DEVISING SOCIAL SECURITY INTERVENTIONS FOR MAXIMUM POVERTY IMPACT

Servaas van der Berg
Caryn Bredenkamp

CSSR Working Paper No. 13

October 2002
Servaas van der Berg is a Research Associate of the Centre for Social Science Research at the University of Cape Town; he and Caryn Bredenkamp are from the Department of Economics at the University of Stellenbosch.

ISBN No.: 0-7992-2139-2

Centre for Social Science Research
University of Cape Town
Private Bag Rondebosch
7701
Telephone (021) 650 4656
Website: http://www.uct.ac.za/depts/cssr
DEVISING SOCIAL SECURITY INTERVENTIONS FOR MAXIMUM POVERTY IMPACT

1. Introduction

Social security, designed to provide protection against various contingencies, is not well suited to the elimination or redress of large-scale, endemic poverty, nor is it effective against the deep poverty caused by events such as the Great Depression. Social security on its own cannot overcome poverty of this magnitude, particularly in developing countries. For reasons of fiscal and administrative capacity, inter alia, social security usually expands through piecemeal reforms rather than through grand schemes. The basic income grant was, in its conception, just such a grand scheme and its proponents’ untempered enthusiasm has unfortunately done harm to the cause of social security’s realistic expansion. Now even the Taylor Committee, after initial enthusiasm, has accepted that a basic income grant is not viable. And so the time has come to return to the job at hand for social security: to painstaking and piecemeal analysis, to the careful weighing of alternatives, and to informed debate.

This article attempts to contribute to this end. We show that the South African social security system, though very advanced for a country at this level of per capita income, still has pervasive gaps in its coverage and is close to the limits of its capacities. Yet the Constitution obliges government to work towards the progressive expansion of social security and in this article we support incremental and targeted social security interventions as the strategy most likely to contribute to poverty reduction. We use an analysis of 1995 income distribution data to assist us in identifying where such social security interventions are most likely to have a significant poverty alleviating effect.

Section 2 deals with the nature of the social security system and gives an overview of gaps in certain components of the system. Although the social security system is not too poorly designed, this section shows that it cannot cope with unemployment of the current magnitude which leaves half the labour force uncovered by social insurance and increases the burden on social assistance. Section 3 analyses poverty from the perspective of social security to identify vulnerable groups. Cumulative density functions show that, irrespective of where one draws the poverty line, poverty is more severe amongst the young (children) than the elderly (who are already fairly well
protected by social plus occupational pensions); it is severe amongst the broadly defined unemployed which includes discouraged work seekers (those who would like to have a job, but have stopped actively looking for one, usually because the probability of finding one is extremely small); and poverty is endemic in female-headed households.

Together, Sections 2 and 3 expose the biggest gaps in the system: the young, although now partly covered by child support grants (CSGs); discouraged work seekers and the (narrowly) unemployed (some of whom may also benefit from the CSG); and those employed, mainly in agricultural and domestic employment, who are not covered by social insurance programmes. We argue in Section 4 that, given a somewhat improved fiscal position, the time might be ripe for expanding some existing social security programmes or for introducing some new ones as a way of improving the reach and impact of the social security system. We suggest in this regard: the further shifts of funds to the CSG; using the tax system to encourage greater coverage of the as yet uncovered employed; and expanding low-wage public employment schemes such as the Work-for-Water programme to reach, in particular, discouraged work seekers.

2. The social security system: Nature, coverage and gaps

The South African social security system consists of two main components: social insurance and social assistance. Social insurance covers in the main only the employed as it is effectively occupational insurance, membership being conditional on contributions by employers and employees. The majority of those in formal employment are covered against most contingencies, but only as long as their grasp on formal employment remains secure. Unemployment prevents many from contributing to occupational or private insurance funds for old age, unemployment or disability, thus automatically excluding them from coverage. These individuals can also not necessarily access the State-funded social assistance grants, as these grants target only very specific categories of people: the very young, the old and the disabled.

This section will focus on the extent to which the social security system provides income security to South Africans, both in terms of the coverage of different population segments and the magnitude of protection that social security arrangements offer.
2.1 Provision for Retirement

2.1.1 Social (occupational) insurance for retirement

In South Africa, strictly speaking, there is no social insurance for retirement, but rather a multiplicity of occupational schemes that operate along similar actuarial lines to funded private insurance. These schemes are only “social” in the sense that compulsory membership has become the norm for most formal sector employees, thus for these workers the impact is similar to social insurance. Typically, workers and employers each contribute around 7½% of the former’s monthly earnings to a defined contributions or defined benefit pension or provident fund from which workers can claim benefits upon retirement.

Figure 1A shows which segments of the labour force have some degree of protection in retirement through membership of retirement schemes. Although about 73% of the formally employed were covered in the mid-1990’s (Mouton Commission 1992: 490; Smith Committee 1995: D2.8), widespread unemployment, low coverage in certain sectors and the lack of coverage in the informal sector meant that only about 45% of the labour force was covered (Kruger 1992: 215; Smith Committee 1995: D2.8). The unemployed and the informally employed, respectively 25% and 10% of the labour force in 1998, are excluded from membership of occupational retirement funds. Within the formal sector coverage is low in trade, catering and accommodation and it is especially low in agriculture and domestic service – sectors with a combined employment of approximately 2.5 million or 20% of the labour force in 1997/98 (Statistics South Africa 2000b: Table B).

Even within the covered sectors, benefits are often too low to provide effective protection in retirement.

In the more prevalent defined contributions schemes, benefits are determined by the accumulated value of the contributions made by and on behalf of the beneficiary. Table 1 shows typical retirement benefits that may be accumulated by employees with salaries of R2 000 or R6 000 in a defined contributions scheme, assuming a combined employer/employee contribution of 15% of salary, a real return of 3% compounded monthly, no real salary increases, and a 20 year annuity. It highlights that lower income workers will generally receive very low pensions in retirement, unless they manage to remain in continuous employment for most of their working lives – for
example, a worker earning a monthly salary of R2 000 and who has contributed for 20 years will receive a retirement benefit of only R546 (plus inflation) per month upon retirement – almost twice his monthly contributions, but barely a quarter (27%) of his monthly salary.

Table 1: Typical Retirement Benefits at Salaries of R 2000 or R6 000

<table>
<thead>
<tr>
<th>Years contributed</th>
<th>Capital sum at maturity</th>
<th>20 year annuity</th>
<th>Income replacement rate (IRR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salary of R2 000:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>R41 923</td>
<td>R232</td>
<td>11.62%</td>
</tr>
<tr>
<td>15</td>
<td>R68 092</td>
<td>R378</td>
<td>18.88%</td>
</tr>
<tr>
<td>20</td>
<td>R98 491</td>
<td>R546</td>
<td>27.31%</td>
</tr>
<tr>
<td>30</td>
<td>R174 821</td>
<td>R970</td>
<td>48.47%</td>
</tr>
<tr>
<td>40</td>
<td>R277 818</td>
<td>R1 541</td>
<td>77.04%</td>
</tr>
<tr>
<td><strong>Salary of R6 000:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>R125 769</td>
<td>R697</td>
<td>11.62%</td>
</tr>
<tr>
<td>15</td>
<td>R204 276</td>
<td>R1 133</td>
<td>18.88%</td>
</tr>
<tr>
<td>20</td>
<td>R295 473</td>
<td>R1 639</td>
<td>27.31%</td>
</tr>
<tr>
<td>30</td>
<td>R524 463</td>
<td>R2 909</td>
<td>48.47%</td>
</tr>
<tr>
<td>40</td>
<td>R833 454</td>
<td>R4 622</td>
<td>77.04%</td>
</tr>
</tbody>
</table>

Source: Own calculations
The final pension in a defined benefits scheme is usually equivalent to the number of years’ membership of the fund multiplied by a certain percentage, usually around 2% of final salary (Sanlam 2001). This means that a worker who has been a member of a defined benefit fund for 20 years and retires with a final salary of R2 000, will have accumulated a final pension of R800 per month, or 40% of final salary. This means fairly high replacement rates for those who have contributed for most of their economically active years.

2.1.2 Social old age pensions
Those with no or small occupational retirement benefits are eligible for a means-tested social old age pension. At present set at R570 per month, it is available to men from the age of 65 and women from the age of 60. Altogether, 75 to 80% of the elderly (Smith Committee 1995: D2.8; Van der Berg 1998: 5 & 6; Van der Merwe 1996: 401; Department of Welfare 1996: 74) or 1.8 million people (Department of Finance 1998: 34) receive old age pensions. Take-up rates vary according to the racial and gender characteristics and geographic location of the recipients. In 1993, 89% of old age pensions were claimed by black households, with nearly a quarter of black households receiving an old age pension (Lund 1998: 4). The number of coloured and Indian social pensioners was disproportionately large compared to their population share, while the means test meant that only 38% of elderly whites qualified in 1996 (Van der Berg 1998: 7). Social pensions also reach three times as many women as men, reflecting women's lower eligibility age, higher longevity and greater poverty, but take-up rates are higher for men than for women. Finally, about two thirds of households receiving an old age pension are in rural areas.

2.1.3 The articulation between social insurance and social assistance
Table 1 revealed that membership of occupational retirement funds does not necessarily provide sufficient income in retirement. The Smith Committee (1995: 18) found that 40% of occupational pensions paid had a lower value than the old age pension. As a result, some of the elderly draw both occupational and social old-age pensions. In 1993, 44.5% of older persons benefited from retirement funds and 78.7% from social pensions (Smith Committee 1995: D2.8).

11 This means that 80% of people eligible by age are receiving benefits. The take-up rate, i.e. as percentage of elderly people eligible by age and in terms of the means test, is higher, as the means test effectively excludes the wealthier elderly.
Lower income workers with insufficient occupational pensions are sometimes so penalised by the means test that they receive only slightly higher incomes in retirement (when the occupational pension and the social old age pension are combined) than those who have contributed for much shorter periods. Table 2 highlights this: once the receipt of the social old age pension is taken into consideration, income replacement rates converge. For example, the difference between the income replacement rates for 15 and 20 years of contributions is halved once the social old age pension is taken into consideration. Clearly, the means tested nature of the old age pension reduces the incentive for low income earners to belong to a retirement fund (see, for example, Van der Berg 1998: 7-83 and Ardington and Lund 1995: 2).

Table 2: Typical Income Replacement Rates of Defined Contributions Schemes for Workers earning R2 000 p.m.

<table>
<thead>
<tr>
<th>Years contributed</th>
<th>20 year annuity</th>
<th>IRR of annuity (occupational pension)</th>
<th>Social old age pension</th>
<th>Total income</th>
<th>IRR of Total income (annuity + social pension)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>R 232</td>
<td>11.6%</td>
<td>R 539</td>
<td>R 771</td>
<td>38.6%</td>
</tr>
<tr>
<td>15</td>
<td>R 378</td>
<td>18.9%</td>
<td>R 467</td>
<td>R 845</td>
<td>42.2%</td>
</tr>
<tr>
<td>20</td>
<td>R 546</td>
<td>27.3%</td>
<td>R 382</td>
<td>R 928</td>
<td>46.4%</td>
</tr>
<tr>
<td>30</td>
<td>R 970</td>
<td>48.5%</td>
<td>R 171</td>
<td>R 1 141</td>
<td>57.0%</td>
</tr>
<tr>
<td>40</td>
<td>R 1 541</td>
<td>77.0%</td>
<td>R 0</td>
<td>R 1 541</td>
<td>77.0%</td>
</tr>
</tbody>
</table>

Source: Own calculations

2.2 Unemployment

Protection against unemployment is provided only to members of the Unemployment Insurance Fund (UIF), a contributor-funded social insurance scheme. The UIF’s objective is to “alleviate poverty by providing effective short-term unemployment insurance to all workers and helping them to find reemployment” (Department of Labour 1997a: 5), i.e. to combat the effects of frictional unemployment (Department of Labour 1997b: paragraph 372) rather than to focus on the needs of the long-term unemployed. Employers and employees each contribute 1% of the employee’s monthly earnings. Every week’s benefit requires six weeks’ contributions, with a minimum contribution period of thirteen weeks. The beneficiary is entitled to a monthly benefit equal to 45% of his average income over the last thirteen weeks for a maximum period of 26 weeks.
Government employees, domestic workers, casual and seasonal workers, contract workers, the self-employed, upper income earners, the informally employed and the unemployed are not eligible for membership of the UIF. Figure 1B shows the proportion of the labour force constituted by these groups.

---

2 Although permanent government employees (10% of the labour force) are not covered by the Act, they may draw on their retirement funds during unemployment, although this endangers their income security in old age.

3 There are many obstacles to the inclusion of domestic workers (6% of the labour force), e.g. the fact that they often work for multiple employers makes it difficult to administer contributions and to ascertain exactly when a domestic worker should be classified as unemployed. The Unemployment Bill (Republic of South Africa 2000) envisages further investigation of possibilities for the inclusion of domestic and seasonal workers.

4 Many casual workers do not fulfil the requirement of working at least one full working day per calendar week. In addition, both seasonal and casual workers are often not employed long enough to accumulate significant benefits.

5 Above an income ceiling of R97 188 per annum, employees are excluded from membership (Department of Labour 2000a), on the assumption that higher income earners are generally skilled enough to find new jobs relatively easily and are capable of making private provision for unemployment. The Unemployment Insurance Bill (Department of Labour 2000b), though, proposes that all income earners be included as contributors, but that benefits and contributions be capped at the level that would apply at the threshold of R132 000. This should improve the solvency of the Fund and also effect some redistribution, as the size of the contributions of this group is large relative to their risk of unemployment. (In Figure 2, the previous income ceiling of R84 000 per annum pertaining to the late 1990's is used.)
Compared to contributions paid, UIF benefits are disproportionately high for those who have been employed for a relatively short period. For example, a worker earning R2 000 per month would have contributed R780 (1.56 times his weekly earnings) by the end of three years. If then rendered unemployed, he would be eligible for benefits equal to R900 per month (45% of his weekly wage) for 26 weeks, i.e. a total of R5 850 (almost 12 weeks’ wages) or 7½ times as much as he initially contributed. Until recently the income ceiling on membership meant that the maximum benefit that could be paid out was R3 645 per month. Under the graduated benefit schedule proposed in the Unemployment Insurance Bill (2000b: Appendix Schedule 1), all income earners will be included. Monthly benefits will rise from R88 if income is less than R150 per month (replacement rate of 58.6% of earnings) to R2 954 for a monthly income of R7 774 (replacement rate 38.0%). Those earning more will face even lower income replacement rates as benefits are capped at this level. Although strengthening redistribution within the UIF, differentiated replacement rates weaken its role as an instrument of income maintenance, especially for upper income earners.

2.2 Disability

2.3.1 Coverage against disability
The type of insurance-based protection offered to the disabled depends on the origin and nature of the impairment, while social assistance for disability differentiates its grants according to the age of the beneficiary.

Compulsory insurance under the *Compensation for Occupational Injuries and Diseases Amendment Act of 1997* (COIDA) protects most formal sector employees against injury or disease that arises in the work environment through risk-rated assessments paid by their employers. In 1994, just over 5.5 million employees were covered by the Compensation Fund (Department of Labour 1998: 14). Casual and agricultural workers are covered and there is no income ceiling on membership, although benefits are capped. A substantial portion (more than 55%) of the labour force remains excluded from membership. Figure 1C shows that these include the informal sector (10%), domestic workers (6%), government employees (10%) and workers in industries insured by mutual insurance companies (8%). The difficulty with extending coverage to domestic workers is that many perform piecework and so not only is there no single employer to whom to pay

---

6 In addition to coverage by COIDA, employees who contribute to the UIF may, in the event of illness – even that which arises outside the workplace – claim unemployment benefits provided that the period of illness exceeds two weeks and that they have exhausted the paid sick leave provided for under the Basic Conditions of Employment Act (Republic of South Africa 2000).
assessments on their behalf, but it is also difficult to determine under whose
employ a worker met with injury or disease. Government employees are
exempt from membership because the State undertakes to bear their medical
costs and compensation in the event of a work-place accident (Department of
Labour 1998: 14). Firms in certain industries such as building and mining are
also exempt from membership because particular authorised insurance
companies, such as Rand Mutual and Federated Employer’s Mutual
Assurance, carry their risk. Thus, although not members of the Compensation
Fund, these workers are protected by social security legislation.

Any person who is severely injured in a road accident is eligible for a
monthly benefit or lump sum payment from the Road Accident Fund,
financed via a fuel levy. Benefits include compensation for medical expenses,
catastrophic impairment, loss of income, loss of support and general
damages.

For people disabled in circumstances other than those described above
or in workplaces not covered by COIDA or UIF agreements, State disability
grants are the only source of income security. Disability grants of R570 per
month and State medical care are provided to all severely physically and
mentally disabled persons between the ages of eighteen years and 60/65
(when they qualify for the old age pension), subject to a means test. The
primary care-giver of severely disabled people younger than 18 years can be
awarded a care-dependency grant of R570 if the child requires full time care

7 The structure of the means test for the receipt of a disability grant is the same as that for the old age pension.
and the family’s combined income does not exceed R48 000 (Community Agency for Social Enquiry (hereafter CASE) 1998: 34). In addition, a grant-in-aid of R110 is paid over and above the disability grant (or the old age pension) to adults who require assistance with everyday activities.

The take-up of such grants is often considered surprisingly low in terms of the medical and income eligibility criteria, and is racially and geographically skewed. In 2001, 643 000 people were receiving disability grants every month (Department of Social Development 2001) – perhaps one third of all disabled people, according to some fairly high estimates – but it is uncertain what percentage of disabled people who are eligible by age this figure represents. Earlier data indicates that the number of disability grants paid per 1 000 of the population in the 1990’s was 8 among whites, 12 among blacks, 23 among Indians and 31 among coloureds (Van der Berg 2001: 196), a distribution not explained by disability prevalence. High coloured and Indian figures may reflect abuse of the system when different apartheid-era administrations applied eligibility rules differently. Differential take-up may also be influenced by the means test – 19% of white disabled people (again under a perhaps wide definition of disability) were employed full time in 1998, but only 9% of Indian, 6% of black and 4% of coloured disabled people (CASE 1999: 30). Take-up varies significantly across provinces - from an estimated 71% of disabled people in KwaZulu-Natal to 33% in Mpumalanga (CASE 1999: 33) - and is especially low amongst rural people. Take-up rates for care-dependency (grants vary in a similar geographic fashion from just over 7% in Mpumalanga to 22% in KwaZulu-Natal (Barberton 2000: 13-14). Women are under-represented and receive only 46% of all grants, despite exhibiting higher disability prevalence than men (Lund 1998: 6). This under-representation appears even more severe when one considers that women’s income tends to be lower and that women are less likely to be working in sectors covered by workers’ compensation.

Take-up also varies among grant types. Retired disabled people seem to have better access to social grants than their younger counterparts (CASE 1999: 33), which supports the view that the lack of awareness of disability grants (relative to social old-age pensions) may be a significant factor determining take-up. Take-up of care-dependency grants is low at slightly over 14% of the estimated number of severely disabled children (Barberton 2000: 13-14), with about 31 500 care dependency grants being paid per month in April 2001 Department of Social Development 2001). The fiscal implications of the possible greater extension of the care-dependency grant to children suffering from HIV/AIDS, chronic illness and more moderate disability (see for example, Ramklass 2000) are substantial. If the number of

---

8 According to one estimate, disability prevalence is lowest among coloureds at 4.5% and highest among blacks at 6.1% (CASE 1999: 17).
HIV positive children under the age of eighteen stabilises at around 424 000, Barberton (2000: 18-19) calculates that extension of coverage to the above-mentioned categories of children will, at 100% take-up, push annual expenditure on care dependency grants up to R7.4 billion or, at more moderate take-up rates, up to R1.2 billion – far above the current R146 million. Finally, the grant-in-aid is probably the most poorly accessed benefit. In 1998, 8 719 benefits were paid every month (Ally 1998: 6), certainly fewer than the number of people being cared for full-time by family members and the community.

2.3.2 Magnitude of protection
Compensation paid by the Compensation Fund is determined by the employee’s earnings and by the severity of the disability. For partial but permanent disability, a lump sum payment equivalent to one month’s earnings for every 2% disability is made. If disability is assessed at greater than 30%, a monthly pension is paid. This pension is equivalent to 75% of monthly earnings for 100% disability and is proportionately reduced for lesser disability. The maximum benefit payable is R7 712 and the minimum income used for calculating benefits is R1 081. This means that income replacement rates are close to 100% for those at the lower end of the income spectrum, but well below the 75% mark for higher income earners. The temporarily disabled may also access a similarly calculated temporary disability payment for a maximum of 12 months.

The illness benefits provided by the UIF are paid out at the same rate as unemployment insurance benefits – 45% of earnings – provided that the recipient receives less than one third of his usual income from his employer during the period of incapacitation (Department of Labour 1998: 13).

The Road Accident Fund’s permanent and temporary loss of income benefit is set at 75% of pre-accident income. For permanent disability, it is proportionately reduced depending on the severity of the disability (“percentage permanent impairment”) and the degree of fault of the victim in causing the accident (“percentage merit”). The benefit was capped at R3 500 in 1998 (CASE 1998: 38), but, despite the cap, there remains a rather skewed distribution of claims, as the 7% of claims at the upper end of the income spectrum account for 62% of the value of the loss of earnings payments made (Department of Transport 1998: Chapter 2, section 11.3). Many victims receiving compensation also qualify for a disability grant.

Beneficiaries of the disability grant must meet certain medical and income eligibility criteria in order to receive the R570 benefit:

---

9 30% for HIV positive, 14% for severely disabled, 5% for moderately disabled and 15% for chronically ill children
• The disability must be assessed as permanent and severe enough (at least 50% incapacity) to make the affected person “incapable of entering the labour market” (Republic of South Africa 1998: 6, section 3b). Thus, the grant can be seen as compensation for loss of earnings. As this disability requirement is much higher than that for workers’ compensation, many disabled people in sectors not covered by COIDA also do not qualify for a State disability grant.

• The means test gives rise to a similar poverty trap as that for old age pensions, providing little incentive to a disabled person to take on work. This is a particular problem because the work offered to the disabled tends to be temporary and low-paid (Lund 1998: 12), rendering the income differential between the wage and the disability grant rather small.

2.4 Childhood

Although occupational (social) insurance schemes do not provide any direct form of child support, they do give consideration to the extra costs incurred by families with children. For example, the UIF provides maternity benefits while the Compensation for Occupational Injury and Diseases Act makes provision for survivor’s benefits to be paid to the children of deceased members.

Social transfers, such as child support grants, foster care grants and care-dependency grants (discussed above) attempt to provide a safety net where household income is low, family support is insufficient and common and customary law fails single parents.

The child support grant of R110 per month is payable to the primary care-giver of children up to six years. A means test requires that monthly household income is below the exclusion threshold of R800 in urban areas and R1 100 in rural or informal settlements. The phased implementation of the child support grant commenced in April 1998 and numbers are now expanding very rapidly. By April 2001, 1.2 million children received the child support grant via 757 728 care-givers (Department of Social Development 2001). Take-up is still comparatively low in the former homelands and rural areas, but the Department expects to exceed its target of reaching three million children by 2003 (Department of Social Development 2001; New Child Support Grant 1997: 2; Republic of South Africa 1997).

The foster care grant, payable to those temporarily charged with the care of children who are not their own, is set at R390 per month. Currently, just over 52 000 foster care grants are paid every month (Department of Social Development 2001) and the number of applicants is likely to increase as the HIV/AIDS epidemic spreads.
Although there is no effective marginal rate of taxation imposed on the recipients of these benefits (applicants receive either the full grant or no grant at all), those close to the exclusion level of income still fall prey to the poverty trap, as they stand to lose the entire grant if their income rises just above the exclusion level. However, especially for the child support grant, the low benefit level mitigates the disincentive to earning alternative income.

2.5 Conclusion on the reach of the social security system

From this analysis it can be seen that South Africa’s social insurance system at present reaches only those in the top half of the income distribution, i.e. most of the formally employed. Some of those at the lower end of the income distribution are reached by social assistance measures, but the receipt of these benefits is contingent on disability prevalence and being at a specific stage in the life-cycle, rather than low income only. Thus, a considerable portion of people in the middle and bottom of the income distribution cannot be reached through existing social security arrangements. There is little social security for the long-term unemployed, further widening the gap between those who have jobs and those who do not.

3. Poverty and the social security system

Where gaps in social insurance exist, government can intervene through providing social assistance. However, limited fiscal means and equity objectives make targeting desirable. Targeting often employs a means test or uses categorical grants where the social security needs of certain identifiable categories of the population (e.g. the elderly, disabled or children) are demonstrably large. Sometimes these two targeting systems are used in combination, as is the case with old age pensions, disability grants and child support grants.

Poverty analysis is a potentially useful tool to determine where social security interventions could be most effective, but hitherto it has seldom been used for this purpose in South Africa. Poverty analysis has traditionally been restricted to the use of poverty lines, usually set in terms of per capita or per adult equivalent income or consumption/expenditure per capita. However, these lines are intrinsically subjective, even when all care has been taken to
determine them in a seemingly non-subjective manner, thus it remains problematic to use them as the major benchmark for poverty analysis. For this reason, analytical attention in poverty analysis has recently shifted to Cumulative Density Functions, which plot the income distribution in the form of the cumulative proportion of the population below each level of per capita expenditure (or whatever other money-metric welfare measure is used). If such curves for two groups or time periods do not intersect in the poverty-relevant per capita expenditure range, then poverty dominance exists, i.e. the one group is always worse off than the other, irrespective of which poverty line is chosen and whether poverty is measured by the headcount ratio ($P_0$), the poverty gap index ($P_1$) or the poverty severity index ($P_2$).

Figure 2 shows cumulative density curves for per capita expenditure up to R3 000 in 1995. From the cumulative density curve for children aged 0 to 6 years, for instance, one can read off on the vertical axis what proportion of children belong to households that have a lower per capita income than any specified level shown on the horizontal axis, i.e. at any poverty line chosen. For example, if one were to set the poverty line at R1 500 per capita, 31% of young children (0-6) would be living in "poor" households, compared to only 21% of pension-aged adults. The graph clearly shows that the proportion of young children in poverty is greater than the proportion of pension-aged people (men aged 65 or more and women aged 60 or more) at any per capita expenditure level at which the poverty line may be drawn, i.e. the cumulative density curve for children always lies above that for the pension-aged. The fact that the cumulative density curve for pensioners lies below that of the whole population indicates that, generally speaking, there is less poverty amongst the former – clear evidence of the value of the social old-age pension as a device for reducing poverty amongst older members of society. Thus, poverty dominance exists, i.e. young children are

---

10 There are two conventional non-arbitrary ways of determining a poverty line: The first determines the poverty line based on the cost of a basket of what is considered basic goods and services. The second is composed of a food poverty line, based on the food expenditure level at which specified nutritional requirements are usually met, and a non-food component. (See Woolard & Leibbrandt (2001) for more details on the determination of the poverty line in South Africa.) For our purposes, it is important to recognise that both methods show a tendency for the poverty line to be higher in wealthier societies. This poverty line drift undermines any attempts at representing a poverty line as a fully objective measure.

11 For application of these well-known Foster-Greer-Thorbecke (FGT) and other poverty analysis to South Africa, see Bhorat et al. (2001).

12 All cumulative density curves shown are own calculations based on data from the October Household Survey/Income and Expenditure Survey 1995.

13 See also Lund (1993), Case & Deaton (1998) and Ardington & Lund (1995) for further evidence of the poverty-ameliorating effect of the old-age pension.
systematically poorer than pensioners, and this conclusion holds irrespective of the poverty line chosen or the poverty measure used.

Figure 2 also suggests that the most effective categorical (i.e. non means-tested) social security transfer for alleviating poverty would be one directed at children. This includes not only children under 7 years, who are currently beneficiaries of the child support grant, but also those in the 7-14 year age category (the curves for children aged 0-6 and those aged 7-14 are indistinguishable on the graph). Such a transfer would be better targeted at the poor rather than at the unemployed (narrowly defined) or at social old-age pensioners. Although this analysis is based on 1995 data, before the institution of the child support grant, which targeted precisely this group (young children under 7), widespread child poverty would have remained even if 100% take-up of grants had been realised: grants are small and poverty in the 7-14 age category is almost as severe as for younger children. In other words, if funds could be made available, even a non-means tested child support grant (CSG) would be better than either a grant to all individuals or an increase in the existing social old-age pensions. Moreover, the CSG should be broadened to include older children.

It is instructive to expand this analysis to other population segments:
- Figure 3 shows cumulative density curves for the narrowly unemployed and discouraged work seekers, who together constitute the broadly unemployed. Poverty amongst the narrowly unemployed is worse than for...
the population as a whole at higher poverty lines\textsuperscript{14}, but their situation is far better than that of discouraged work seekers. Unlike many of the narrowly unemployed, who are often attached to households where other members have formal employment, discouraged work seekers often are the least educated, women, and located in deep rural areas, where the chances of finding a job without migrating are very slim. If they have any link to the formal labour market, it is often through remittances by migrant workers who have ties to the rural household (Kingdon & Knight 2000, especially pp.6,7)\textsuperscript{15}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig3.png}
\caption{Cumulative density curves for narrowly and broadly unemployed, discouraged workseekers and total population, 1995}
\end{figure}

- Figure 4 shows that poverty is much worse in female-headed than in male-headed households. Although the international literature has shown that this differential is often smaller than conventional wisdom holds\textsuperscript{16} and is often better explained by other characteristics of such households (such as

\textsuperscript{14} There is poverty dominance only beyond a per capita expenditure level of about R1 300
\textsuperscript{15} Kingdon and Knight (2000: 6 & 7) show that discouraged work seekers live in clusters where unemployment is higher, are considerably poorer than the searching (narrow) unemployed, have much inferior access to water, flush toilets and electricity, and more often live in more remote and rural communities. “The non-searching unemployed are, on average, the most deprived among all economically active groups.” (Kingdon & Knight 2000: 6)
\textsuperscript{16} An overview of the evidence for ten developing countries concludes that “differences between male- and female-headed households (and between males and females) are insufficiently large to generalize that females are unambiguously worse off in the entire sample of 10 developing countries” (Quisumbing \textit{et al.} 2001: 29).
lower educational levels or rural location) rather than by gender, this does not detract from the fact that they are often an identifiably poorer group. Indeed, South African evidence reveals that household per capita income is 27% lower for households headed by females compared to cases where a male head resides at home, after standardising for other factors (Leibbrandt and Woolard 2001: 142).

In terms of poverty analysis, then, at least four groups can be identified for whom poverty is much worse than for the population as a whole: Young children (0-6), older children (7-14), discouraged work seekers, and members of female-headed households. This information can assist in devising strategies for social security expansion that would have the greatest poverty impact. Figure 5 shows that all four of these groups have cumulative density curves that lie considerably above that for the population as a whole, illustrating their poverty dominance. Any transfer of funds to these groups, even if non-means tested, would be better targeted than a general transfer of funds to the population as a whole.
4. Limits to coverage: Suggestions for the road ahead

Section 2 above has shown the gaps in and intimated the limits to coverage of social (occupational) insurance in a society in which regular, well paid formal employment is not yet the norm. Even though gradual extension of social insurance is indeed desirable and likely, there are limits to extending social insurance where remunerative jobs remain scarce. Coverage of the labour force is around only 45% in the cases of occupational pensions, the UIF, and the Compensation Fund. Clearly, social insurance against income loss as a result of old age, frictional unemployment or disability, does not yet cover half the labour force. These proportions rise only modestly if we also make provision for alternative forms of coverage for specific groups of workers (e.g. government employees injured at work, etc.). Moreover, as the discussion in Section 2 indicated, the magnitude of the benefits in many cases still leaves much of the labour force inadequately protected.

The large gaps in coverage left by the social insurance system place a severe strain on the ability of the social assistance system to provide social security to the poor. Indeed, Section 2 showed that the scope of social assistance spending in South Africa is relatively large for a developing country, especially in the form of old age pensions, disability grants and child support grants. Figure 6, which contrasts social assistance as a proportion of GDP in Western European welfare states in 1980 – the height of the welfare state – with present South African levels, shows that South Africa spends proportionately more than many developed welfare states on social assistance. In contrast, welfare states spend a larger share of their resources on social insurance, largely paid for by payroll taxes on workers and employers and which usually flow through governmental budgets.

Fiscal and administrative constraints and the fear of a possibly negative impact on investor and consumer confidence, may prevent the basic income grant from becoming a reality. What alternative, more modest social security interventions would be appropriate and assist the poor? Given the analysis above, three areas of expansion of the social security net would seem to be viable options for the near future:

17 In South Africa, in contrast, occupational insurance, although fulfilling the same function as social insurance, is not a compulsory tax and is not shown on the government budget. Were this the case, South African social security spending ratios would rise considerably above their conventionally shown ratios to about 6-7% of GDP, far below that in welfare states but well in excess of that in most developing countries.
• **Expanding coverage of the social insurance system.** To do so by decree in the two big areas still largely uncovered – agriculture and domestic service, as some propose, may pose a similar threat to jobs in these low wage sectors as minimum wage legislation. An alternative would be to provide some tax concessions encouraging more employers in these fields to provide social insurance.

• **Expanding social assistance:** As was shown in Section 3 above, a very promising area for expanding social assistance lies in the direction already taken with the child support grants. This programme has understandably received much criticism for the slow pace at which it has been expanded to cover all the poor. The means test, devised to limit costs and better target limited funds, is blamed by some as having acted as a serious impediment to the expansion of this programme. If so, the means test should perhaps be reconsidered and the means-tested CSG could perhaps make way for a universal (i.e. categorical) child grant, which over time could be expanded to higher age groups. This would be in line with the initial preferences of the Lund Committee. Alternatively, the age limit on the CSG could be lifted, with the retention of the means test.

• **Low-wage public employment schemes:** Schemes of this nature, such as the Work-for-Water campaign, target the poor through self-selection, as only the poorest are willing to work for such low wages. Unfortunately the administrative costs of such schemes can be large, but with enough community participation they can be quite effective in getting some funds
to the poor, particularly the many discouraged work seekers in rural areas.

Such seemingly modest and incremental changes to the social security system could help extend its reach and cover some gaps. However, it will remain very difficult to plug all holes in the social safety net as long as unemployment is rampant. Sustained economic growth remains the necessary, albeit not sufficient, condition for substantial poverty reduction.

But the social security system in South Africa nevertheless provides, and should continue to provide, income security to many of the poor. For this reason, realistic but serious efforts at incrementally expanding the social security system are essential, especially in view of the fact that the fiscal discipline of the past few years now gives the government some scope for the moderate relaxation of some spending constraints in the areas of greatest priority. Poverty alleviation should undoubtedly be on this list.
References


Barberton, N. 2000. Budgeting Concerns around the Care Dependency Grant and Rough Estimates of the Cost of Extending the Grant to Children Affected by HIV/AIDS. Revised input paper to workshop on Social Assistance Policy for Children with Disabilities and Chronic Illnesses. University of Cape Town: Child Health Policy Institute, May.


Department of Social Development. 2001. Department of Social Development Inputs to Year Book 2001.


