



Chapter 5

Poverty, Social Assistance Grants and the Basic Income Grant

5.1 Introduction

The Committee paid significant attention to the urgent problem of poverty and its impacts on South African society. Moreover, through the process of public hearings, consultations with representative groups, submissions and commissioned research, the Committee has considered existing and proposed measures to alleviate poverty.

The Committee was required by the terms of reference to examine the feasibility of a Basic Income Grant. This section of the report therefore evaluates the potential impact of a Basic Income Grant, assessing its role in reducing poverty.

The Committee's findings on the state of poverty have been drawn from a wide range of sources, including representations made by the poor themselves. The Committee based its analysis on more than just a quantitative analysis of indicators and statistical measures. Providing opportunities for poor people themselves to voice their experiences was a way of ensuring broad based participation in the Inquiry as well as verifying the extent to which existing policy and programme initiatives of Government are understood by and reach the poorest people. The realities of intense poverty and inequality were also evident in direct representation made to the Committee by poor people themselves. Moreover, hearings and visits to provinces indicated that the poorest communities are living in conditions that dangerously compromise their human security and well-being.

5.2 Government programmes addressing poverty: findings

During the past 7 years Government has launched new programmes and expanded and revised existing programmes to deal with asset and capability poverty. These measures are designed to provide people (especially those who have been excluded as a result of apartheid) with access to certain assets and capabilities needed to overcome their poverty. Through such measures it is expected that opportunities will open up for people to improve their income earning capacity and as a result to address levels of destitution and poverty.

5.2.1 Poverty programmes to address capability and asset poverty

The Committee finds that Government programmes to address deprivation in health, education, housing, land, basic services such as access to water and sanitation, electricity and access to credit are well conceived and potentially well targeted. The barriers to access, especially in regard to the poor, remain administrative and institutional.

A specific problem repeatedly raised is the use of communal land currently governed by customary law. Rights to use of communal land should be secure and protected from arbitrary

seizure. Concerns have been voiced that the current position does not lead to the optimal use of land, and tends to promote migrant labour. A way needs to be found to allow people to retain their rights to return to land in retirement, but for the land to be fruitfully used while they reside in the urban areas. The Committee recommends that such concerns be considered in reviews of customary law.

Evidence put to the Committee shows that the poor have particular difficulties in accessing healthcare and primary education because they do not have even the most basic income for transport, food and basic clothing. It is the Committee's considered view that these key Government programmes, put into place to address capability and asset poverty, are essential and will in the long term result in sustained human development and economic growth. However, in the immediate term their policy efficiency, especially with regard to those poorest people in the rural and informal areas, is being compromised because of unsustainable levels of income poverty.

Moreover the Committee finds that given apartheid and structural unemployment, the current range of poverty relief projects, while in many cases innovative and responsive, are unable to make any significant impact on mass based unemployment and levels of income poverty in the immediate term. Many of these projects, are also not cost efficient in terms of their outcomes.

It is therefore the Committee's view that for the long-term policy benefits of health, education and more generally, basic services to make a developmental impact on the poorest, Government needs to take urgent steps to provide the basic means to enable the poorest to access these benefits. The Committee also recognises that barriers to access are not only bureaucratic (administrative) or to do with capacity constraints within Government itself but, based on evidence put before it, also that many of the poorest are trapped in income poor households. Addressing income poverty is therefore fundamental to a social protection reform process.

5.2.2 Poverty measures: requirement to target social policy

The World Bank says:

The measurement and analysis of poverty, inequality and vulnerability are crucial for

*cognitive purposes (to know what the situation is); for analytical purposes (to understand the factors determining this situation); for policy making purposes (to design interventions best adapted to the issues); and for monitoring and evaluation purposes (to assess whether current policies are effective; and whether the situation is changing).*¹⁶

The Committee's review of human development and various poverty studies in South Africa indicate the need for nationally agreed poverty measures. Nationally agreed poverty measures must have a conceptual and empirical basis. Conceptually, the Committee's framework for comprehensive social protection acknowledges that poverty has many dimensions. Effective policy must focus on capability poverty (deprivation in health and education), income poverty (lack of earnings and other sources of income) and asset poverty (access to resources).

Social policy intervention also needs to consider how inequality, participation, social exclusion and vulnerability contribute to poverty and people's social capacity for self-reliant development. Such a broad view of poverty requires special attention to the measurement and analysis that informs specific policy options. For this reason a conceptually sound and an empirically based understanding of poverty indicators and measures of well-being is critical.

Statistics South Africa continues to build national capacity for collecting this important social and economic data. The 1996 census and national surveys of social indicators such as the South African Labour Development Research Unit (SALDRU)/World Bank¹⁷ survey in 1993 and the subsequent OHS have provided important evidence to help orient current policies as well as to inform many of the submissions to this Committee.

Much still needs to be done particularly in the area of longitudinal data. Income data is notoriously unreliable. A proper understanding of the nature of persistent and intermittent poverty requires studies that follow the same people through these fluctuations. This understanding might then allow for effective interventions.

5.2.3 Government service delivery programmes

It is evident that the democratic Government has made significant strides to ensure policy and budget reprioritisation to provide access to resources.

Reprioritisation of resources is directed at such basic ingredients as access to water, sanitation, electricity, housing, knowledge/education, healthcare, land and other productive resources.

Government aims to meet the basic needs of communities through the provision of basic education (pre-primary and primary), basic health (primary and district level services), housing, water and sanitation, and electricity. It records the following measures to meet basic needs:

- Forty six per cent of the total education budget is spent on basic education
- Twenty per cent of the total health budget is spent on basic healthcare
- There is free healthcare for pregnant women and children under six
- A nutrition programme reaches 12 000 primary schools
- Two million people have access to safe water
- Since 1994, 1 167 435 houses have been built or were in the process of being built by the end of 2000
- The Consolidated Municipal Infrastructure Fund subsidises the cost of capital investment in municipal infrastructure
- An “equitable share” of national revenue is provided for local Government; funds are transferred to municipalities on the basis of need to enable them to provide services to poor communities.
- Transport subsidies (such as for buses) and the rural transport strategy aim to alleviate poverty. The taxi recapitalisation process will contribute to better access to transport for the aged, the disabled and school children.

The Committee engaged in a systematic review of some major current Government measures to address poverty. Such a review was designed to provide a holistic picture of the potential impact of interventions related to asset and capability poverty as well as income poverty.

After the review the Committee concluded that while there has been considerable progress in some aspects, current measures do not adequately contribute to a minimum package of goods, services and benefits. Many programmes for alleviating poverty and meeting basic needs are not targeted effectively in rural areas and to beneficiaries. Gaps in coverage and inequalities

exist in the provision of services.

For example, the Committee found that many rural women and disabled people still experience difficulties in gaining access to land. Research shows that about 80 per cent of the total land claims registered and settled to date by the Department of Land Affairs are urban, yet rural claims involve a far larger number of people.

A survey done on housing subsidy schemes also indicate that people in the rural areas are less likely to know about subsidy schemes. In terms of household income, most of those who knew about the subsidies were those earning between R2 000 and R3 500 (63 per cent), households in the lowest income category had less knowledge of the subsidy scheme (58 per cent).

The PIR (1998) indicated that national programmes for Small, Medium, and Micro Enterprises (SMME) development have focused primarily on the needs of urban SMME development. Results of an evaluation done by Community Agency for Social Enquiry (Case) and the International Labour Organisation (ILO) highlighted that there is a generally inequitable geographic spread of Public Works projects.

While the Government has implemented new initiatives with regard to sanitation and water schemes, there are still millions of South Africans without adequate access to services. Representation made to the Committee indicated that lack of access to running water forces many people, especially the rural poor, to walk long distances to fetch water. Most households in rural areas have no toilet facilities and have access to water from a river, a borehole or tank.

Several problems have also been encountered with regards to the provision of nutrition to school children. In 1998/99, the Primary School Nutrition Programme aimed to target 17 500 schools and serve a meal to 5 574 305 school children. Figures from the Department of Health indicate that the target number of beneficiary learner and schools has never been reached. This indicates that not all children are benefiting from the school feeding scheme.

5.3 South Africa's social assistance system

South Africa's social assistance system of grants is important in addressing income poverty.

Moreover, social assistance can address the fact that low or non-existent incomes contribute directly to poor access to healthcare, education, housing, and social infrastructure. This section evaluates the impact of Government's income grant programme on the state of poverty in South Africa. The evaluation is based on household level micro-simulation models commissioned by the Committee.

5.3.1 An overview of the social assistance system

In April 2001 an estimated 3,5 million South Africans received social assistance through some form of income grant.¹⁸ The State Old Age Pension (SOAP) is the largest social assistance programme with about 1,9 million beneficiaries. The important redistributive impact of this programme has been recognised by Government, labour and academia.¹⁹ The Disability Grant (DG) is the second largest programme in Rand terms, but smaller than the Child Support Grant (CSG) in terms of beneficiaries. DG beneficiaries numbered 643 107 in April 2001. Eligibility for the grant is determined based on a medical diagnosis assessing the degree of disability, along with a means test. Reform of the DG has been the subject of a recent task team report.²⁰

The introduction of the CSG represents an important reform introduced by the Government since the transition to democracy. In April 2001, 800 476 caregivers received grants with an estimated value of R120 million. The distinctive feature of the programme is the concept of "follow the child", meaning that the benefit is independent of the child's family structure. This grant was introduced in April 1998 and provided R100 per month per child for children under the age of 7 within a means test. The declared goal at that time was to reach 3 million children within the next five years. At the same time, the phasing-out of the State Maintenance Grant (SMG) with about 350 000 beneficiaries started. The Department of Social Development had to phase out the SMG over a period of 3 years. In April 2001, the CSG benefit was raised to R110, with a commitment to adjusting it for inflation in subsequent years.²¹

The Committee, through research and submissions, has noted the following concerns regarding the CSG:

- The take-up rate has increased in the 2001/2 financial year to around 1,5 million out of, at the very least, 3 million eligible children who could receive the benefit. However, there is still a concern that children most in need are not targeted effectively.
- It is widely accepted that the level of the grant does not come close to meeting the basic costs of childcare.
- The age limit has no real rational basis and is not consistent with the Constitution's definition of a child, that is, those under 18 years of age.
- In stopping the grant at school-going age some children apparently are unable to attend school because their parents cannot afford the costs associated with schooling.
- The means test as currently applied represents a barrier to many applicants gaining access to the CSG.
- For many reasons, including those above, there is a widely held view among beneficiaries and potential beneficiaries that the grant is not operating effectively.

Other programmes include the Foster Care Grant (FCG), and the Care Dependency Grant (CDG). At the age of 18, the disabled individual can apply for a DG. In terms of numbers of beneficiaries, the SOAP, the DG and the CSG are the largest social assistance programmes within the Government funded social security system.

5.3.1.1 Household structure and social security reform

A number of household structural characteristics are important when considering social security reform. South Africa's household structure was analysed using the best available data. The results have to be interpreted with care, but showed the following:

- Most pensioners (84 per cent) live in households with non-pensioners, so it is likely that most old age pensions support living standards beyond their immediate beneficiaries.
- Nevertheless, most adults (81 per cent) and children (76 per cent) live in households with no pensioners, so they are less likely to benefit from any grants paid to pensioners. It becomes clear that while

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 skip 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

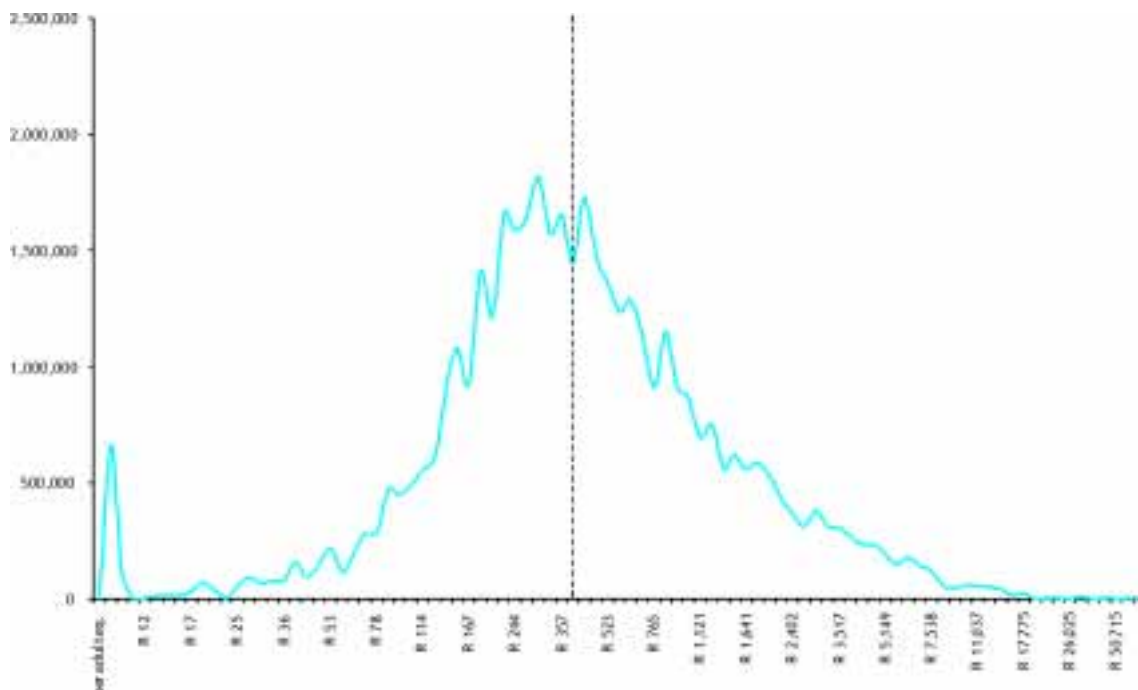
that would address destitution in the medium term and absolute poverty in the long term.

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.

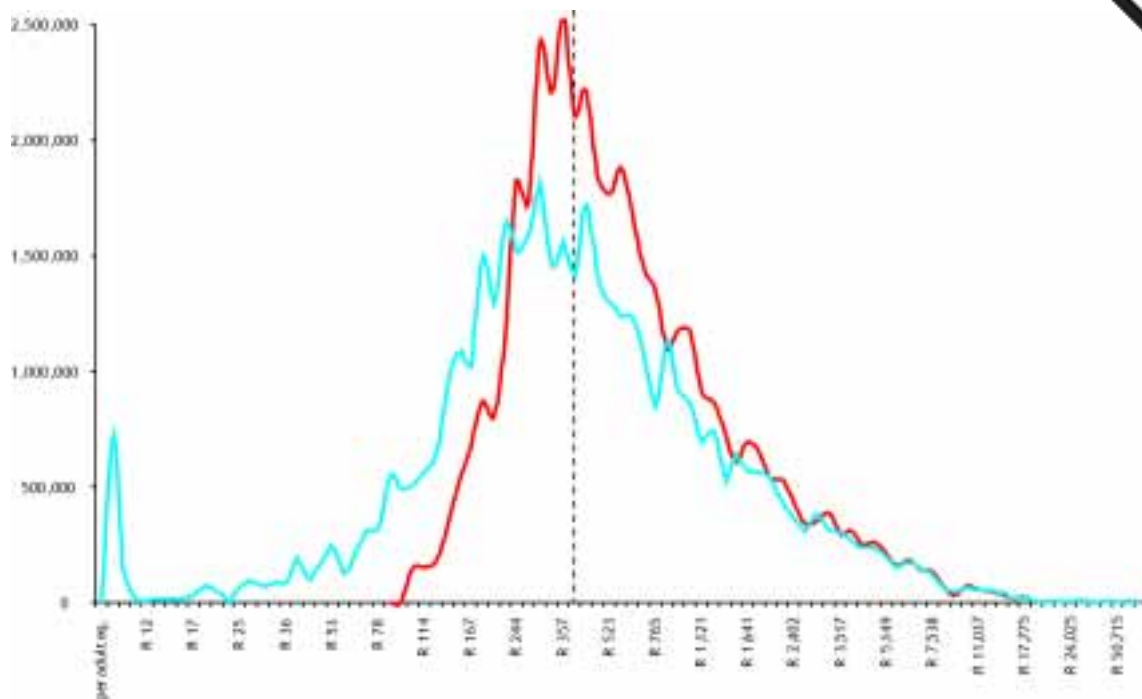
5.6.2 Basic Income Grant

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

Figure 11
Distribution of income with a Basic Income Grant.



a Basic Income Grant do not exist. In particular, there is a need to first put in place appropriate capacity and institutional arrangements to ensure effective implementation. Therefore the Committee recommends the gradual development of a comprehensive and integrated income support that can underpin South Africa's comprehensive social protection system.

5.6.3 A comprehensive and integrated medium- to long-term framework for income support

Allowing for a diversity of policy preferences, the Committee has identified three main options concerning income poverty.

5.6.3.1 Option 1: Maintain the status quo

This option could be based on the view that

significant improvements, particularly income poverty interventions, cannot be accommodated due to inflexible fiscal constraints. Alternatively, some may feel that new interventions are perhaps unnecessary because the suggested end-state will be reached naturally over time with improvements to the administration of current programmes. There will probably be considerable support for this option, particularly from those mainly concerned about possible financial implications of any proposed interventions.

The Committee, however, is of the view that this would be an ultimately short-sighted position. The current programmes fail to satisfy the constitutional imperatives and thus make the state vulnerable to Constitutional Court challenges, and are clearly inadequate. Further, the current system fails to address the socio-economic imperatives, and the social costs of the absence of proper social protection will contribute

Table 8
Social impact of the Basic Income Grant

Policy	Poverty gap reduction	Additional people freed from poverty
Current situation	23%	—
Full take-up of existing grants	37%	0,8 million people
Basic Income Grant	74%	6,3 million people

towards a tendency of social instability. This would force the state to increasingly criminalise and judicialise essentially poverty-related social conditions, thereby creating conditions that could undermine the legitimacy of the democratic state.

In short, there is clearly a cost to not acting, which will sooner or later have to be borne by the country. Intervention sooner would be both socially and economically prudent.

5.6.3.2 Option 2: Immediate implementation of a comprehensive social protection system

The Committee has received many submissions and representations, from a wide range of social formations, which argued for immediate implementation of measures to address the tremendous socio-economic challenges facing South Africa. It was argued that there are increasingly large numbers of people in desperate need, and such people are not accessing any protective measures (such as emergency shelter). In particular, such arguments tended to motivate for a universal income grant that can, at the very least, alleviate persistent and pervasive levels of destitution.

Many proponents of this view argued that South Africa has considerable economic resources at its disposal, including low levels of debt and considerable space for increased taxation – and that such resources could be mobilised in the short term.

The Committee, after due consideration of this view, and appreciation of the need for additional social protection interventions, has concluded that the current institutional arrangements do not easily allow for new and expansive measures to be implemented immediately. A comprehensive social protection system requires the prior establishment of new institutional arrangements and measures. Such arrangements, even in the most optimistic scenarios, would require several years to fully plan, resource and implement.

Nonetheless, the Committee is of the view that, in the interim, there is a need to take immediate steps to expand certain poverty relief and *de facto* schemes to assist those individuals and groups that can access such benefits.

5.6.3.3 Option 3: A phased approach towards a comprehensive social protection system

This is the Committee's preferred option. This option seeks to progressively realise a

comprehensive social protection "end-state". A two-phase approach is suggested, with the phased delivery balancing the need to allow time for the development of necessary institutional arrangements and ensuring that the state is able to meet important domestic and international commitments related to poverty reduction. In developing a long-term scenario which phases in the progressive expansion of the social assistance grant system the Committee has paid particular attention to issues of fiscal feasibility.

5.6.3.4 Phase 1: Comprehensive social protection system prioritising the most vulnerable

This phase would establish the preconditions for a comprehensive social protection system based on the constitutional imperatives and apartheid backlogs. It approaches the reform process in a way that prioritises the most vulnerable, namely children up to the age of 18.

The key components of phase 1 are identified below.

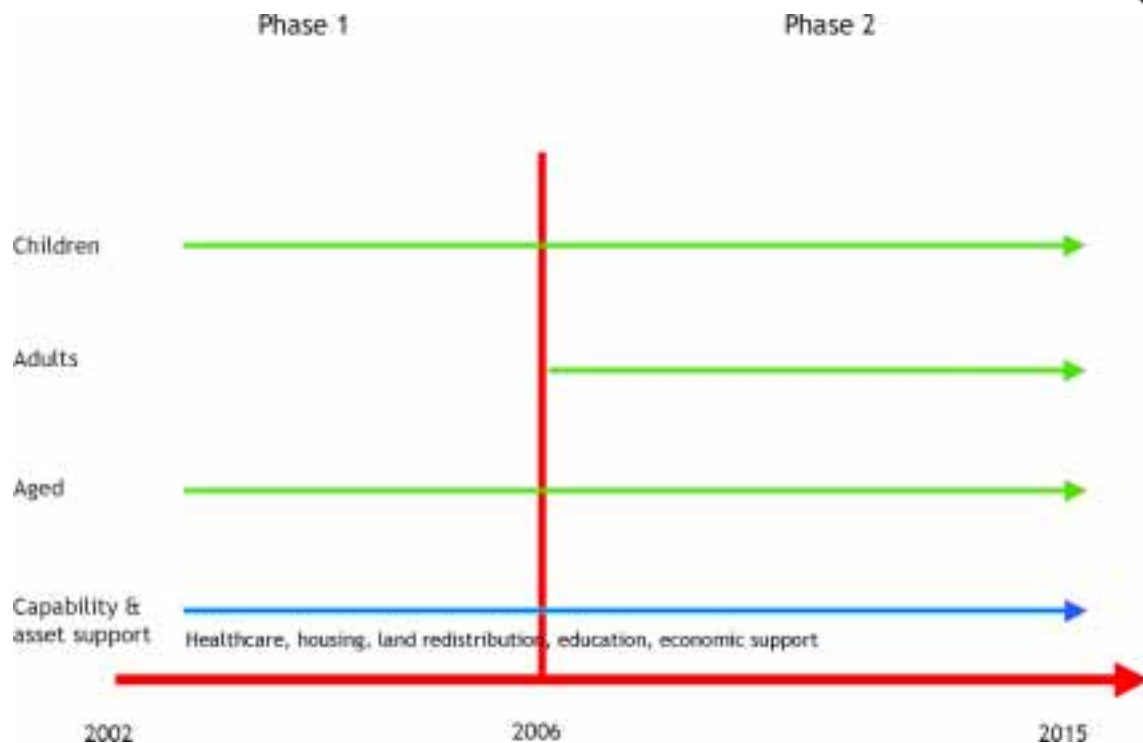
5.6.3.5 Phase 1: Period 2002 to 2004

- Set minimum income level to eliminate destitution
- Prioritise vulnerable and destitute groups (mainly children up to the age of 18)
- Put administrative systems in place
- Rationalise grants that are currently *de facto* poverty grants
- Ensure effective and efficient ways of targeting the most vulnerable
- Simplify and eliminate the means test where they obstruct equity, administrative justice and are costly to implement.

This phase uses the criteria of age as a parameter for the income support grant. Since children are among the most vulnerable and voiceless in society, and children born into extreme poverty almost never escape the poverty cycle the introduction of an income support grant for children should be introduced.

The downside to this phase is that an exclusive child-focused intervention does not address household poverty, and could create negative unintended consequences. An exclusive focus on child poverty, for example, would overlook the fact that the entire household will consume whatever grant one gives for the child. The addressing of *de facto* household poverty in this

Figure 12
Suggested phasing in of an income support grant system.



manner will exclude more than 1 million poor households without children, and may create perverse incentives regarding children. These problems will be addressed in phase 2, however.

5.7.3.6 Phase 2: Comprehensive social protection for all

This phase completes the building of the comprehensive social protection system initiated in phase 1, by extending an income support grant, preferably called a “solidarity grant”, to all South Africans.

Although more costly in the short to medium terms than option 1, this alternative would have the biggest impact on poverty and social exclusion, thus providing various positive spin-offs for development and society in the medium to long term. By the conclusion of this phase, the state would have gone a long way in meeting its World Social Development Summit (1995) commitments to eradicate absolute poverty by 2015. The key components of phase 2 are identified below.

5.6.3.7 Phase 2: Period 2005 to 2015

- Set a level to address absolute poverty
- Level of the grant determined in relation to a comprehensive package.

The two broad phases of option 3 are shown in figure 12.

Finally, the means-tested and universal measures, recommended in option 3, have been costed (see chapter on Financial Framework for Comprehensive Social security) and can be seen to be financially feasible within the current fiscal framework.

5.7 Conclusions

It is the view of the Committee that a more comprehensive system of social assistance can play an important role in achieving medium- to long-term social and economic transformation in South Africa. First, it ensures the constitutional and democratic imperatives are met. Second, it indicates a commitment to addressing the legacy of apartheid socio economic backlogs. Third, it provides an opportunity to balance social and economic policy goals by prioritising the most vulnerable in the immediate term and ensuring in the long term an inclusive system of comprehensive social protection.

The Committee recommends that serious consideration needs to be given to fully utilising future improvements in fiscal capacity to build

up this system of transfers.

The Committee also finds that although a Basic Income Grant is most able to eliminate destitution and have a developmental impact on the poorest, its implementation is constrained in the short term due to fiscal and administrative obstacles. It is, however, the view of the Committee that fiscal and administrative capacity exists for a phased and measured introduction of a comprehensive system of income support through social assistance, as described in option 3. Within this context, households in clear distress should be given priority in the expanded framework.

An expansion of the social assistance grant system to adults living in destitution and poverty can have positive social and economic implications, and is fiscally feasible if seen as a long-term intervention.