Safety Nets and Income Transfers in South Africa

Harold Alderman
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FOREWORD

This paper is one of a series of informal discussion papers on poverty and inequality issues in South Africa, which were produced as contributions to the Poverty and Inequality Report (PIR). The PIR was commissioned by the Deputy President’s Office of the Government of the Republic of South Africa (and was published in 1998 by Praxis Publishing, South Africa). As these papers were written at different times over the years 1996-1998, the analysis in each paper covers different periods; however, for ease of reference, they are now being disseminated in one series.

A complementary report, which gathers the views of the poor themselves, was written by a team of South Africans and also published by Praxis Publishing. “The Experience and Perceptions of Poverty in South Africa” (1998) gives voice to the poor, who describe what poverty is to them, how they get trapped in it, and how they might escape from it. This study was initiated and funded by the World Bank (through a Dutch Trust Fund) and by the Overseas Development Administration of the U.K. Government.

The papers in this series were written under the direction of Ann Duncan (Task Manager) and under the overall guidance of Pamela Cox (Country Director) and Ruth Kagia (Sector Manager). The series was edited by Barbara Koeppel, and the final presentation was managed and executed by Lori Geurts.

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The views expressed in this study are those of the authors and should not be attributed to the World Bank, members of its Board of Executive Directors, or the countries they represent.
### ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>NGOs</td>
<td>Non-Governmental Organizations</td>
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<td>NNSDP</td>
<td>National Nutrition and Social Development Programme</td>
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<td>PSNP</td>
<td>Primary School Nutrition Programme</td>
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<td>RDP</td>
<td>Reconstruction and Development Programme</td>
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<td>SALDRU</td>
<td>Southern Africa Labour &amp; Development Research Unit, University of Cape Town</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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### CURRENCY EQUIVALENTS

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Table 1: Estimates of Percent of Children Covered with Maintenance Grants
A. OVERVIEW

For much of this century, South Africa has used a combination of employment and transfer programs to alleviate poverty among a segment of the population. To a large degree, these programs achieved their objectives. Unfortunately, the principal objective was to target transfers from the poor African majority to the less poor White minority. Although the fundamental objectives have shifted, there is a legacy of policies designed during the apartheid period which form the starting point for current social assistance programs. This is problematic because the apartheid programs have a vastly different fiscal implication when geared for a majority population than when targeted to a small population. In addition to adapting some of these earlier practices, the Government has launched new programs. These interact, occasionally directly in implementation, and always indirectly through budget tradeoffs. It is this latter point that shifts the debate from whether they reduce poverty (which they do, as gauged with techniques of economic measurement) to how the welfare budget should be allocated—a political question that goes beyond standard economic measurement techniques.

This paper reviews the country's four main safety nets: (a) old age pensions, (b) maintenance grants for children, (c) food-based transfer programs, and (d) tax exemptions on commodities primarily consumed by the poor. Besides discussing the current and potential budget implications of these programs, the paper explores their impact on poverty and the overlap of beneficiaries, or lack thereof. The impact of the programs on poverty is viewed from the perspective of raising the consumption of those who do not have the potential for supporting themselves at or above the poverty line. While this is often the objective of income transfers, such programs can also serve the role of insurance, that is, they may provide a safety net. Although the programs do not generally serve as a temporary means to maintain consumption for individuals who, on average, have adequate consumption (say, farmers who have a bad year), the paper considers the potential for this as well. Finally, because transfers compete with development programs for a share of the budget, the paper explores whether the programs augment other investments in human capital.

B. OLD AGE PENSIONS

The Government's old age pension is only indirectly linked with each recipient's work history. Thus, it is more an age and means tested income transfer than a contributory pension program. Totaling R7.7 billion in 1995/96, the pensions accounted for over 63% of all federal budget social transfers and were as large or larger than programs for child allowances and other non-contributory transfer programs in the Eastern European transitional economies. However, somewhat ironically, given South Africa's enormously skewed incomes, it is possible to give substantial transfers to a significant number of the poor. Thus,

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1 This is based on the Lund (1996). Using this estimate as well as of total government expenditures in the Department of Finance’s 1996 Budget review (Republic of South Africa), pensions appear to be 1.5% of GNP. Estimates of larger shares appear in various papers, perhaps reflecting social security (that is, including disability grants and maintenance grant) as a share of GNP. Moreover, occasionally unemployment insurance in lumped as a component of social security or as part of the welfare budget.
the average pension is much larger relative to the income of the poor than broad-based programs of this magnitude in other countries. Although the program is means tested, in 1993, 80% of all elderly Africans received a pension. Indeed, most of those who qualify by age receive the pension.

The maximum (and most common) monthly individual pension in 1993 (R370) was half the average household income for African families and three times the median per capita income (Case and Deaton, 1998). Thus, few households with pension recipients are among the poorest, although most remain below the poverty line. Using a poverty line (R301) which defines 40% of South African households as poor (R301 per adult equivalent per month) and 20% as ultra poor, 55% of all households with at least one member old enough to qualify for a pension in 1993 were poor and 29% were ultra poor. Among the African population alone, the numbers were 68% and 37%, respectively.

The poverty rates for households with elderly include those that already receive pensions; without pensions and the impact they have on household expenditures, the rates would be even higher. However, since pensions are shared with the household, the transfers move comparatively few out of poverty. Using the poverty line listed above, 7.25% more households would be classified as poor if they did not receive pensions and household income did not increase; and relatively more households would fall below the ultra-poor line. Without pensions, this category would rise by 26.5%.

Still, the program is designed to cover only the elderly, not the poor. Thus, it remains an important question whether some of these funds could be targeted to other segments of the population in poverty. However, the pension program is justifiable beyond the relative poverty of the elderly compared to other demographic groups; it can be defended on equity grounds as well, since it attempts to redress past inequities, compensating individuals who were unable to save for their retirement due to apartheid restrictions.

Moreover, it indirectly supports thousands of children, since most elderly live in multi-generational households. Roughly a third of all those four years old or under (the most vulnerable ages) are in households where elderly individuals receive pensions. In fact, the percentage of children living with pensioners is even higher in the poorer quintiles.

Since most of the elderly have only recently received pensions, it is unlikely their full impact on household formation has been felt, much less measured. However, evidence to date does not indicate that this additional income encourages parents to place their children in these households. Indeed, while households with at least one member receiving a pension contain more than the average number of children, those where the oldest individual is 50-60 years of age, and thus not yet eligible for a pension, are also larger than those with younger individuals. In fact, the number of children in these households (with 50-60 year olds) is the same as in those where individuals receive pensions. Moreover, there is no a priori reason why families that want to share a pension with a child would need to change living arrangements; they could instead transfer some part of it to the household where the child lives.
Most estimates of the impact of pensions on poverty assume that families make no behavioral reallocations. Under this assumption, income can be determined in the absence of pension as observed household income minus the pension. To estimate consumption, one has to make another assumption—that pensions do not affect savings. It may be that individuals save less, including retaining less of their provident funds from previous employment, than they would without the prospect of old age pensions. However, few estimates exist that can indicate the magnitude of such behavioral changes. These assumptions assist in making estimates of the impact of pensions on poverty.

Pensions have, however, been found to affect remittances and private transfers. In Peru and the Philippines, for example, they reduced private remittances to some degree. In South Africa, such a response could be relatively large. Households receiving private remittances (roughly half the rural households getting pensions) might have had them reduced by as much as R0.3 for every rand of pension income in 1993 (Jensen, 1997).

In addition, households receiving pensions may have lower earnings due to their reduced participation in the labor market, a pattern that has been observed in both industrialized and agricultural-based economies (Sahn and Alderman, 1995). Two different reasons may explain this. First, household labor supply may become diminished because of the direct impact of non-earned income in the household—whether or not the pension is subject to a means test. Second, the means test itself introduces a disincentive if increased earnings reduce the pensions. The magnitude of this disincentive for South African households is unknown and would possibly be small due to the current high unemployment. Further, such disincentives would be based not on the size of the pension but on the pension net of reductions in private transfers, as mentioned above. Thus, while it is possible that some would reduce their participation in the labor market, the information available does not imply a major concern for the design of pension programs.

Small studies indicate that recipients value the regularity of their pensions (Ardington and Lund, 1995), both because other income is less reliable and they provide some access to informal credit. Further, the studies suggest that despite sporadic problems with distribution and difficulties documenting one’s age, the system has successfully expanded into rural areas.

There are, however, some anecdotes that fraud exists at various levels in the system. For example, it may be that payments are being received by fictitious individuals or in the name of someone who died years before. To address this, in some rural areas, automatic teller machines which read finger prints, are being used to distribute monthly payments. While this does not eliminate other types of abuses, such as individuals misreporting their age, there is little reason to suspect widespread abuse at the 'retail' level (among recipients). While it is alleged that pension funds have been diverted at higher administrative levels, household surveys confirm the high rate of take up and provide an aggregate check on levels of abuse.

In summary, there are relatively few unknowns in the pension system other than the level at which the government will continue the support. The high growth of pension
payments in the 1980s and early 1990s, due to the inclusion of Africans into the system, has leveled off. The number of African pensioners grew at over 7% per year in the 1980s and the amounts of the grants grew 10-fold. However, with coverage saturated and with racial equality achieved (with respect to pensions), further growth in coverage will be based mainly on demographic trends. While the number of elderly Africans is increasing in both absolute numbers and as a share of the population, this is occurring at a modest rate. Even by 2035, the proportion of elderly among the African population will be less than it is in the White population at present. Moreover, as the participation of Africans increases in the formal economy, the absolute number and possibly the share of the population with private pensions will also rise, which could reduce the pressure for public pensions. Conversely, the level of pension per recipient is still growing, although the 1998 payment of R490 is slightly lower in real terms than in 1993. However, the increase in 1996-1997 exceeded inflation estimates, which restored some of the real value eroded in the previous three years.

C. MAINTENANCE GRANTS

Maintenance grants, along with foster care and child dependency grants, while totaling only 12% of the expenditure on pensions in 1995/1996, are key to the country's future social assistance programs. In the first half of the 1990s, the number of recipients expanded at a rate similar to that of pension recipients in the previous decade. While the take-up rate for pensions indicates that virtually all those eligible have access, the rate for maintenance grants is uncertain and not yet saturated.

Until recently, maintenance grants were largely restricted to non-Africans, in particular, the Colored population; as late as 1990, 54% of all maintenance and foster parent grants (52% in value terms) went to Coloreds (Krueger, 1994). In 1993, of the children covered, 13% were Colored, 8% were Asian, 2% were White and 0.5% were Africans. The latter group were restricted by a lower income cut off, higher rates of customary marriage (which made them ineligible) and a lack of outreach and advocacy to educate Africans about their rights.

Legal reforms in 1992 removed restrictions on grants on the basis of illegitimacy and type of marriage or union. Thus, under the previous system of maintenance grants, the potential existed for the number of grants to increase among Africans to higher levels than for Coloreds. Projections partly depended on the number of families where a parent who worked in another locale was not providing support. In addition, pressure would increase for maintenance and foster care grants due to the rising number of AIDS deaths. For all these reasons, the program would have become costly.

The SALDRU survey indicated that in 1993, fewer than 35% of African children lived with both parents. Even if absent parents (reported as household members in the interview) or those who sent remittances are included, the percentage of children in families with both parents climbed to only 48%. Thus, given the fact that a large portion of African families might have been considered eligible, there was a risk that the maintenance program which had been previously designed with a nuclear family as the norm would be
overwhelmed. Indeed, projections by credible researchers for state maintenance grants ranged from R5 billion (two thirds the amount of old age pensions) to R20 billion (over twice that for pension grants), depending on the assumptions used.

The situation with maintenance grants posed a dilemma for the new government. While the African population’s expectations were raised, with respect to their access to services previously granted only to minority groups, they were unsustainable. Aware of the dilemma, the Government formed a group (the Lund Committee) to review options for state maintenance grants. The Committee made two significant departures from previous projections. First, it recognized that the previous practice of linking grants to family structure created a heavy burden on provincial welfare administrations that would have to certify eligibility. It also created disincentives for paternal responsibility. Thus, the Committee advocated that children, rather than families, be tracked and recommended a flat-rate child support benefit be introduced and paid, via the primary care giver, to all children. Original discussions centered around a universal grant, but acknowledging fiscal pressures, the Committee recommended that grants be made only to poorer households, determined by a means test. Thus, the Committee’s recommendation dropped the former concentration on widows and abandoned mothers and focused on the financial needs of children.

Second, the Committee proposed working from a budgetary assumption (of R1.2 billion or R2 billion) back to the targeting criteria, rather than moving from the number of eligible children to the budgetary implications. Table 1 (from the Lund Committee, 1996) presents the various possibilities the approach generated. The Committee considered targeting cut-offs for the means-tested family allowance which depends on the ages of children which are deemed eligible for support as well as the size of the per child grant and the total budget available. Besides recognizing the choices based on these three variables (age, size of grant, and budget), the Committee noted the uncertainty in the demographic data (from the Demographic Information Bureau) to which they had access. For example, projections from the SALDRU survey implied the proportion of children to be covered could increase as much as 40% (from 39% in the upper right, to 55%).

Can the maintenance grant program stay within the range discussed by the Committee? Various countries have allotted a similar share of GNP to transfer programs as would be involved in the options considered by the Lund Committee. Its estimates were based on macroeconomic considerations—but beg the question of how the targeting would be achieved. Virtually all frequency distributions of income or expenditures are quite steep at the share of the population in the Committee’s options. What this means is that a relatively small change in the Rand level for an income cut off would significantly change the number of households that would be eligible. While 29% of the children could be covered with a grant of R75 a month (as suggested by the Committee) the number could rise to 39%, if the cutoff of family income rose from R150 to R190, per capita. With a grant of R125 per child, the difference in targeting cut-offs for an expenditure of R1.5 billion compared to that of R2 billion would be only around 20 rands. Hence, a modest proportional difference in cutoff levels would substantially affect the number included in the program—even if household income were accurately reported.
In fact, the budget for child maintenance grants and the share of the population the program sought to cover expanded appreciably by the time the Lund committee principles were implemented in April 1998. While the new program will be phased in over five years, when fully implemented, the monthly grants of R100 for children up to 6 are expected to cover from 43%-48% of that population\(^2\) and cost R3 billion-R4 billion. This is a larger share of the population of children under 6 and a higher expenditure than the Committee anticipated.

As with the old age pension, the program will be funded from the central government, but administered by the provinces, in keeping with the constitutional steps towards decentralization. The center is obligated to fund the old age pension even if the provinces have shifted the allocation to other uses. This touches upon incentives and monitoring issues intrinsic to fiscal decentralization. These issues are likely to be important to the administration of the maintenance grant as well; the center will have financial incentives to monitor the accuracy of targeting that differ from the incentives the provinces may have to increase their share of total benefits.

The grants program will be introduced gradually, due to limited capacity in the provinces. Eligibility criteria will be based on self-reported income, rural residency and type of housing. Although only 12.5% of the targeted children will receive the grants in the first year and 31% in the second, the criteria will be the same as when the program is operating fully. The possibility of setting the cut off lower than the income at which the estimated number of eligible children will conform to the budget and then raising it after the Department of Welfare gains experience in targeting was considered but not adopted. Thus, the phasing will not prioritize among the eligible population. It also runs the risk that if program monitoring indicates ways the targeting can be improved, it is more likely that recipients will be removed from the rolls, rather than added.

Since all targeting programs create incentives to conceal income, it is likely that many households will report income just beneath the eligibility level—which occurred when Sri Lanka began to target its food subsidies. And, if more South African households report themselves poor than anticipated, either the cost of the program will exceed projections and the budget allocated; or, if the budgets or number of recipients are held fixed, less poor households may crowd out even poorer households—since, as mentioned above, the ultra-poor are not being prioritized.

The advantages of targeting will be greater if the level of the grants increases. However, in addition to pressures to raise the eligibility cutoff, there may be pressure to increase the Rand payments. The Lund Committee considered the costs of raising a child in a manner consistent with its recommended approach of tracking the child, not the family. However, households generally use child maintenance grants to supplement the family’s

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\(^2\) When the Grant program was approved by the Cabinet in March, 1997, the program was aimed at 3 million children who would receive 75 rand each.
overall income. This has been well documented with programs of nutritional supplements (whose distribution is easier to track than cash grants). For years, nutritionists tried to target feeding programs to vulnerable individuals and called the parents' tendency to share the supplement with siblings as leakage. This not only ignored most economic theory, it overlooked the pattern of most parents to treat their children equally. Based on the experience with nutrition programs, most are more explicit about dealing with families and the expected sharing within them.

Thus, it should be expected that grants targeted to one age group will be shared among the family; indeed, the committee applies this assumption with respect to pensions. If this is the case with the child maintenance grants, they will do comparatively little to move households out of poverty, but they will clearly improve the recipients' welfare. Nevertheless, the size of the grant may be challenged as arbitrary and not in keeping with poverty objectives. For example, earlier estimates concluded that if all households with children under 6 received a grant of R75 (R125) per child, the grant would only move the number of households classified as poor based on a criteria of R301 per adult equivalent per month, using 1994 Rand, from 40% of all households to 38% (36%). Those classified as ultra-poor (under R177.6) would drop from 20% of total households in the SALDRU survey to 17% (15%). These estimates differ from the criteria eventually chosen in that they were based on expenditures per adult equivalent rather than household income. They also differ from— but bracket—the size of the transfer chosen. However, they illustrate that the grants alone will not appreciably reduce the number of households below the poverty threshold.

The Committee apparently assumed that existing pension and school feeding programs would continue. Both have political support and the former has a favorable track record. However, both also account for a fair amount of the budget pressure that led the Committee to base its projections around a comparatively modest budget. The fact cited above, that one third of all children are in households which receive pensions, is used to lessen the need for the uncomfortable inter-generational comparisons that are used when determining how to allocate a fixed welfare budget. However, rather than argue that the old age pension is an indirect investment in children, the overlap can provide some additional targeting. Such programmatic overlap is accounted for in the Welfare Department's targeting guidelines, since pension income (private or state) is included in household income. If the interaction of the two programs was considered, it could reduce fiscal pressures that jeopardize both of them, but still protect the neediest households.

The issue of program overlap also arise with the school feeding program. The Lund Committee considered a range of age options for grants and expressed a preference for including children aged 0-9—partly because many enter primary school late, and miss the school feeding. The Committee also concluded it could be useful to link eligibility with the

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3 Only under an assumption of such sharing across age groups does it make sense to discuss the impact of an old age pension on children.

4 The household income criteria poses the risk that over time households will split, or report joint family structures as distinct households.
registration of births and even the use of health care centers. By a similar logic, age cut offs for maintenance grants could be used to discourage late entry in schooling, a process often associated with lower completion levels. Thus, budget considerations that favored a lower age for ending the grants coincided with the use of school feeding programs as incentives for enrollment.

The new maintenance grant will replace the current program which provides grants roughly four times as large to one tenth as many children; thus, the new program will be more than twice as costly as the current one. For three years, both maintenance grant programs will operate since the government recognizes that although the program funding will surpass existing maintenance grants, some households (mostly in the Western Cape) will receive less once the new program is in place. Part of the loss will result from smaller grants per child; the other part will result from lowering the age at which children no longer receive grants to six years. For example, a household with two children aged eight and 10 will lose all of a steady income source, which now amount to a figure that is close to the mean household income for all rural households.

Can the grants be used to further investment in human resources? The Committee raised the possibility that they could be tied to nutritional screening. Evidence indicates that 20%-25% of the children are malnourished in terms of short stature. While some programs have used growth criteria to determine eligibility for supplements (screening is based on growth between successive measurements rather than stature at a single observation), this approach has usually been tied to rather well-managed nutrition interventions, as in Chile and Tamil Nadu, India. In these examples, the programs have a high supervision ratio, have growth promotion in addition to the screening, and the transfers were comparatively small and short-lived compared to the South African maintenance grant. Such programs require investments in health care and infrastructure that do not yet exist in South Africa.

Another problem with tying the grants to nutritional screening is that they would be based on an observed problem, rather than on one which the program would aim to prevent. While this concern has some validity, it fails to acknowledge that a grant program can be considered a safety net (an insurance mechanism). It also fails to acknowledge that such a program diverts funds from other efforts, such as generating employment, that could reduce poverty and prevent malnutrition. Moreover, many successful screening programs find that growth promotion is actually preventive; siblings of children who are found to require special attention have a reduced probability of malnutrition. Thus, a nutrition-based program might be an affordable complement to existing programs, as it could promote the investment or development potential of the grants in a manner that pure income support could not. However, a link with growth promotion would require a comparatively long gestation. Moreover, it might be difficult to phase in such a program in the areas where the need was greatest and which have less infrastructure.

No evidence of deliberate neglect in order to qualify for program benefits has been documented, although one frequently hears the possibility raised.
This is a different issue than linking transfers to registration and use of basic health facilities, which the Committee also proposed. Since clinic fees for children have been eliminated, the cost of visits is no longer a barrier, although physical access and service quality may still be problematic. Nevertheless, grants could be tied to some degree to clinic visits (with or without using growth or stature as a targeting measure as implied by screening) as advised in the report. However, this does not mean the clinics should be burdened with distributing the grants. One example of programs that are successfully linked is in a pilot in Campeche, Mexico, where food stamps and the use of clinics are tied. When women who had been determined eligible visited a clinic with a child, their electronic food stamp was imprinted with a two-month grant redeemable in any participating store. The same procedure and technology (which, coincidentally, was manufactured in South Africa) could be used for a cash card that could be redeemed at a bank—in the same way that the food card can be redeemed at retail stores. As the Committee advised, any program designed to support caretakers might consider such a link to health care centers.

To summarize, replacing the previous maintenance grant eligibility based on family structure, with a child-based means-tested grant, has removed a flaw in the system, but at the risk that costs could escalate. Another risk is that means testing is difficult to do in communities where individuals see themselves as poor relative to the wealthy minority, but may not fall within eligibility guidelines.

It is possible that the grant could be linked with health care and nutritional screening, in keeping with global experience, so as to increase its impact on child development. However, this would require additional resources as well as time. Still, the grants complement two sizable investments in children initiated by the Reconstruction Development Program (RDP): free primary medical service and meals for selected primary schools. The latter, which is discussed below, is budgeted at R500 million for 1997/1998, or twice the initial cost of the grant maintenance program and 12%-15% of what the program will cost when fully operational. While it is difficult to know the share of health expenditures directed to children and pregnant women, some estimates can be drawn from the cost of primary health services, which is R3.1 billion. Since some of these services are provided at community hospitals, their cost should be added to the overall figure; but is unclear how much of the budget provides free or subsidized services to children. Still, these programs (as well as primary school and the proposed preschool programs) are the most important way to invest in human resources. Conversely, the maintenance grant, though oriented to children and targeted to the poorest households, is a more fungible support to all household members.

At present, no analysis exists to indicate if maintenance grants are treated differently than other income, so as to amplify their impact on child health and education. Other child-oriented income transfers, particularly food stamps in both industrialized and non-industrialized countries, have been spent more on children than income from other sources. Nevertheless, it is unlikely that maintenance grants will have a marked impact on child care, above the direct impact on income, without significant investments in complementary programs.
Finally, as with pension grants, it should be recognized that some decrease in private remittances is a plausible response to an increase in publicly funded support. While no formal analysis exists as with pensions\(^6\), it is reasonable to assume that the magnitude of the reduction in private transfers to children will be similar to the reduction of transfers to caregivers, say R0.3 for every rand delivered to the families with young children that receive private transfers. Conversely, women who get few and irregular remittances will be able to plan their budgets with the expectation of at least one regular income source.

**D. NUTRITION PROGRAMS**

Nutrition programs span a range of community and clinic-based interventions. As they often increase the long-term learning and work capacity of the children who benefit, they are considered investments in human resources\(^7\) (covered at length in other papers in the Poverty and Inequality Report). To date, various local-level nutrition projects have been introduced in squatter towns and rural areas. In addition, the country operates the National Nutrition and Social Development Program (NNSDP) initially aimed at distributing R400 million annually in community-based food security projects and the school feeding program, with a similar budget.

The NNSDP, later called the Community Based Nutrition Program, intended to provide food to individuals and families with very young children who were at risk of malnutrition. If the program succeeded, it would serve much the same objective as the child grant—which is to ensure a minimum consumption level for households with children. However, the program has lacked focus. Its priorities include children 0-2, 2-6, 6-13, pregnant and lactating women, the aged, the chronically ill and the unemployed. Being demand driven, it has not even been able to confine its services within this broad target group; nor has it been targeted to communities with the greatest need. Rather, those closer to urban areas have benefited most (McLachlan and Marshall, 1995), although evidence confirms that nutritional deprivation is greater in the more remote rural areas.

One problem is that although the program was designed as a safety net to address nutrition, it made no distinction between investments in nutrition and the alleviation of hunger associated with lack of income. Moreover, its mix of goals includes promoting development, which explains the large number of urban and peri-urban communities that successfully promoted projects aimed at generating income. While this objective may fit with other national priorities, the relative roles of safety nets and investment in the nutrition of young children and pregnant women remains ill-defined (McLachlan and Marshall, 1995). As the program’s budget has been shifted to the provinces, some reorientation may follow from the change in budgeting procedures and it might be included with other community grants.

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\(^6\) The 1993 SALDRU survey does not contain sufficient information on maintenance grants for econometric analysis. In any case, the rules of eligibility at that time differ appreciably from the rules currently under consideration. The general literature on this topic is reviewed in Cox and Jimenez, 1990.

\(^7\) At the same time, most nutrition programs provide direct benefits in terms of improved well being.
The Primary School Nutrition Program (PSNP) has been one of the most visible programs of the new government. Announced by President Mandela in May 1994, it was operating within a few months under the umbrella of the Reconstruction Development Program (RDP). However, it was not designed to reach all children; it covered 5.5 million children in 12,000 schools in 1995/96.

There is evidence of some targeting of beneficiaries on a provincial basis. For example, Gauteng was budgeted to receive R37 million for 1996/97 to cover 200,000 children in 880 schools, while Northern Province was to get R90 million for 1.4 million children in 2,679 schools—although the services appear to differ for the latter. This represents a considerable difference in the budget per student in these two provinces. While Northern Province received a bit less than three times that allocated for Gauteng, it is expected to cover more than six times as many students.

When it began, the program focused on increasing food intake by means of an early morning food supplement. Now, other programs that might enhance the nutritional impact are being planned such as parasite eradication, micro-nutrient supplementation, and nutrition education. While the Health Systems Trust evaluated the program, results have not yet been circulated—a full year after the assessment was concluded. Initial concerns include doubts about the program’s sustainability, risks of funds or materials being diverted, the absence of complementary nutritional projects, and a focus on children who are not priorities in terms of malnutrition. The initial benefits reported include the impact on enrollment and students’ apparent capacity to concentrate. However, given changes in the educational system, it is difficult to assess the magnitude of such claims or whether they can be directly attributed to the PSNP.

E. VAT RATES AND EQUITY

Sales taxes and value added taxes (VAT) often reflect a government’s distributional and fiscal objectives. Others suggest that VAT should be based on efficiency criteria alone, and that equity concerns can be better addressed with targeted income transfers and similar measures.

The introduction of VAT in South Africa in 1991 straddled these two positions. Since the VAT increased the general tax burden, a food-related safety net program, the NNSDP, was also introduced in order to mitigate the negative impact on the poor (McLachlan and Marshall). Nevertheless, maize and brown bread were exempted from VAT soon after, and by mid-1993, a total of 19 food commodities were exempted (Bailey) in order to influence food consumption and make the VAT less regressive.

Analysis of these and proposed exemptions for paraffin and other food items confirms the logic of a zero VAT rate for maize. From the standpoints of both tax efficiency and equity, the exemption of taxes for maize dominates alternatives. However, zero rating of fresh milk and bread have similar implications for the total revenue foregone, but less favorable impacts on equity.
Tax exemptions for beans, sugar and kerosene also promote equity, but only in the case of beans can a positive impact on energy intake be attributed. Exempting these three commodities has comparatively little fiscal effect. The sum of the revenue lost is less than the amount currently foregone with the zero rating for fresh milk.

However, if meat were exempted, it would reduce revenues by R1.8 billion—more than any other of the commodities being considered—and only a third of which (R325 million) would accrue to the poorest 40% of households. Conversely, excluding maize from VAT results in a revenue loss of R664 million, 65% of which (R436 million) remains with the poor. Moreover, a VAT exemption on meat would actually lower caloric consumption for the rural poor—due to substitutions in the budget—while it would raise it in urban areas (see Alderman and Del Ninno, 1998).

Thus, while the equity and efficiency of commodity taxes can be somewhat improved if exemptions on kerosene and sugar are substituted for fluid milk, there could be negative consequences if meat is added to the category of fully exempt. Finally, as is well understood, the exemption on maize is well targeted and has a measurable, favorable impact on caloric consumption among the poorest households.

**F. CONCLUSION**

This paper has reviewed transfers directed to the poor that total over R13 billion, a figure that includes existing VAT exemptions. However, before making summary comments, it useful to indicate the wide range of other efforts, such disability benefits and various public works programs, that affect the safety net.

Given the high level of unemployment as well as the skewed availability and quality of infrastructure throughout the country, public works programs could be a major component of a national strategy to alleviate poverty. However, such programs have multiple objectives that include transferring income (creating employment), stabilizing income (by providing relief during drought), and creating infrastructure through labor-intensive techniques; and, optimal program design depends on determining which objective has priority. There are major design issues for targeting public works both with respect to allocation for provinces (or within provinces to municipalities) and with regard to targeting individuals using self-selection (primarily via wages) or an administrative mechanism. Proper treatment of these issues goes beyond the scope of this paper.

Two other significant types of safety nets exist. First, NGOs run numerous programs to reduce poverty and have a collective budget of R10 billion. While the exact share earmarked for poverty alleviation or development is unknown, only a fifth of the NGOs have a developmental focus (Patel, Cachalia, and Pelser, 1995). However, many which have been effective at providing short-term relief and the insurance function of safety nets have shifted their attention to long-term development (Breslin, 1996).
Finally, the bulk of the safety net may be private remittances, often from household members who have migrated for wage employment. These collectively dwarf any government program and provide the basic subsistence for hundreds of thousands of rural families. There is evidence that remittances respond to government programs or their absence. Further, international experience suggests that private transfers also serve the role of insurer for the poor (Alderman and Paxson, 1994). While such transfers are inadequate, any attempts to provide a more reliable safety net need to acknowledge their existence and avoid undermining such a function with an imperfect substitute.

Private transfers as well as non-governmental programs have been mentioned because it is important that the government's safety nets not be viewed in isolation. For example, the potential exists that government programs could partially crowd out private remittances. The magnitude of household responses to government programs is apparently not large enough to suggest that private transfers can substitute for old age pensions or the planned child maintenance grants. However, any program that can minimize overlap can reduce the government's costs.

Moreover, since government agencies are generally not flexible enough to respond to changing circumstances, NGOs might be encouraged through tax laws as well as direct contracts to address short-term and localized problems. If they responded, this could complement private transfers and serve as insurance to households that usually do not require or qualify for pensions and grants, but are temporarily impoverished. Globally, such relief has advanced development, both by encouraging investments in productive assets and by minimizing long-term health consequences of short-term shocks. However, none of the programs reviewed here have their primary objective as serving this insurance function.

While the government transfers are targeted to poor households, the same ones do not necessarily benefit from each program. This implies that political decisions are made about the share of budget resources the government intends to provide for different constituents. However, since part of the public justification of social assistance has been to invest in human resources, it is noteworthy that the focus on health and nutrition, even in the food-related transfers, has been limited. This is the case with the NNSDP and the PSNP, when it was first introduced. Similarly, analysis presented in this paper shows that some of the commodities chosen for VAT exemption fail to serve either equity or nutritional objectives well.

Child maintenance grants may also promote long-term development objectives, but the degree to which these are achieved will depend on the design of the delivery mechanism. This may be a role that the program can better fulfill as health infrastructure develops. The old age pension is more problematic. While it clearly reaches the poor, including children, it has limited potential to serve developmental objectives. If its growth in real terms cannot be kept at or below that determined by demographic changes, then it may be difficult to increase resources for investment in children or other developmental goals.
References


APPENDIX

Table 1: Estimates of Percent of Children Covered with Maintenance Grants

<table>
<thead>
<tr>
<th>Age cohorts and benefit levels</th>
<th>Budget Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R1.2 billion</td>
</tr>
<tr>
<td>0 - 4, R70</td>
<td>24%</td>
</tr>
<tr>
<td>0 - 4, R125</td>
<td>13%</td>
</tr>
<tr>
<td>0 - 6, R70</td>
<td>17%</td>
</tr>
<tr>
<td>0 - 6, R125</td>
<td>10%</td>
</tr>
<tr>
<td>0 - 9, R70</td>
<td>13%</td>
</tr>
<tr>
<td>0 - 9, R125</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Lund Committee (1996)