

pension money benefits many of the poor, pensions alone are wholly inadequate at targeting them as a group.

- Households with only of working age adults comprise 10 per cent of all households, or over 4,6 million people. The poor in these households are excluded from a social security system that protects children and pensioners.
- Most South Africans live in large households (more than six people). Since larger households tend to be poorer, a fixed grant to each household will not be efficient in targeting the poor – larger per capita benefits will accrue to wealthier households.

5.3.1.2 The impact of the current social assistance system

An assessment of the social implications of the current system indicates that:

- In the absence of social assistance transfers, 58 per cent of South African households would fall below the subsistence line of R401 per adult equivalent.
- Out of a projected 23 840 471 people in the bottom two quintiles, the study estimates that 11 840 597 individuals (50 per cent) live in households that receive no social assistance.
- Existing social security programmes reduce the average poverty gap by 23 per cent. The “poverty gap” gives an estimate of the extent of poverty, by adding, for each household, the amount by which income falls below the subsistence line.

5.3.1.3 Summary of findings

The existing social security programmes do not adequately address the problem of poverty. Half of the poor live in households that receive no social security benefits at all, and the rest remain poor in spite of the benefits they receive. Nevertheless, South Africa’s social security grants make a significant impact, reducing the average poverty gap by approximately 23 per cent at the beginning of 2001.

This relatively low percentage belies important variances. The SOAP reduces the poverty gap for pensioners by 94 per cent. Poor households that include pensioners are on average significantly less poor than households without pensioners.

“Skip generation” households (comprising child and grandparent), on average, have their

poverty gap closed by over 60 per cent. For three-generation households the poverty gap is closed by less than 50 per cent due to the burden of the working age members.

For the average poor household without a pension-eligible member, however, social security’s impact is almost negligible. For households with no pensioners, the reduction is less than 10 per cent.

Clearly, South Africa’s social safety net has a very loose weave.

Committee modelling indicates that the existing social security system, even if all benefits are distributed to everyone entitled (that is, achieve a full-take up rate), has the capacity to close only 37 per cent of the poverty gap.

Even that partial closing of the gap, however, is not evenly distributed across household types. Households containing only working-age adults have on average only 11 per cent of the poverty gap closed, while the entire poverty gap for households containing only adults in pensionable age would be closed. Households containing only children and working-age adults have an average of only 22 per cent of the poverty gap closed, while “skip generation” households have an average of 80 per cent of the poverty gap closed. Sixty point four per cent of the poverty gap for three-generation households is closed.

Most of the benefit of the existing social security system with full take-up still comes from the SOAP – but it falls to approximately 60 per cent of the per capita social assistance transfer, while the share attributable to the CSG rises to a third (from 10 per cent).

Figure 10 depicts the impact of the distribution of income if all potential beneficiaries of South Africa’s social security programmes received the full grants for which they were eligible. The graph is constructed with population on the vertical axis and relative income categories on the horizontal axis. That is, an increment along the horizontal axis represents a 10 per cent increase in income. The dotted vertical line represents the subsistence line of R401 per adult equivalent.

Figure 10 documents that *even with full take-up of all social security programmes, 21 955 935 people (over half the population) fall below the poverty line, while 20 768 683 are above.* However, even these figures may be somewhat optimistic.

Simulations done for the Committee indicate that with full take-up of existing social security benefits an estimated 843 164 people move out of poverty. However, these benefits are unlikely to be realised with the current structure of the social security system. Means tests, rigid eligibility criteria, and the high relative cost of applying for social security all contribute to low take-up rates.

In terms of the fiscal impact of this “loose weave” social safety net, at full take-up, South Africa would spend R26,5 billion on the transfer payments – R14,8 billion for the SOAP, R7,2 billion for the CSG, and R4,5 billion on the DG. This is in addition to the administration costs.

As a result, the Committee finds that from a comprehensive social protection framework the existing programme of social assistance grants is considerably high cost relative to its level of social effectiveness.

The Committee is of the view that one of the most effective means of reducing destitution and poverty is to provide some minimum support in the form of a social assistance grant.

Furthermore, the Committee recommends that any income support grant be set at a level

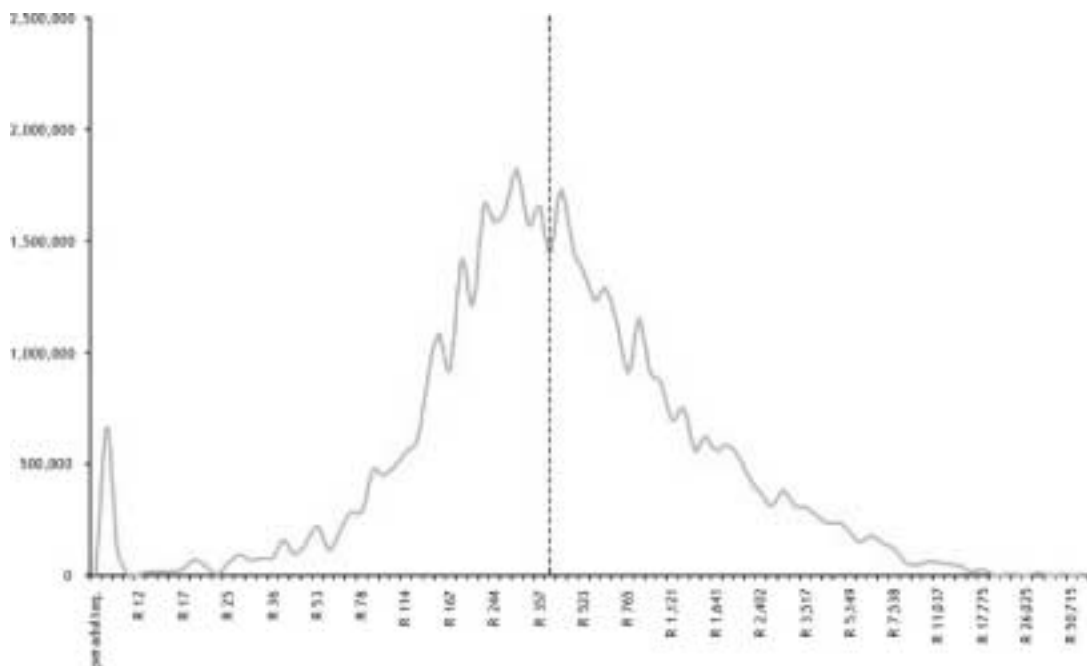
that would address destitution in the medium term and absolute poverty in the long term.

5.4 The feasibility of a Basic Income Grant for South Africa

The coverage gaps within South Africa’s social security system combined with the structurally low rate of take-up of the CSG underscore the need for comprehensive reform. The nature of structural unemployment in the face of a changing global economy is such that it marginalises unskilled workers and results in the need to expand the scope of a social safety net. Not only do children, retirees and the disabled need social protection – millions of potential workers are vulnerable to unemployment and resulting impoverishment.

This section evaluates the potential of the Basic Income Grant to address the severe poverty characterising South African society. The nature of an income transfer has important implications for its socio-economic benefits and fiscal feasibility.

Figure 10
South Africa’s distribution of income (assuming full take-up of existing social security programmes).



5.4.1 What is a Basic Income Grant?

A Basic Income Grant is provided as an entitlement and without a means test that will more readily reach the poorest population. By removing the stigma that labels the recipient as “poor”, the grant is said to bolster economic support without draining psychological resources. The Committee understood the Basic Income Grant as a social policy option, to be defined as “a general social assistance grant for all South Africans.” Further, the Committee had to determine what could be some of the concrete characteristics of this option.

In practice the grant could be calculated on a per person basis. For instance, a Basic Income Grant of R100 would mean that a single person living alone receives R100 per month. A household with six people (the average for the South African population) receives R600 a month. The working assumption in the model used to evaluate the feasibility of the Basic Income Grant is that there is no overlap between different grants. The grant is meant for people currently not receiving social assistance – those who fall through the social safety net.

A Basic Income Grant would serve as a social entitlement for all South Africans. Such an entitlement supports the right to appropriate social assistance as entrenched in the South African constitution 27(1)(c) while furthering the vision of a comprehensive social security system as identified in the White Paper for Social Welfare.

5.4.2 Will the Basic Income Grant create dependency?

The Basic Income Grant has no means test and therefore avoids many of the disincentives to work inherent in other social assistance systems. A Basic Income Grant stands in stark contrast to the targeted unemployment grant or what is known as a “dole system”, which employs conventional means tests to target the unemployed, the unemployable or the very poor.

The level at which a Basic Income Grant is set will be crucial. At the very least it should address destitution. By providing such a minimum level of income support people will be empowered to take the risks needed to break out of the poverty cycle. Rather than serving as a disincentive to engage in higher return activities, such a

minimum (and irrevocable) grant could encourage risk taking and self-reliance. Such an income grant could thus become a springboard for development.

5.4.3 Will the Basic Income Grant target the poorest?

The targeting of the poor within the context of a Basic Income Grant depends on the tax system. The SARS is one of the most capable arms of Government, reflecting a transformation process that has supported consistent over-achievement of revenue targets over the past five years. Appropriate tax reform linked to the Basic Income Grant can achieve very effective redistribution. Several financing mechanisms have been proposed. Cosatu has proposed recuperating the amount of the grant from all low to middle income earners while implementing a “solidarity tax” for higher income earners. Other proposals have focused on the Value Added Tax (VAT)²² as well as progressive taxation.²³

5.4.4 Can the Basic Income Grant be administered efficiently?

The Basic Income Grant would be paid to all South Africans. In the case of children, the grant will be paid to the primary care givers for the benefit of such children. To ensure that every South African has full access to this grant and to avoid any duplication of payment, a reliable identification and verification system will have to be established. There will thus be none of the costs associated with a benefit targeted through a means test.

One could, however, target the income grant by using the tax system, so that the net benefit is larger for the poorer recipients. If the costs of the Basic Income Grant are recuperated, for example, through the VAT system, research shows that the grants can be more effectively targeted. The lower the per capita expenditure of a household, the larger the benefit per person.

A Basic Income Grant, which is calculated on a per person basis, favours larger households that on average are poorer than smaller ones. Pooling of income leads to economic efficiencies and the more equitable intra-household distribution of income, could contribute to the empowerment of women and younger people in the family.

5.5 The impact of a Basic Income Grant

The analysis of the impact of a Basic Income Grant is based on an income grant of R100 per month for all South Africans. With full take-up of a Basic Income Grant, the number of poor South Africans excluded from the social security system is reduced to zero. The dispersion among household types in the closing of the poverty gap is substantially reduced. The household type currently with the least reduction in the poverty gap is the household with only working age adults; with a Basic Income Grant the poverty gap in these households is closed by over 56 per cent, compared to less than 8 per cent with the current system.

For households with children but no pensioners, the poverty gap is closed by two-thirds, and for households with children and pensioners, the gap is closed even more successfully. For “skip generation” households, 95 per cent of the poverty gap is closed, for “three-generation” households, 85 per cent of the poverty gap is closed.

The number of people covered by the social security system increases more than five-fold. The Basic Income Grant will account for 63 per cent of comprehensive social security coverage.

Most of the benefits (53 per cent) would be distributed to rural households, reflecting the spatial character of South African poverty. Two-thirds of the transfers to three-generation and “skip generation” households would be to rural recipients, reflecting the household structure’s role in coping with rural poverty.

Figure 11 depicts the impact of the Basic Income Grant on the distribution of income. As in figure 10, the blue curve replicates the distribution depicted in the baseline simulation. The red line represents the distribution of income with the Basic Income Grant.

Figure 11 documents important impacts. The incidence of extreme poverty is nearly completely eliminated. The closing of the poverty gap improves to 74 per cent. On a headcount basis, approximately 6,3 million are moved out of poverty. The number of destitute individuals (measured using half the poverty line) falls by 10,2 million people. Most of the remaining poor individuals are clustered fairly close to the

poverty line, so that broad-based growth would demonstrate substantial success in moving additional numbers of people out of poverty.

In sum, Table 8 compares the social impact of the BIG with the current situation and a situation where full take-up of all existing grants is achieved.

5.6 Recommendations

5.6.1 Poverty measures and indicators

It is necessary for the Government to decide on a minimum poverty line. It is recommended that this should be an absolute poverty line, e.g. R400 per person per month in 1999 prices, and not a relative poverty line, e.g. the income per person of the household in the 40th percentile. A destitution line should be set as a first realistic benchmark that could be used by Government to monitor progress in alleviating poverty. A destitution line could be set at half the poverty line.

Implementing concrete policy actions requires that Government develop mechanisms and procedures for gathering and evaluating data on poverty and human development. The Committee recommends that Government ensure that such data and research is gathered and developed on a regular and consistent basis to support measures aimed at alleviating and reducing poverty.

5.6.2 Basic Income Grant

Analysis indicates that the Basic Income Grant has the potential, more than any other possible social protection intervention, to reduce poverty and promote human development and sustainable livelihoods. A universal Basic Income Grant has the potential to fortify the ability of the poor to manage risk thus contributing to socio-economic multipliers effects related to improved household self-reliance, efficiency of social capital and societal cohesiveness.

Moreover, in the view of the Committee, income support of this nature would assist the poor to access Government services, thereby improving the effectiveness of many service delivery programmes and social policies.

The Committee notes, however, that the conditions for an immediate implementation of