To Condition or Not to Condition?

The South African behavioural evidence is particularly interesting because it shows behavioural responses from cash transfers that are means tested but unconditional. Behavioural responses are therefore seen to be outcomes of a pure income effect. This is unusual in the contemporary international policy milieu and has stimulated an active discussion of whether behavioural responses to grants could have been more effectively shaped by imposing conditionalities on recipients. In this section we draw out some of the implications of the implementation of the Child Support Grant for this issue.

As discussed earlier, when the Child Support Grant was first introduced, it was intended that the grant would be a conditional cash transfer. Applicants needed to provide proof that the child had been immunized, that they were participating in development programs, that they had not refused employment without good reason, and that they had attempted to secure private maintenance for the child from the other parent if they were separated or divorced. The requirement in respect of development programs was dropped after it became obvious that such programs simply did not exist in many areas. The requirement in respect of immunisation was dropped out of recognition that it often discriminated against children who were already disadvantaged in terms of access to health services. As discussed above, initial take-up of the grant was slow, in part as a result of the conditions. Once the regulations were changed and increased effort put into rolling out the grant, take-up increased rapidly.

Grants are seen as constituting an important element of the post-1994 South African government's rights-based approach, in line with the right to social security granted in the Constitution. This rights-based approach does not square easily with the imposition of conditions. In spite of this (and the early experience of the problems associated with implementing behavioural conditions) the issue of conditionalities has re-surfaced regularly in the last decade. Most recently, the extension of the child grant to children up until the time they turn eighteen, coincided with renewed efforts by government to impose behavioural conditions.

Having decided that it would be good to impose conditions, the government gave thought to what might be appropriate conditions. In Budlender's (2008) interviews with high ranking government officials, several noted that reproductive health issues and knowledge are especially important for young adults, but none had workable suggestions as to what conditions might be imposed related to these. It became clear that if there were to be conditions attached to a CSG for children aged 15-17 years, they should focus on education (Budlender, 2008).

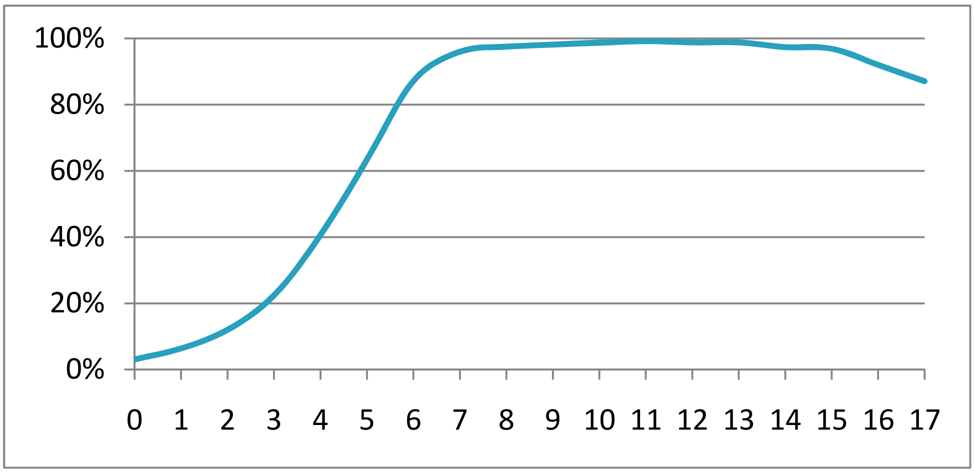
The question then arose as to whether an education condition should relate to enrolment, attendance or performance. One argument against enrolment is that this is a once-off measure, at the beginning of the year, and that enrolment without regular attendance brings little benefit. The argument for enrolment is that it is easy to measure. Almost all schools are now covered by a centralised information system that can provide individual information as to whether an individual child is enrolled and, if so, at which school and in which grade. Similar comprehensive information systems in respect of attendance and performance will not be in place in the foreseeable future.

As of 1 January 2010, caregivers of child support grant beneficiaries "need to ensure that children for whom they are in receipt of a grant are enrolled and attending school. Regular proof of school enrolment needs to be submitted to the Department of Social Development, along with reports from the school. Upon receipt of any information regarding a child not attending school the Department of Social Development will send a social worker to investigate and put in place steps to ensure that the child attends school. While punitive measures such as stopping the grant are not envisaged, these provisions will allow government to improve school attendance and provide the necessary support to households where needed" (Republic of South Africa, 2010).

This is a very soft conditionality since the grant will not be stopped if a child does not attend school. In addition, it seems that "regular proof of enrolment" will in effect be an annual submission of a school report card, meaning that the intervention of a social worker may come too late to be effective. Also, given the shortage of social workers and the demands on them, it seems unlikely that monitoring and intervention will be a priority area for the Department of Social Development.

Nevertheless, even a soft conditionality may have some effect if caregivers believe that they are required to send their children to school in order to get the grant. However, it is unclear that there is really a demand-side problem with school enrolment. As shown in Figure 7, enrolment in school is already very high.

Figure 7 School enrolment, ages 0-17



Source: General Household Survey, 2009.

School attendance is generally perceived to be a much bigger problem than school enrolment (Budlender 2008). Conditioning on school attendance would entail a significant administrative burden on the Department of Education and would require intersectoral co-ordination between the Departments of Social Development and the Department of Education. It is unclear that the administrative capacity exists to implement a proper monitoring and reporting system. It would also be much more costly to implement than a condition related to enrolment.

Conclusion

In some respects, South Africa is an exceptional case for a developing country. The most important of these for this paper is the extent of its social assistance provision, with cash transfers going to more than a quarter of the population. The second is that it is a middle-income country with almost no public debt and thus the cash transfer programs are financed from tax revenue rather than from donor funding or borrowing. The third is the extreme inequality in the country. The South Africa government is committed to reducing inequality and poverty, and redistribution via progressive taxes and pro-poor cash transfers is seen to be an efficient way to accomplish this.

In this paper we have shown that the reduction in poverty over the post-apartheid period has been strongly associated with the expansion of social grants. Also, drawing on the benefit-incidence literature (van der Berg 2001 and 2009), it seems clear that the disbursement of these grants has been strongly redistributionist. Thus, at the aggregate level, there is no doubt that they have impacted favourably on poverty and inequality. That said, we have shown that these outcomes are the result of very large increases in social spending and it would have been surprising to see no aggregate effects at all. In addition, providing evidence of these effects is not the same thing as making that case that these social grants are the first best policy instruments for alleviating poverty. This requires an assessment of the grants against a set of alternative policies. We have not done this in the paper.

Rather, having provided evidence of aggregate impacts we have moved on to discuss the body of work that has assessed the impacts of the grants on key micro-outcomes such as health, education and labour supply. There is evidence that the money flowing into households through grants has been used in part to improve health and education outcomes for household members other than the direct beneficiary. Such impacts are crucial for longer-run poverty alleviation. At the same time, the evidence on the labour supply effects of grants is more mixed; with grants seeming to promote migration in search of employment but also seeming to provide some disincentive for resident, working age household members to look for work.

Thus, at the end of day a dilemma has to be confronted. There is no doubt that the social assistance system in South Africa is channelling grant income into needy South African households and that this income can and does change the behaviour of members of such households. Nonetheless, the current system which focuses on children and the elderly is something of an artefact of history, rather than a reflection of a coherently designed system. In the absence of comprehensive social insurance, prime-age adults can only benefit from social assistance grants if they are disabled or are co-resident with a child or elderly person. There are many that argue that the social grant system should be extended to focus directly on the unemployed who remain uncovered by other grants. Such arguments are strengthened by the limitations of the unemployment insurance fund that were discussed early in the paper.

However, it is important not to forget that the contemporary context is one of a massive post-2000 expansion of the cash transfer system. Further expansion in the future has to confront the issue of fiscal sustainability. Economic growth has supported the growth in the grants system and the high returns in terms of social well-being have justified this expenditure. The country confronts a tougher growth environment over the medium term and it is unlikely that the fiscal space exists for expanding cash transfers. Clearly, the over-riding goal of economic and social policy has to be the assimilation of many more of the unemployed into the labour market. It seems that a positive employment environment is the key parameter for sustainable social transformation going forward. We would therefore argue for a stronger focus on active labour market policies to complement the extensive system of cash transfers.

In sum, we are cautious about further expansion of social grants. However, we are also cautious about internal reforms to current systems. We concluded the paper by briefly looking at the possibility of imposing behavioural conditions. There are costs associated with the imposition of these conditionalities and they are likely to be high in the South African context. We argued that the desire to introduce conditionalities seems to be driven by political economy considerations, that is the belief that taxpayers may be more likely to support transfers to the poor if they are linked to efforts to overcome poverty in the long term, particularly when the efforts involve actions to improve the welfare of children. This is not helpful to the poor and, in the absence of sensible conditions that are easy and inexpensive to monitor and enforce, there seems little reason to tamper with the current system on unconditional cash transfers.

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southern africa labour and development research unit

The Southern Africa Labour and Development Research Unit (SALDRU) conducts research directed at improving the well-being of South Africa's poor. It was established in 1975. Over the next two decades the unit's research played a central role in documenting the human costs of apartheid. Key projects from this period included the Farm Labour Conference (1976), the Economics of Health Care Conference (1978), and the Second Carnegie Enquiry into Poverty and Development in South Africa (1983-86). At the urging of the African National Congress, from 1992-1994 SALDRU and the World Bank coordinated the Project for Statistics on Living Standards and Development (PSLSD). This project provide baseline data for the implementation of post-apartheid socio-economic policies through South Africa's first non-racial national sample survey.

In the post-apartheid period, SALDRU has continued to gather data and conduct research directed at informing and assessing anti-poverty policy. In line with its historical contribution, SALDRU's researchers continue to conduct research detailing changing patterns of well-being in South Africa and assessing the impact of government policy on the poor. Current research work falls into the following research themes: post-apartheid poverty; employment and migration dynamics; family support structures in an era of rapid social change; public works and public infrastructure programmes, financial strategies of the poor; common property resources and the poor. Key survey projects include the Langeberg Integrated Family Survey (1999), the Khayelitsha/Mitchell's Plain Survey (2000), the ongoing Cape Area Panel Study (2001-) and the Financial Diaries Project.

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