CHAPTER 2

Economic and Social Value of Social Grants

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2.1 Introduction

South Africa is an upper-middle income country based on economic factors (such as GDP per capita or the structure of the economy), but its social indicators (including life expectancy, infant mortality or quality of education) are closer to those of a lower-middle or even low income country. Despite Government giving priority to reducing poverty and inequality since the end of the apartheid era in 1994, most studies confirm that income poverty increased in South Africa between 1993 and 2000, since when it has declined only marginally. Yet in recent years, social grants have expanded greatly, aimed particularly at poor families.

In April 1998 the Child Support Grant (CSG) was introduced, replacing the child maintenance grant and contributing to South Africa's progressive realisation of the constitutional right to social security, as enshrined in article 27 of the Constitution (1996). The CSG is paid to the child's primary caregiver and is currently the most important form of assistance for children in poor families, offering some protection against poverty. In recent years, the CSG has expanded greatly: until 2008 only children aged 0–13 years were eligible for the grant, which was then in 2009 extended to include children aged 14 years; since 2010 the age of eligibility is 18 years (SASSA, 2010). As of 31 March 2011, an estimated 10 977 000 beneficiaries receive the CSG, which since 1 April 2012 amounts to R280 per month (National Treasury, 2011). The importance and scale of the CSG mean that any changes related to the grant will have an impact on the economy. This chapter assesses the impact of two potential developments over the next few years: (1) the number of beneficiaries is likely to increase by two million; (2) the value of the grant is also expected to rise. Both these developments will have an impact on poverty severity, incidence and depth, thereby directly affecting prospects for meeting the National Development Plan (NDP) goals of eliminating poverty in all its forms by 2030.

In the short to medium term, South Africa faces two fiscal imperatives: (a) fiscal consolidation is unavoidable, and (b) there is no room for the introduction of costly new social assistance programmes (but CSG commitments will be honoured). Against these imperatives, this chapter seeks to understand the economic impact on the South African economy of increasing the grant amount and of including the missed children into the "net". Evidence suggests that social grants have positive effects on inequality and the economy, and reduce poverty. However, the impact of social grants on productive efficiency[13] in the economy is uncertain and has not been systematically investigated. The perception that grants create dependency and perverse incentives has also not been investigated from an economy-wide perspective.

Social grants can have a number of macroeconomic and household-level impacts, which are described in section 2.3. This chapter focuses on the multiplier[14] effects of social grants on income and/or welfare. It looks at the potential effects of changes in the CSG scheme on South African households and on the economy.

[13] Production efficiency measures whether the economy is producing as much as possible without wasting precious resources.

[14] Multiplier effects on the economy refer to changes in prices, incomes and employment other than the direct effect of the change in the policy.

2.2 Overview of Social Grants in South Africa

2.2.1 Reach of the CSG

When the CSG was introduced, the goal was to reach three million children within five years. Fourteen years later, the CSG has over 10 million beneficiaries and is the largest social assistance programme in South Africa and one of the largest globally. Table 2 shows the number of beneficiaries, by type of social grant, from 2008 projected to 2015.

Table 2: Social Grants Beneficiary Numbers by Type and Province, 2008/07–2014/15 in thousands

Type of grant	2008/09	2009/10	2010/11	2011/12	2012/13* Projec-tions	2013/14*	2014/15*	% Growth per year
Old-age	2.344	2.49	2.647	2724	2.773	2.835	2.881	3.5%
War veterans	2	1	1	1	1	1	1	-10.9%
Disability	1.372	1.299	1.212	1216	1.192	1.196	1.196	-2.3%
Foster care	476	489	490	598	671	769	874	10.7%
Care dependency	107	119	121	126	131	141	147	5.4%
Child support	8.765	9.381	10.154	10.903	11.301	11.549	11.659	4.9%
Total	**13.066**	**13.779**	**14.625**	**15.568**	**16.069**	**16.491**	**16.758**	**4.2%**

Source: National Treasury Budget Review (2012)
*Projected numbers at fiscal year-end.

Table 2 clearly shows that the CSG has the highest number of beneficiaries, growing annually by 4.9 per cent over the period. This growth has continued despite many implementation challenges, including the lack of equipment in many offices, under-staffing of welfare offices, lack of uniformity in the application process across provinces and offices, problems with accessing vital registration documents (for example, identity documents and birth certificates) and difficulties in providing postal addresses (Eyal and and Woolard, 2011).

Although the number of beneficiaries has increased over the years, many eligible children are not able to access the grant. More than 600 000 maternal orphans are not receiving any grant, a much higher proportion than for any other group (SALDRU, 2008), while disproportionately fewer younger (0–2 years) and rural children are accessing the CSG (McEwan and Woolard, 2010). The Department of Social Development acknowledges that not all eligible children are receiving the CSG, citing the lack of documentation as the biggest barrier. According to SASSA, 2.1 million children (or 27% of those eligible) did not receive the CSG in 2008.

Table 3 shows the CSG beneficiaries at regional level. KwaZulu-Natal and the Eastern Cape have the highest number of children who benefit from the CSG, with children under seven years being the largest age group. The figures for these two provinces demonstrate the ability of the CSG to reach large numbers of poor children, including those living in deep rural areas.

Table 3: Number of Child Support Grants by Age and Province as at 30 June 2011

Ages	EC	FS	GAU	KZN	LIM	MPU	NW	NC	WC	Total
(0-1 yrs)	74 455	30 236	66 160	113 815	73 040	37 870	28 969	11 708	35 164	471 417
(1-2 yrs)	99 812	39 511	92 978	156 402	95 599	57 607	45 572	16 622	52 055	656 158
(2-3 yrs)	108 824	41 170	98 238	168 819	99 788	62 838	51 131	17 886	58 215	706 909
(3-4 yrs)	119 287	43 414	100 194	181 963	104 137	66 804	54 203	17 933	58 527	746 462
(4-5 yrs)	119 881	41 994	96 833	180 604	100 542	65 476	54 576	17 387	56 106	733 399
(5-6 yrs)	123 790	41 794	96 986	187 620	99 603	66 617	53 979	17 332	54 931	742 652
(6-7 yrs)	119 996	41 303	93 689	177 739	94 276	65 991	53 580	16 848	51 396	714 818
Total 0-7	**766 045**	**279 422**	**645 078**	**1 166 962**	**666 985**	**423 203**	**342 010**	**115 716**	**366 394**	**4 771 815**
(7-8 yrs)	112 890	38 618	89 497	166 128	84 294	61 731	50 470	16 253	48 355	668 236
(8-9 yrs)	103 266	34 828	81 714	155 893	77 518	56 869	46 246	15 509	44 852	616 695
Total 7-9	**216 156**	**73 446**	**171 211**	**322 021**	**161 812**	**118 600**	**96 716**	**31 762**	**93 207**	**1 284 931**
(9-10 yrs)	98 578	33 822	77 787	159 740	75 727	54 849	44 767	14 760	43 140	603 170
(10-11 yrs)	95 621	32 806	73 977	152 548	76 129	56 081	43 898	14 200	43 364	588 624
Total 9-11	**194 199**	**66 628**	**151 764**	**312 288**	**151 856**	**110 930**	**88 665**	**28 960**	**86 504**	**1 191 794**
(11-12 yrs)	99 546	31 806	70 234	155 238	76 031	55 910	42 453	14 646	42 083	587 947
(12-13 yrs)	103 749	29 324	65 761	149 619	74 922	53 359	40 013	13 825	39 741	570 313
(13-14 yrs)	103 480	28 646	62 864	143 549	75 175	53 799	38 285	13 274	37 942	557 014
Total 11-14	**306 775**	**89 776**	**198 859**	**448 406**	**226 128**	**163 068**	**120 751**	**41 745**	**119 766**	**1 715 274**
(14-15 yrs)	103 388	29 398	63 840	139 666	76 481	53 763	38 870	13 320	38 606	557 332
(15-16 yrs)	103 458	29 461	60 137	135 218	77 318	52 387	38 049	12 792	35 752	544 572
(16-17 yrs)	94 057	26 366	51 721	116 285	74 904	48 049	33 679	11 399	29 503	485 963
(17-18 yrs)	44 272	13 718	21 709	61 419	44 040	24 919	13 508	5 311	12 185	241 081
Total 14-18	**345 175**	**98 943**	**197 407**	**452 588**	**272 743**	**179 118**	**124 106**	**42 822**	**116 046**	**1 828 948**

Key: EC – Eastern Cape; FS – Free State; GAU – Gauteng; KZN – KwaZulu-Natal; Lim – Limpopo; MPU – Mpumalanga; NW –NorthWest; NC – Northern Cape; WC – Western Cape
Source: SASSA (2011).

Table 4 gives the age of eligibility and the value of the CSG between 1998 and 2012.

Table 4: Changes in Age Eligibility and Grant Value Progression of the CSG

Year	Age Eligibility	Grant Amount
1998 – 2000	Children under 7 years	R100
2001	Children under 7 years	R110
2002	Children under 7 years	R140
2003	Children under 9 years	R160
2004	Children under 11 years	R170
2005	Children under 14 years	R180
2008	Children under 15 years	?
2010	Children under 16 years	?
2011	Children under 17 years	R270
2012	Children under 18 years	R280

Source:
Eyal and Woolard (2011)

Both the age of eligibility and the value of the CSG have increased over time. Between 1998 and 2000, children under the age of seven years were eligible for the grant, but thereafter the age limit increased gradually, reaching 18 years in 2012. From an original amount of R100, the grant has increased to R280 per month.

The CSG is based on the *follow the child* concept, which recognises the varied and fluid nature of the family structure in South Africa: the grant is not linked to a biological parent and can be accessed by a primary caregiver. The primary caregiver is defined as anyone older than 16 years who is taking primary responsibility for the day-to-day needs of that child, whether parent, relative or unrelated carer (Patel et al., 2012).

2.2.2 Spending on the CSG

In 2011/12, South Africa spent R96,703 million on social assistance, with a significant amount going towards the cost of the CSG (Table 5). The magnitude of the CSG expenditure in South Africa's social spending forms part of the motivation for this chapter. Total expenditure on social assistance represents approximately 3.5% of GDP, an increase of 1.5% since 1994 (Laryea-Adjeiet al., 2011; Seeking, 2007).

Table 5: Social Grants Expenditure by Type and Province, (2007/08–2013/14)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	% Growth
R million	**Actual**			**Revised estimate**	**Projected**			**per year**
Old-age	25.934	29.826	33.751	37.318	39.323	42.526	45.823	10.0%
War veterans	20	17	14	12	13	10	11	-9.8%
Disability	16.474	16.567	16.840	17.834	19.152	20.410	21.992	4.9%
Foster care	3.934	4.434	4.616	5.245	5.952	6.216	6.697	9.3%
Care dependency	1.292	1.434	1.586	1.948	1.857	2.107	2.270	9.9%
Child support	22.348	26.670	30.342	34.036	38.237	41.553	44.774	12.3%
Grant-in-aid	90	146	170	192	188	203	219	15.9%
Social relief of distress	623	165	174	118	165	183	197	-17.5%
Total	**70.715**	**79.260**	**87.493**	**96.703**	**104.888**	**113.208**	**121.982**	**9.5%**
Province								
Eastern Cape	12.557	13.914	15.281	16.761	18.119	19.556	21.073	
Free State	4.573	5.055	5.530	6.234	6.698	7.229	7.790	
Gauteng	8.289	9.390	10.539	11.871	13.03	14.063	15.153	
Kw aZulu-Natal	17.590	19.454	21.308	23.507	25.301	27.307	29.424	
Limpopo	9.656	10.855	11.986	12.318	14.111	15.231	16.410	
Mpumalanga	4.943	5.567	6.024	7.431	7.558	8.157	8.790	
Northern Cape	5.711	2.227	2.497	2.816	3.021	3.260	3.514	
North West	1.962	6.366	6.869	7.241	7.851	8.474	9.131	
Western Cape	5.434	6.432	7.460	8.524	9.199	9.930	10.698	
Total	**70.715**	**79.260**	**87.493**	**96.703**	**104.888**	**113.208**	**121.982**	

Source: National Treasury (2012)

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Seeking (2007) argues that South Africa is unique, as no other developing country redistributes as large a share of its GDP through social assistance programmes. More importantly, projections show that these costs will continue to rise (National Treasury, 2011) because the size and cost of the CSG is driven in the main by the progressive increases in the age limit and the adjustments to the means test threshold (Table 6).

Table 6: Child Grant Cost Projections (millions of Rands)

Year	Child Support Grant Cost
Jun-05	14 143
Jul-06	17 559
Aug-07	19 625
Sep-08	22 348
Oct-09	26 670
Nov-10	30 342
Dec-11	34 036
2012/13*	38 237
2013/14*	41 553
2014/15*	44 774

Source: National Treasury (2009; 2011; 2012)
*Projections

2.3 Analysis and Findings

The household-level impacts of social grants come from:

(1) changes in labour supply of different household members,
(2) investing part of the funds into productive activities, which increase the beneficiary household's capacity to generate revenue, and
(3) preventing detrimental risk-coping strategies, such as distress sales of productive assets (selling at a loss), children dropping out of school, and increased risky income-generation activities such as commercial sex, begging and theft.

Research has also documented three types of local economy impacts:

(1) transfers between beneficiary and ineligible households,
(2) effects on local goods and labour markets, and
(3) multiplier effects on income and/or welfare.

This chapter focuses on the last of these impacts. The methodology developed is used to estimate the potential effects on South African households' welfare and on the economy following a change in the CSG scheme. In particular, three simulation scenarios are presented:

1. Simulation 1 (sim1): A 20% increase in the value of the CSG for people already benefiting from the transfer.

2. Simulation 2 (sim2): An increase of two million in the number of beneficiaries (eligible children).

3. Simulation 3 (sim3): Combination of sim1 and sim2, so that the additional beneficiaries from sim2 also benefit from a 20% increase of the CSG from sim1.

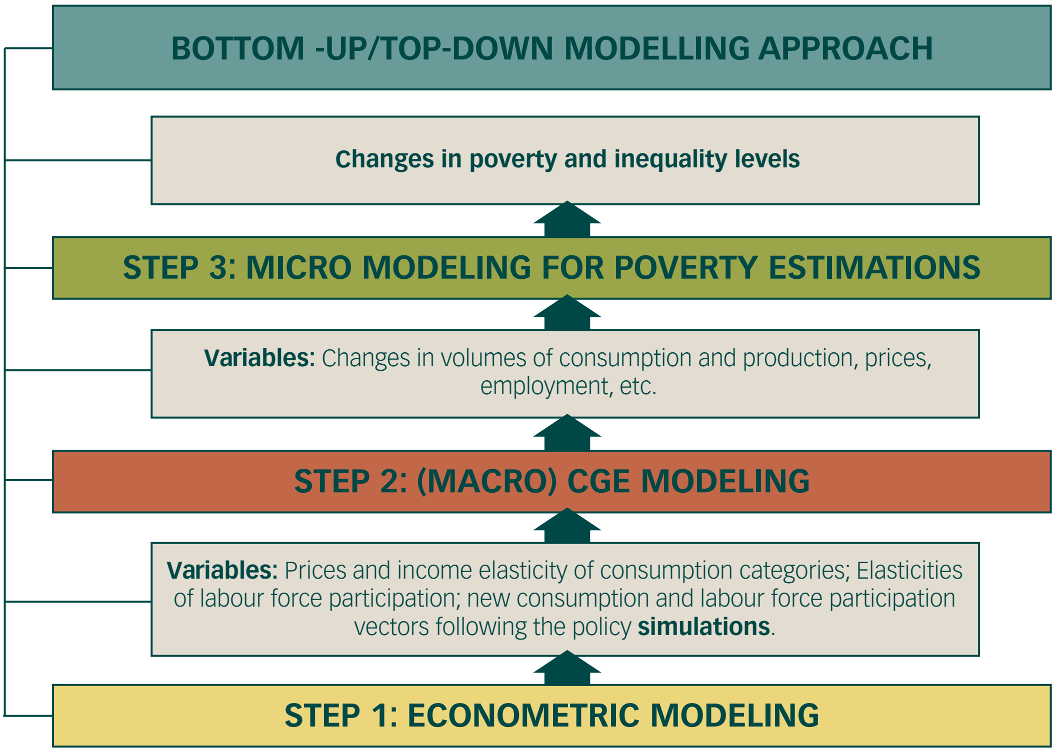
Figure 1 summarises the modelling framework. **Step 1** is micro-simulation modelling, which involves the following variables:

i. Estimation of consumer prices and income elasticities and simulation of the effect of a change in CSG on consumption patterns

ii. Estimation of a model for labour force participation and simulation of the effect of a change in the CSG on labour force participation

The relevant changes are then transmitted to the macro Computable General Equilibrium (CGE) model[15], which is **Step 2** of the modelling process. The model simulates changes in different variables (e.g. volumes of consumption and production, prices, employment), which are then inserted into the micro model in order to produce changes in poverty and inequality following reform of the CSG scheme **(Step 3)**.

Figure 1: Modelling Framework



A positive link was found between the CSG and the probability of participating in the labour force. The grant-receiving household's income increases, as a result of the positive impact on the labour market and of the increase in the transfers received. Government's income also increases because of an increase in direct taxes, consumption and production taxes. However, the increase in transfers (i.e. the increase of the CSG) means that the government's savings decrease, which leads to a decrease in total investment.

[15] A CGE model is a multi-market model based on real-world data of one or several economies or regions. It simulates a working economy by incorporating various institutional and structural characteristics that simple analysis fails to capture. The prices and quantities of all goods and factors are determined simultaneously in every market – hence G for "general"– by the need to equate supply with demand – hence E for "equilibrium". The system of equations is simultaneously solved using a numerical database arranged in a matrix format called a Social Accounting Matrix (SAM), and a computer with appropriate software – hence C for "computable".

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For poverty measures and inequality, the direct effects of the change in the CSG were found to have higher impacts than indirect effects. This is consistent with the fact that grants are a large part of incomes for households living in poverty. The CSG results in a strong improvement in the poverty incidence, poverty gap, and poverty severity, as well as inequality measured by the Gini index.[16] The results at a regional level show different impacts. The CSG reforms leads to an improvement in households' welfare in rural formal, tribal authority and urban informal areas. However, for households living in formal urban areas, poverty is hardly affected by a 20% increase in CSG but is reduced when the excluded children are included in the system. Under this scenario, children living in households that were not CSG beneficiaries in the base year substantially improve their welfare. The results also show that African and Coloured households benefit the most from the proposed CGS reforms, while Whites are not affected. Indians largely benefit from a 20% increase in the value of the CSG, with a reduction in the number of people living below the poverty line (a large part of Indian households receiving the CSG live around the poverty line).

Thus, the study provides clear evidence suggesting benefits of improving the CSG amount and coverage.

2.4 Conclusion

The chapter examines the impact of the CSG on the South African economy using a bottom–up/top–down modelling approach. The potential effects of a change in the CSG on South African households' welfare and on the economy are estimated. Three simulation scenarios are presented: in simulation 1 the value of the CSG is increased by 20%, in simulation 2 the number of beneficiaries among the eligible children is increased by two million, while simulation 3 combines the first and second simulations. A positive link is found between the CSG and the probability of participating in the labour force. Results are encouraging at the economy-wide level, showing that the CSG has several positive impacts on the economy. The consumption and production of education and nutritious food products increase, and households' income increases as a result of the positive impact on the labour market, together with the increase in the transfers received. Poverty decreases in comparison with the base year for the whole population and for children. Finally, the results show that simulation 1 is the most cost effective of the policies.

The great danger confronting South Africa today is that longer-term fiscal imperatives could be used as reasons to limit necessary future growth in spending on the CSG. At the economy-wide level, the results from this study challenge the often-held view that these grants are squandered on non-productive consumption. The chapter shows in no uncertain terms that even these modest reforms have a significant impact on children and households. The CSG is a consumption expenditure that enhances intergenerational equity and also promotes productive efficiency and human capital. This suggests a compelling "developmental state" argument to preserve and protect current expenditure levels even in fiscally austere conditions.

In light of the positive impacts on inequality and poverty highlighted, child-focused budget monitoring must continue in the medium term, in order to ensure that child-focused spending remains a priority. The Commission is of the view that Government should expand coverage and strengthen integrated social protection systems to respond to the multiple and compounding vulnerabilities faced by children and their families. However, given the extent of child poverty, much more still needs to be done.

[16] The Gini index is a measurement of the income distribution of a country's residents. This number, which ranges between 0 and 1 and is based on residents' net income, helps define the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality.

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2.5 Recommendations

With respect to the **social protection sector in terms of social and economic value**, the Commission recommends that:

- Government makes more resources available through the transfer system to enable progressive realisation of an ideal child-support system. An ideal child-support system is a system that relaxes the existing means test and moves towards faster universalisation of the Child Support Grant (CSG). This should happen even under fiscal consolidation because of the social and economic benefits.

- Government puts in place a system to ensure coverage is extended to children currently excluded from accessing the CSG for administrative reasons.

- Government moves faster towards consolidating the various social protection instruments (CSG, Foster Child Grant, UIF, social wage, etc.), as part of the longstanding reform of the social security system because of the significant effects on reducing child poverty.

- National Treasury provides advice to departments and agencies working with children on developing major cross-portfolio initiatives aimed at eliminating child poverty. To date, a range of child poverty measures have been accommodated and scattered across many agencies, but these should be nested within a new unified outcomes framework of related agencies because of synergies with related programmes.