

FINANCIAL AND FISCAL COMMISSION
POLICY BRIEF

12/2013

Myths and Facts about the Economic Impacts of Child Support Grants

EXECUTIVE SUMMARY

In an economic situation where funding is becoming scarce, the question is whether the government is making best use of its money to achieve poverty alleviation, social inclusion and stability. The child support grant (CSG) is the largest social assistance programme in South Africa; in 2012 over ten million beneficiaries received R280 per month per child. The CSG reaches large numbers of children, including those living in the deepest rural areas of the Eastern Cape and KwaZulu-Natal. Over the next few years, the number of beneficiaries is likely to increase by two million (to include those children not currently able to access the grant), and the value of the grant is expected to rise (by 20 per cent). A study by the Financial and Fiscal Commission (the Commission) found that these changes would lead to improvements in the poverty incidence, poverty gap, poverty severity and inequality as measured by the Gini coefficient¹. The welfare of households in rural formal, tribal authority and urban informal areas, as well as the welfare of children living in households that were not CSG beneficiaries in the base year, would also improve. Many people believe grants create dependency and perverse incentives. However, the economic evaluation found that the CSG has several positive impacts on the economy and leads to an increase in the consumption and production of education and nutritious food products. This suggests a compelling “developmental state” argument to preserve and protect current expenditure levels, even in fiscally austere conditions. Indeed, the government should expand the coverage of the CSG because of the associated social and economic benefits.



¹ The Gini coefficient is a number between zero and one that is a measure of income inequality

BACKGROUND

The South African government has followed policies that promote poverty alleviation to achieve social inclusion and to guarantee social stability. What is uncertain is whether the government is making the best use of its money to achieve these goals. In an economic situation where funding is becoming scarce, assessing the effectiveness of the social grant system is especially important. Many people have a negative perception of grants, believing that grants create dependency and perverse incentives, such as less incentive to work, or spending on luxuries rather than basic necessities. However, this has not been investigated from an economy-wide perspective.

Table 1 shows the number of beneficiaries, by type of social grant, from 2008 projected to 2015. Of all the government social grants, the child support grant (CSG) has the highest number of beneficiaries (over 10 million in 2010/2011, expected to reach more than 11.5 million in 2014/15). The CSG was introduced in April 1998, to replace the child maintenance grant and contribute 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 the largest social assistance programme in South Africa, one of the largest globally, and the most important form of assistance for children in poor families (paying R280 per child per month in 2012).

Table 1: Social Grants Beneficiary Numbers by Type and Province (2008/09–2014/15) in thousands

Type of grant	2008/09	2009/10	2010/11	2011/12	2012/13* Projections	2013/14*	2014/15* ²	Growth per year
Old-age	2.34	2.49	2.65	2.72	2.77	2.84	2.88	3.50%
War veterans	2.00	1.00	1.00	1.00	1.00	1.00	1.00	-10.90%
Disability	1.37	1.30	1.21	1.22	1.19	1.20	1.20	-2.30%
Foster care	476.00	489.00	490.00	598.00	671.00	769.00	874.00	10.70%
Care dependency	107.00	119.00	121.00	126.00	131.00	141.00	147.00	5.40%
Child support	8.77	9.38	10.15	10.90	11.30	11.55	11.66	4.90%
Total	13.07	13.78	14.63	15.57	16.07	16.49	16.76	4.20%

* Projected numbers at fiscal year-end.

Source: National Treasury, Budget Review 2012

Table 2 (page 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.

Although the number of beneficiaries has increased over the years, about two million children (or 27% of eligible children) are not able to access the grant. Reasons for this are varied, ranging from complex and slow bureaucracy, to disputes within families about whether to apply and who should register as the primary caregiver. The biggest barrier is seen as the lack of documentation.

² For the full study, see Mabugu, R, Tiberti, L, Maisonnave, H, Chitiga, M, Hoareau, S, Robichaud, V and Ngandu, S. 2013. Quantitative Analysis of Impact of Social Grants in South Africa, Chapter 2 in Financial and Fiscal Commission (2013). 2014/15 Submission for the Division of Revenue Technical Report, Midrand, South Africa.

The importance and scale of the CSG mean that any changes related to the grant will have an impact on the economy and on poverty severity, incidence and depth. The Commission undertook a study of the impact of two reforms to the CSG 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. ²

Table 2: 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 (South African Social Services Agency), Third Quarter Indicator Report December (1 October–31 December 2011).

FINDINGS

The economy-wide impact of the South African CSG was investigated by looking at the multiplier effects on income and/or welfare of changes to the CSG. Three simulation scenarios were used.

- Scenario 1: a 20% increase in the value of the CSG for people already receiving the grant.
- Scenario 2: an increase of two million in the number of beneficiaries (eligible children).
- Scenario 3: a combination of scenarios 1 and 2, so the additional beneficiaries also benefit from the 20% increase in the value of the CSG.

A positive link was found between the CSG and the probability of participating in the labour force. The grant-receiving household's income increases because of the positive impact on the labour market and the increase in the grant amount. Government's income also increases because of higher direct taxes, con-

sumption and production taxes. However, the higher CSG means that the government's savings decrease, which leads to a decrease in total investment.

The direct effects of the change in the CSG had higher impacts on poverty and inequality than the indirect effects. This is consistent with the fact that grants are a large part of incomes for households living in poverty. Improvements are found in:

- The poverty incidence, poverty gap, and poverty severity, as well as inequality measured by the Gini index.
- The welfare of households in rural formal, tribal authority and urban informal areas. (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.)
- The welfare of children living in households that were not CSG beneficiaries in the base year.

The results also show African and Coloured households benefit the most from the proposed CSG 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 below the poverty line (a large part of Indian households receiving the CSG are around the poverty line).

Despite the fairly widespread negative perceptions of grants, the findings from an economic evaluation are encouraging. The CSG has several positive impacts on the economy, as illustrated above. In addition, the study found that the consumption and production of education and nutritious food products increase. The fiscal impact of the proposals would cost the government between 1.11 per cent and 1.38 per cent of GDP (in 2008 terms) respectively, calling for a significant effort by the government in terms of budget increase.

CONCLUSION

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. Notwithstanding enormous socio-political pressures on the national budget after the CSG reform, the overall fiscal position is still stable. At the economy-wide level, the results challenge the often-held view that these grants are squandered on non-productive consumption. They show in no uncertain terms that even these modest reforms have a significant impact on children and households. The CSG is not only consumption expenditure to enhance intergenerational equity, but 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.

Therefore, the Commission recommends that government expands coverage and makes resources available to enable the 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 CSG, while laying foundations for future growth and development. This expansion should happen, even under fiscal consolidation, because of the social and economic benefits.

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