

REPORT

On the feasibility of implementing a BASIC INCOME GRANT in South Africa

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Submitted by	GOPA Group Southern Africa (Pty) Ltd
Postal address	P O Box 1793, Brooklyn Square, 0075, RSA
Mobile number	+ 27 (0)83 226 8921
e-mail address	gopasa@worldonline.co.za
Website	www.gopasa.co.za
Contact person	Dr Roelof Botha

Contents

1.	Introduction
2.	New reflections on the welfare state <i>Welfare has become an imperative, not a choice</i> <i>Wealth taxes should be avoided</i> <i>Economic and fiscal trade-offs</i> <i>Welfare & work – seeds of a new approach</i> <i>Three realities for the future</i> <i>Workfare – towards a new social contract</i> <i>Some evidence</i> <i>The need for a diversified approach – factor market reform</i>
3.	The broader context of social grants in South Africa <i>Trends in social benefits received</i> <i>The extent of poverty in South Africa</i> <i>Estimating the number of poor people in South Africa</i> <i>South Africa's social protection response to poverty</i> <i>The limitations of responding to poverty</i>
4.	The performance of social protection programmes <i>Progress with combating poverty in developing countries</i> <i>Performance indicators for upper-middle income countries</i> <i>Comparison – global regions and income groups</i> <i>Some concerns</i>
5.	Country case study no 1: Brazil
6.	Country case study no 2: India
7.	Macroeconomic impact of social welfare - international
8.	Economic impact studies on South Africa's welfare system
9.	Some caveats to the design of social welfare systems
10.	Modelling the impact of the basic income grant on the economy
11.	Conclusions
12.	Recommendations

Abbreviations

ARDL	Autoregressive distributed lag model
BFP	Bolsa Família programme
BIG	Basic income grant
CadÚnico	Cadastro Único (single registry for the BFP in Brazil)
CCT	Conditional cash transfer
CSG	Child support grant
DSD	Department of Social Development
DTC	Davis Tax Committee
DUM	Dummy variable
EPRI	Economic Policy Research Institute
FCEH	Final consumption expenditure by households
GDP	Gross domestic product
GHS	General Household Survey
HDI	Human Development Index
IAY	Indira Awaas Yojana (a rural housing programme in India)
ILO	International Labour Organisation
IMF	International Monetary Fund
MCP	Marginal consumption propensity
NREGA	National Rural Employment Guarantee Act
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary least squares (in regression modelling)
RSA	Republic of South Africa
SACU	Southern African Customs Union
SASSA	South African Social Security Agency
SC	Scheduled Caste (in India)
SDG	Sustainable Development Goal
Senarc	National Secretariat for Citizen Incomes in Brazil
SPP	Social protection policy
SRDG	Social relief of distress grant
ST	Scheduled Tribe (in India)
UBIG	Universal basic income grant
UCT	Unconditional cash transfer
UN	United Nations
UNICEF	United Nations Children's Fund
US	United States (of America)
VAR	Vector autoregressive (model)

The feasibility of establishing a Basic Income Grant in South Africa

1. Introduction

Background and objective

The detrimental economic effects induced by the Covid pandemic have been particularly severe on the lower income groups in South Africa and unemployed persons, many of whom are dependent on other household members for their subsistence.

As a result, the debate on the feasibility of a basic income grant (BIG) has received new impetus, especially in the wake of the implementation of the social relief of distress grant (SRDG), commonly known as the Covid-grant, which has proven to be fiscally affordable, despite the need to keep a watchful eye on the stability of the country's public finances.

Several studies have been undertaken in recent years to gauge the likely poverty-reducing impact of South Africa's welfare grant system, which is widely acknowledged to be one of the most effective in the developing world, although a grant targeted at unemployed persons is still not a permanent part of the welfare system. Over the past decade, few developing countries in the upper-middle income group have matched South Africa in the quest to reduce the prevalence of poverty, whilst the country also ranks in the top-four regarding the indicator for per capita job creation via public works programmes.

Impact studies have nevertheless mostly been restricted to the areas of poverty reduction and lowering the level of income inequality. Recognising the dearth of empirical economic analysis of social protection policies in South Africa, the Inclusive Society Institute (ISI) commissioned such a study early in 2022. The main objective of the study is to determine the macroeconomic impact of a basic income grant (BIG) that is fixed at the food poverty line (R624 per month at the time of the econometric modelling exercise).

It was also regarded as necessary to conduct a comprehensive literature study on the global and domestic experience with social protection policies, both with regard to their composition and their impact on the combating of poverty and the macro-economy.

Structure

The study commences with a discussion of the evolution of social welfare policies over the past three decades. It is pointed out that the state's role in providing social protection to those in need has become an imperative in virtually all countries, not a choice. There has nevertheless been a noticeable shift in emphasis towards introducing some form of conditionality for beneficiaries to qualify for grants and other forms of welfare in South Africa, as well as combining welfare with programmes aimed at providing temporary employment (referred to as workfare). This section also points out the dangers of resorting to wealth taxes to fund welfare programmes

The second section provides a comprehensive overview of the broader context of South Africa's social grant system, including trends in gross and net social benefits received by households, as well as the extent of poverty in the country. This section concludes with a brief analysis of South Africa's social protection response to poverty.

Section three discusses the performance indicators that have been developed for determining progress with the combating of poverty via a large variety of public welfare initiatives. Significant resources are invested in the implementation of social protection programmes, which necessitates the continuous monitoring of the effectiveness of these programmes.

The focus of the analysis will be on South Africa's peer group, developing countries that are classified by the United Nations as upper-middle income countries. Clear evidence is provided of the substantial impact that social welfare programmes are making in the global fight against poverty, with South Africa's performance being exemplary.

Two country case studies follow, namely for Brazil and for India, who, together with South Africa, possess democratic constitutions within the Brics grouping. Initiatives to combat poverty in these two countries have been quite successful and several of them are either based on conditionality in grant payments or workfare arrangements, whereby temporary jobs are created and policy makers in South Africa could well consider introducing some of their elements into the future refining of domestic welfare programmes.

A discussion of macroeconomic impact studies of welfare policies around the globe is provided in section six, all of which confirm a positive causal effect on GDP and fiscal revenues emanating from grant payments to poorer segments of society. This is followed by an overview of economic impact studies conducted on the South African welfare system (section seven) and a section that identifies a number of caveats to be considered in the design of a social welfare system, namely the dangers of fiscal instability, the problems with a universal approach to a BIG and the inherent paradox that exists in the case of certain welfare policies (section eight).

Section nine contains the results of the macroeconomic impact analysis of a basic income grant, based on the food poverty line as at the end of July 2022 and utilising econometric modelling, including an estimation of the fiscal cost under two different scenarios. This followed by the customary conclusions and recommendations.

2. New reflections on the welfare state

The topic of government-funded welfare policy has been at the centre of public debate for more than a century. Ever since the Great Depression, the extent of the public sector's involvement in what is effectively the transfer of productive income from employed persons to people in need has been a focal point of election campaigns throughout virtually all of the world's democratic countries.

Welfare policy is also practised in undemocratic countries, although data on the particular elements and outcomes of such policies in countries with oppressive regimes are not always reliable.

Social policy is the term used to describe the manner in which a society deals with the issues of welfare and social protection. Over a period of roughly 100 years, it has developed into a subject matter relating to the full range of social services, including health, education, employment, housing and community development. It also addresses issues relating to social problems, such as disabilities, crime, inequality and poverty. Importantly, as noted by Spicker (2014), social policy is a subject area that borrows from other social science disciplines, mainly sociology, social work, psychology, economics, political science, management, history, philosophy and law.

The concepts of "welfare" and the "welfare state" are both ambiguous and are approached differently from one country to the next, especially with regard to issues such as the needs of people and their scope to exert choices in achieving well-being. Despite strong arguments for the collective provision of welfare services, it is important to recognise the direct and indirect roles played by other organs than the state in the delivery of social services and welfare.

Welfare has become an imperative, not a choice

From an international legal perspective, the recognition of the right to social security has been developed through universally negotiated and accepted instruments that establish social security as a basic social right to which every human being is entitled (UN 1948 & 1966). In this way, the right to social security has been enshrined in several human rights instruments adopted by the United Nations, and is expressly formulated as such in fundamental human rights instruments, namely the Universal Declaration of Human Rights (UDHR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR). Specifically, the relevant Articles of the UDHR are as follows: 22 of the UDHR lays down that:

Article 22:

Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international cooperation and in accordance with the organization and resources of each state, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

Article 25:

(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, and medical care and necessary social services, and the right to security in the event of unemployment, sickness, invalidity, widowhood, old age or other lack of livelihood in circumstances beyond his control.

(2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

Spicker (2014) identifies five basic arguments for the collective provision of welfare services:

- *Humanitarian* -societal concerns about poverty and need have been central to the evolution of the developmental role of the state
- *Religious* - several of the world's major religions view charity as a religious duty. Beyond charity, Catholicism recognises a duty of social solidarity (or mutual social responsibility), whilst Judaism, Islam and Lutheran Christianity require some form of collective responsibility for one's community.
- *Mutual self-interest* - many welfare systems have developed, not from state activity, but from a combination of mutualist activities, gradually reinforced by government
- *Democratic* - social protection has developed in tandem with democratic rights
- *Practical* - welfare provision has economic and social benefits

Wealth taxes should be avoided

Any consideration of an extension to a social protection system that is already comprehensive will require scrutiny of its likely impact on fiscal stability. The current debate on this topic in South Africa has occasionally touched on the option of introducing a new wealth tax (several wealth taxes already exist), in order to fund an income grant for the unemployed.

When considering the imposition of another wealth tax, the underlying motivation for such a tax must be considered, as well as its likely impact on the economy – specifically the narrow base of highly skilled people that will bear the brunt of this tax. There is little doubt that a new wealth tax should be avoided, as confirmed by a brief discussion of empirical evidence on this issue.

Evidence from the OECD and BRICS

In 2018, a study was conducted by Arendse and Stack on the international experience with wealth taxes over the past three decades. They found that only one of the 40 countries included in the groupings for the Organisation for Economic Cooperation and Development (OECD) and Brazil, Russia, India, China and South Africa (BRICS) has used a recurrent wealth tax on a sustained basis as a part of its economic policy. The levy of a wealth tax is not common and, as a rule, has only been implemented as a crisis measure to generate additional revenue in the face of an economic setback, usually involving a very short lifespan.

Furthermore, none of the countries considered in this study have both estate or inheritance tax and capital gains tax on the assets of an estate. No precedent therefore exists elsewhere for a policy change that adds a new wealth tax to the estate duty, donations tax and capital gains tax that already exists in South Africa. Due to the wealth taxes representing less than 1% of GDP, Arendse & Stack (2018) argue that, in the case of a need for additional fiscal revenues, other types of tax or increases in existing taxes (such as the value-added tax) should be considered.

Both Canada and Australia have deemed disposals on death like the capital gains tax deemed disposal rule in South Africa, but neither of those countries has estate or inheritance tax. South Africa is the only country that taxes the estate of a deceased person as well as the deemed disposal of that person's assets on death (Ernst and Young 2015).

One of the conclusions arrived at by Arendse & Stack is that South Africa's estate duty and donations tax systems compare favourably with similar systems used in several other countries internationally in terms of the rates and exemptions that apply. Taxing wealth transfers upon death is one of the most efficient form of wealth tax as it has less impact on economic decisions than other forms of wealth tax, although the real achievement of this efficiency will depend on the use to which the tax revenue is put. If there was any meaningful yield and the tax was spent appropriately, it could go some way towards addressing economic inequality and thus contribute to addressing wealth inequality. The reality, however, is that wealth taxes are not a viable option and can do more harm than good, especially in view of the following considerations:

- The Covid pandemic has served to fast-track the fourth industrial revolution in creating an environment of high and increasing levels of international mobility of highly skilled persons, who will tend to seek the most advantageous tax administration they can find
- In view of the low yields on the sparse wealth taxes internationally, it is very unlikely that there would be sufficient tax revenue to have any impact (Evans 2013)
- Administrative constraints have usually made wealth taxes both unproductive and inequitable in developing countries and their most sophisticated version – the net wealth tax – has proved a costly mistake in developing countries that have attempted to implement it (Bird 1991)
- There is no evidence to suggest that South Africa, with its small base of taxpayers and very few taxpayers with substantial wealth, would be able to generate meaningful revenue from a wealth tax. In attempting to address poverty and inequality, attention should rather be given to measures that will stimulate the economic growth and employment creation. This requires that available capital should be concentrated where it is most productive and can add the most value, which is mainly in the hands of entrepreneurs and investors. South Africa's recent history suggests that transferring additional capital to the government through a wealth tax will tend to stifle these objectives.

Evidence from South Africa - the Davis Tax Committee

The background to this particular report by the Davis Tax Committee (DTC - 2018) was the realisation that existing wealth taxes in South Africa did not constitute significant revenue streams to government (except at municipal level) and that the high level of wealth inequality posed a threat to social stability and inclusive growth.

At the outset, the DTC Report provided a discussion on useful criteria for evaluating a wealth tax and also certain critical principles that must be considered when designing a well-functioning wealth tax system.

Three main constraints associated with the process of designing a tax were highlighted:

1. Tax efficiency becomes challenging when the scope of introducing a net wealth tax not only generates distortions of people's willingness to work, but also impacts choices linked to wealth accumulation and disposal which explicitly affect the tax rate
2. Administrative costs can be large when designing a system that levies taxes on wealth, in contrast to taxes on wealth transfer. Some forms of wealth are hard to measure and some forms are easy to hide or convert into asset classes that fall outside the defined base
3. Tax reform and its implementation inevitably produces both winners and losers. Losers may express discontent through capital repatriation or changing assets classes.

This was followed by an overview of the state of wealth taxes and wealth transfer taxes in several countries, in order to provide some notable lessons from which South Africa can draw experience. It was pointed out that several countries had abandoned the taxation of net wealth during the past two decades, including Denmark, Germany, Finland, Sweden, and India. A number of reasons were identified for the universal aversion towards wealth taxes, including the following:

- High costs associated with classifying and measuring net assets and structuring the tax collection system
- Difficulties in accounting for global assets
- Negligible contributions to the total tax revenue
- The absence of a substantial tax base (especially in developing countries like India)
- Tax migration (driven by differential rates of wealth taxes and banking secrecy laws)
- Various complexities surrounding tax administration and enforceability

In the DTC's consideration of the South African case, it was pointed out that a wealth tax is merely one tool, with which to address the pressing problem of inequality. Other methods of redress include land reform and programmes on the expenditure side of the fiscal budget such as increased access to quality health and education and the provision of infrastructure as well as effective government leading to growth and employment. The report mentioned that wealth taxes already exist but that several difficulties and unintended consequences would need to be addressed prior to implementing further wealth taxes. On the issue of taxes on property transactions, the DTC argued that the current transfer duty was second best to a properly functioning national property tax. The reality, however, was that systems were not in place to roll out a national property tax. While some municipalities had up-to-date and reasonably uncontested Municipal Valuation Rolls, this was not the case for all parts of the country.

In conclusion, the DTC recognised that while a recurrent net wealth tax may be an admirable and desirable method to pursue the objectives of equity, more work was needed to ensure that the tax was well designed and would yield more revenue than it costs to administer.

The Colombian experiment

In a study to determine whether wealth taxation can work in developing countries, Londoño-Vélez (2019) conducted research into responses to wealth taxes in Colombia, utilising quasi-experimental variation introduced by tax reforms in 2010 and discontinuities in the wealth tax schedule.

Each bracket of net worth was assigned an average tax rate, creating jumps in tax liability at bracket cut-offs. For example, in 2010, a taxpayer reporting 999.999 million Colombian pesos (R3.87 million at the February 2022 Oanda exchange rate) in wealth would have been exempt from the wealth tax. In sharp contrast, a taxpayer reporting merely one additional peso would have been liable for 1% of all taxable net wealth, resulting in a tax bill of 10 million Colombian pesos (R38,692).

In the absence of responses to the wealth tax by individuals, reported wealth would be distributed smoothly around the bracket cut-off level. If, however, individual tax payers avoided the jump in tax liability, there would be so-called “bunching” in reported wealth just below this level. It follows that the degree of “bunching” indicates the responsiveness of reported wealth to the tax (Kleven and Waseem 2013).

The study found large and immediate responses to wealth taxation, providing clear evidence that wealthy individuals respond to the incentives and/or disincentives created by tax policy. In the study’s main analysis, the marginal “buncher” would have reported 21% more wealth in the absence of the wealth tax, resulting in revenue losses of up to one-fifth of the mechanical projected revenue.

Although the study by Londoño-Vélez found that enforcement capacity of a wealth tax could be strengthened by wider coverage of third-party reporting, this would also require systematic cross-validation of reported information and increased scrutiny of high net worth taxpayers – clearly a near impossible administrative task in most developing countries.

Any serious debate on the topic of wealth taxes should bear in mind that wealth is a stock concept that depends to a large extent on asset prices, which are uncertain and can fluctuate significantly throughout a particular fiscal year (Jakobsen et al. 2018). The study by Londoño-Vélez found that, in Colombia, there had been limited systematic cross-checking of items reported in the wealth tax returns using third-party reported information. As a result, it was possible for individuals to avoid taxes by reporting lower values of assets and inflating debt.

Economic & fiscal trade-offs

Virtually every government in the world recognises these arguments via some form of collective social protection provision. Ongoing debates are not about whether welfare policies should exist, but about how much provision there should be, and how it should be implemented.

In the design of social welfare policies, the discipline of economics should always be borne in mind, as a lack of fiscal resources may thwart the ambitions of a particular government to provide comprehensive welfare programmes to its citizens. Empirical evidence abounds that confirms a positive correlation between higher per capita incomes and more extensive systems of social protection. A detailed analysis of changes in poverty in a large sample of developing countries by Kraay (2004) showed that most of the variation in changes in poverty is due to economic growth, suggesting that policies and institutions that promote broad-based growth should be central to the formulation of welfare policies. One of the perennial challenges facing policy makers around the globe is the difficulty of this classical trade-off, namely knowing which comes first, wealth or welfare.

Scholarly research into the topic of a public welfare system that strives to strike a balance between sufficient incentives for seeking employment and the funding, via the taxation system, of adequate social protection

measures for the poor has been in abundance since especially the latter part of the 20th century, when fiscal pressures and globalisation conspired to force a re-examination of the limits of the welfare state. The latter term is often bandied about without conceptual clarity – to the extent that it can even be defined as a slogan. The concept of ‘the welfare state’ has always been highly politicised, especially in post-industrial countries and its ambiguity is a trademark.

Unfortunately, the debate on the pros and cons of the welfare state is often disjointed, especially due to the perception created by socialist-orientated commentators who often falsely accuse conservative political leaders of wishing to ‘dismantle’ the welfare state. Against the background of the minimal changes over the past few decades in the design and range of public welfare programmes around the world, nothing could be further from the truth. The fact is that electorates in the post-industrial countries continue to support the levels of public spending on welfare that have become the norm in the post-World War II era, but a plateau has certainly been reached in terms of the fiscal commitment to welfare spending. The latter was necessitated by a combination of rising life expectancy, lower fertility rates and slower economic growth in many high-income countries and was exacerbated by the global financial crisis of 2008/09.

Although the causes of the financial crisis were complex, its roots can be traced to legislation passed by the US Congress two decades earlier to encourage financing for affordable housing – arguably an indirect form of welfare policy. Ultimately, the development of predatory lending targeting low-income home buyers in a relatively unregulated environment, led to the massive over-valuation of the financial instruments underpinning this market.

The development of mortgage-backed securities (MBS) and a web of financial derivatives linked to these securities eventually collapsed in value, leading to an international banking crisis and the bankruptcy of Lehman Brothers in September 2008. It led to the worst global recession since the Great Depression of the early 1930s, which had a profound impact on the ability of developing countries to pursue welfare policies.

Welfare & work – seeds of a new approach

In the US, several authoritative scholars of sociology, including Trattner (1989) and Gans (2010) have tended to over-emphasise ideological differences in the manner that the US government has approached the country’s welfare policy, often resorting to fairly emotional statements. Trattner (1989), for instance, accuses the so-called US welfare reform act of 1996 by Pres. Clinton’s administration as having removed the entitlement to welfare that was first enacted 60 years earlier during the Great Depression. He goes further by referring to Pres. Ronald Reagan’s tenure as a period of “...unremitting horror for the nation’s poor”, despite the fact that the Reagan-era was characterised by significantly higher growth and employment creation than the tenure of the previous head of state (who represented the Democratic Party).

After the first five years of the 1996 US welfare reforms, Moffitt (2002) reviewed the evidence and concluded, *inter alia*, that a large measure of success had been attained for one of the four goals listed in the new legislation, namely the encouragement of job preparation and work. The overriding single piece of evidence showing that progress has been made on the agenda of helping mothers on welfare work is the dramatic increase in employment rates among single mothers in the decade between 1990 and 1999.

Employment rates among single mothers, the group most affected by welfare reform, jumped markedly since 1994. Employment rates rose from 60 percent in 1994 to 72 percent in 1999, a very large increase by historical standards. Among single mothers who have never been married (the group with the lowest levels of education and some of the highest rates of welfare receipts) employment rates rose even more, from 47 percent to 65 percent over the same period (Moffitt 2002).

According to Moffitt's evidence-based research, it is clear that the American public regards work by welfare recipients as a defining goal of state and federal welfare laws, the pursuit of which deserves the highest priority in social welfare policy. Work among welfare recipients is widely regarded as part of the social contract, i.e. a *quid pro quo* for the provision of income support, as well as a source of self-esteem and self-reliance among single mothers. This in turn is thought to increase the mothers' chances for long-term economic improvement for themselves and their children.

Three realities for the future

Despite the omnipresence of differences in the design of a state's welfare function, three realities that should guide future deliberations on this topic are:

1. Firstly, the fact that the divide between so-called conservative and liberal political parties is not so great as to prevent an approach that combines substantial expenditure on public welfare programmes with a large measure of pragmatism, especially in the crucial area of fiscal stability.
2. Secondly, workfare has become a more prominent policy option than welfare *per se*. This approach has a three-pronged attractiveness to policy makers: The private sector gains from an expansion of the workforce, the enhancement of human capital and the likelihood of reduced social conflict, all of which exert a positive impact on productivity and profitability. Citizens benefit from training, more widely accessible job opportunities and better rewards, whilst governments have a relatively low-cost option available to the difficulties they face in maintaining fiscal support for social services as inequalities persist.
3. A third issue is the emergence of the fourth industrial revolution, which is giving rise to the dominance of highly skilled services professions, especially in information technology. These experts are internationally mobile and can exercise wide-ranging choices regarding their preferred *domicilium citandi et executandi* for purposes of taxation. In a post-industrial world economic order, governments will not have as much leeway as in the past when preparing national budgets – generous welfare systems have to be funded by taxpayers and may threaten a state's ability to fund its primary functions, namely public order, health and education.

It is these realities that have become a key theme in the discussions and research on the transformation of the welfare state, particularly in Europe. Esping-Andersen (2000), has been at the forefront of stressing the need for an overhaul of redistribution policies and social rights as urgent priorities, in order for a closer alignment to evolving realities, especially longevity, knowledge-based economies and the fiscal sustainability of welfare states.

Research by Handler (2009) confirms the broad-based existence of a new approach towards the state's role in welfare, especially in Europe, where the erstwhile passive implementation has been substituted by more active labour market policies or workfare. In this process, a number of important characteristics have come to the fore. These include the following:

- Stricter rules have been applied to eligibility, mainly via means testing
- Conditionality has become more prevalent, especially in the areas of human capital formation and health screening
- Workfare has become virtually synonymous with active labour market policies, mostly designed to encourage people to enter the labour market

In principle, near-universal support exists for state-organised welfare institutions and programmes. The debate on the extent of state intervention and priorities for welfare-state reform nevertheless remains lively,

especially due to the regular occurrence in many countries of economic austerity, fiscal constraints, and changes to the labour market and demographic structures. It is not surprising, therefore, that a shift has occurred in the design of socio-economic policies over the past two decades, especially in Europe. According to Taylor-Gooby (2018), this involves a reduction in state intervention, tight constraints on government spending, expanded use of markets and of private sector services, and stronger emphasis on work incentives in social security.

Workfare – towards a new social contract

The essence of the new welfare regime unfolding in many parts of the world is that beneficiaries now have *obligations* as well as *rights*. In return for benefits, beneficiaries must seek work or participate in work-related activities, including education and training. The latter represented one of the key tenets of the 1996 welfare reforms in the US. According to Taylor-Gooby (2001), the principle underpinning the new-found emphasis on benefit conditionality is that paid work continues to represent the most legitimising basis for entitlement.

The issue of legitimacy raised by Taylor-Gooby and other researchers has become highly relevant in advanced economies. Workfare is increasingly being embraced as a sensible and socially responsible welfare policy option, not merely from the perspective of macroeconomic stabilisation objectives and containing the costs of state welfare, but also due to an evolving consensus on striking a balance between individual responsibilities and individual rights in society.

Attention is increasingly shifting from debates about the level and reach of welfare expenditure to questions about the desirability and usefulness of particular welfare programmes. As a result, the principles of selectivity and targeting within social assistance are now being restored as desirable features of an overall public welfare programme. The new wisdom incorporates the view that traditional cash benefits fail to support a proportion of recipients in becoming self-sufficient. Policy makers in the advanced economies began to turn to new policies which seek to improve the skills and capabilities of jobless people who have been unable to find work, as well as reforms aimed at reducing disincentives to take on work.

In analysing the recent welfare reform experiences of a number of advanced economies, Lødemel (2005) points out that Norway, for example (a country that does not have a welfare crisis), has adopted workfare. After a lengthy period of expansion of the welfare state, both the mainstream conservative and liberal political parties agreed that extensive rights to generous state welfare benefits were threatening the ability of people to become self-sufficient and that individual responsibilities and obligations are more important than individual rights. Several other advanced economies have also made progress in reforming their welfare policies towards the introduction of a new type of social contract between the state and able-bodied people in need of welfare – one that obliges social assistance recipients to work as part of the assistance contract.

In research that was confined to high income countries in the northern hemisphere, Esping-Andersen (2000) noted some implicit advantages of workfare policies that are also highly relevant to upper-middle income countries. Referring to what is termed low-end service jobs, the attraction of supplementing social grants by active labour market policies are clear: They provide easy-entry jobs for relatively young people, low-skilled workers, and women returning to the labour market.

Such services, which could be facilitated within the ambit of public works programmes could fulfil a positive function if the period of low earnings and relatively unrewarding work is temporary. Such jobs could provide a bridge into the labour market and supplement income. Esping-Andersen warns against assessing the costs and benefits of low-end jobs on the basis of snapshot notions of equality for all, here and now. The only reasonable frame of reference should be the entire span of working life.

Some evidence

Ever since the turn of the century, a new approach to welfare policy has become prominent in social policy debates. It can be defined as the enhancement of human capital via training and the mobilisation of people into paid work. Ensuring fairer access to opportunities should ideally be part of this process. From a political perspective, the aims of a shift towards workfare programmes are tantalising and include prospects for greater fiscal stability, increased self-sufficiency of beneficiaries, the prevention of social exclusion and an increase in employment. Some evidence of its impact is briefly discussed.

4. *Lødemel (2005) - Europe*

A comprehensive evaluation of the effects of workfare policies in European countries by Lødemel (2005) confirmed the positive employment effects of workfare programmes. Importantly from a fiscal perspective, it also resulted in increased earnings after participation in such programmes, thereby broadening the tax base. Another positive outcome is the lowering of barriers to entry into the formal sectors of the economy, especially when participants also engage in other active labour market programmes.

As a general rule, participants with placements in private sector jobs stand a better chance of entering regular employment than those in the public sector. The research also indicates that being activated in workfare programmes encourages younger people to enhance their educational attainment.

5. *Taylor-Gooby et al (2015) - Europe*

According to research by Taylor-Gooby et al (2015), the general move towards 'new welfare' gathered momentum during the past two decades, given extra impetus by the 2007–09 recession and subsequent stagnation. While employment rates rose during the prosperous years before the crisis, there was no commensurate reduction in poverty. Over the same period the share of economic growth returned to labour fell, labour markets were increasingly de-regulated and inequality increased. This raises the question of whether new welfare's economic goals (higher employment, improved human capital) and social goals (better job quality and incomes) may come into conflict.

In 2015, an assessment of the impact of social policies based on the principles of workfare in 17 European countries over the period 2001 to 2007 was conducted by Peter Taylor-Gooby and two associates. It showed that new welfare was much more successful at achieving higher employment than at reducing poverty, even during prosperity, but that the approach pays insufficient attention to structural factors, such as the falling wage share, and to institutional issues, such as labour market deregulation. These issues can, however be adequately addressed by complementary policies such as closer cooperation between employer bodies and government in the design of training programmes aimed at the skills requirements of the private sector, where the bulk of employment resides.

6. *Report on the State of Social Safety Nets (2018) - global*

The World Bank's 2018 Report on the State of Social Safety Nets pays scant attention to the ability of public works programmes (PWPs) to reduce poverty, mainly because of a dearth of information that included monetary values. The report nevertheless provides significant detail on the types of PWPs implemented by developing countries, as well as the number of people that have benefited from these programmes.

Table 2.1 depicts the number of beneficiaries of PWPs in upper-middle income countries per thousand of their populations, once again confirming South Africa's high international ranking for progress with combating poverty via social protection policies. When taking countries in lower income categories into account, it becomes obvious that PWPs possess the ability to benefit large numbers of unemployed people via employment creation, albeit mostly at much lower wages than in the formal sectors of the economy.

Table 2.1: Number of beneficiaries of public works programmes per thousand of the population - upper-middle income countries

Country	Reference year	Number per '000	Country	Reference year	Number per '000
Moldova	2009	39.2	Kazakhstan	2014	5.5
Hungary	2015	33.4	Average		5.0
Panama	2011	29.7	Argentina	2015	4.4
South Africa	2021	16.7	Brazil	2012	2.6
Mexico	2014	11.8	Turkey	2013	2.6
Bulgaria	2013	6.1	Peru	2014	1.5
Belarus	2015	5.8	Ukraine	2012	1.0
Russia	2013	5.7	Indonesia	2013	0.4

Note: Population-weighted average

The numbers of beneficiaries from PWP are quite impressive. For reference years that mostly fall between 2011 and 2016, more than 97 million people benefited from PWPs, all of whom received remuneration for working on a variety of projects related to infrastructure. It should be noted that India was responsible for more than 75 million of these beneficiaries, but it is nevertheless clear from the data in table 2.1 that PWPs play an important complementary role in the design of social protection policies.

According to the Department of Public Works and Infrastructure (DPWI), the Expanded Public Works Programme (EPWP) created more than one million work opportunities in the 2021/22 financial year, of which 41% were jobs for the youth i.e. 18 - 35 years of age.

7. McCord (2005) – South Africa & Malawi

A study conducted for the Public Works Research Project of SALDRU, at the School of Economics in the University of Cape Town (McCord 2005), examined the role of public works programmes (PWPs) in South Africa and Malawi as a social protection instrument (with the aim to reduce poverty and vulnerability).

It found that one of the advantages of PWPs is their ability to simultaneously create public goods and provide employment for those unable to find alternative employment. From a political perspective, the attraction of public works over alternative social protection initiatives is based on the following:

- First and foremost, PWPs create employment at remuneration levels that are not subject to personal income tax, resulting in a high degree of progressivity
- Beneficiaries invariably represent the bottom income quintile and their work effort is rewarded, which avoids to a large extent the perceived dependency effects of direct income transfers
- No trade-off exists between productive investment in infrastructure and expenditure on welfare as public works provide social assistance and create assets.

8. Escudero (2018) - Peru

A workfare programme known as *Construyendo Perú* was implemented in Peru from 2007 to 2011, with the objective to support unemployed people confronted with poverty. In estimating the medium- to long-term effects of this programme, Escudero (2018) utilised regression discontinuity design (RDD). Her study was part of a series of research projects undertaken by the International Labour Organisation (ILO) aimed at assessing the effectiveness of active labour market programmes in Latin America and the Caribbean.

This methodology is a quasi-experimental pre/post-test design that aims to determine the causal effects of interventions by assigning a cut-off or threshold above or below which an intervention is assigned. By comparing observations lying closely on either side of the threshold, it is possible to estimate the average treatment effect in environments in which randomisation is unfeasible. Recent study comparisons of randomised controlled trials (RCTs) and RDDs have empirically demonstrated the internal validity of this methodology (Chaplin, *et al.* 2018).

The paper concluded that the workfare programme helped raise employment and reduced inactivity for certain groups of beneficiaries but at the cost of locking participants into lower quality jobs, especially in the informal sectors. Specifically, the program increased the probability of women, poorly educated participants and the overall population of being employed and attached to the labour market. The lack of positive employment effects for certain groups, especially more highly educated men, may be related to deadweight losses (i.e. participants would have found a job in the absence of the workfare programme), as most participants were already engaged in a remunerated activity before the programme started.

The research also found that the workfare programme increased the probability of participants securing employment in the informal sectors of the economy. These effects were statistically significant for both men and women. The effects seem to be related to the impact of the programme on the status of employment - i.e. increasing the probability of participants working for their own accounts, whilst decreasing the probability of working as waged employees. In other words, the programme increases the odds of participants working in occupations aligned closely to informal sector activities.

An important observation from this research is the impact of the choices of public investment projects underpinning the workfare intervention. According to Escudero (2018), changes in political priorities and availability of resources in 2009 appear to have driven a pronounced move from infrastructure projects to services sector projects by the public sector between the first and last two years of the programme's implementation, with detrimental effects on the program's results.

The paper also found that in addition to the challenges posed by the selection and characteristics of public investment projects, the program suffered from multiple participation and over-representation of particular groups, which serve as an indication of the need for enhanced enforcement of targeting rules and eligibility criteria in general.

9. Cruces et al (2017) & World Bank (2022) - Bolivia

Bolivia's economic crisis during the past quarter of the 20th Century is well-documented. It was caused by a combination of economic mismanagement, wasteful public sector investment and negative external factors such as high global inflation. The country's national income was declining, hyper-inflation set in and no new local or foreign capital was invested in the economy.

President Victor Paz Estenssoro came into office in August 1985 and had the vision to immediately embark on a structural adjustment programme, despite the knowledge that such a policy would only deliver dividends after a substantial measure of fiscal and monetary stability had been reinstated – which would take several years. Although inflation was brought under control almost immediately and the economy started growing again in 1987, unemployment in the mining sector rose and poverty worsened.

In an attempt to cushion the adverse short-term effects of structural adjustment, Bolivia launched the Emergency Social Fund (ESF) late in 1986. The ESF was designed as a Socio-economic Development Fund (SEDF), with the mandate to create jobs by funding a variety of public works projects and by raising the level of social services in those parts of the country where poverty and unemployment was the most prevalent.

Although an SEDF is by no means designed as a centrepiece of social protection policy, it can play an invaluable role in a workfare-type of approach that fits the mould of active labour market policies (ALMPs), as is evident from the characteristics listed in table 2.2.

Table 2.2: Key characteristics of a Socio-economic Development Fund (SEDF)

Objective	Improvement of the living conditions of the poor and unemployed by funding labour-intensive projects in the areas of infrastructure and social services
Project focus	Broad-based, providing funding for projects in various sectors
Ownership	Funds are controlled by an autonomous organisation, with government represented on the Board
Management	As a semi-government organisation, an SEDF can operate with less bureaucracy and attract people with higher skills
Term	Usually a fixed term operation, but with a tendency to be replaced by a Social Investment Fund (SIF) after 3 to 5 years
Scope of work	An intermediary organisation financing and supervising projects, but not executing them
Political appeal	An SEDF can help to improve the image of the government in the quest to alleviate pressing socio-economic problems such as poverty, inequality and high unemployment

Source: Van Dijk (1992)

The ESF was very much result-oriented. It had as a target to spend US\$180 million in three years, of which Bolivia only contributed US\$8 million. Management believed that if the World Bank became interested in the project, other donors would follow easily. This was achieved and the World Bank was ultimately prepared to be flexible, e.g. by allowing the ESF to negotiate directly with contractors for projects up to US\$250,000.

The Fund's major objective was to finance labour-intensive infrastructural and social projects with the minimum of red-tape. The ESF reported directly to the president and was given a free hand to seek funding from foreign governments and international agencies.

The responsibility for hiring contractors and overseeing the execution of projects was left to the organisations receiving funds from the ESF. The ESF itself was built up and turned into an efficient organisation in a very short period of time. Its basic operation was simple & effective, as depicted by the diagram.

The World Bank also managed to get projects appraised, negotiated and sent to its Board of directors for approval in about two months, instead of the normal 12 to 18 months period. By 1988, nearly US\$60 million had been pledged to the ESF by the Bolivian government, the World Bank and donors such as United Nations Development Programme (UNDP), Switzerland, West Germany, Great Britain, Canada, The Netherlands and the United States. Italy, Sweden and the Organization of Petroleum Exporting Countries (OPEC) provided assistance at a later stage.

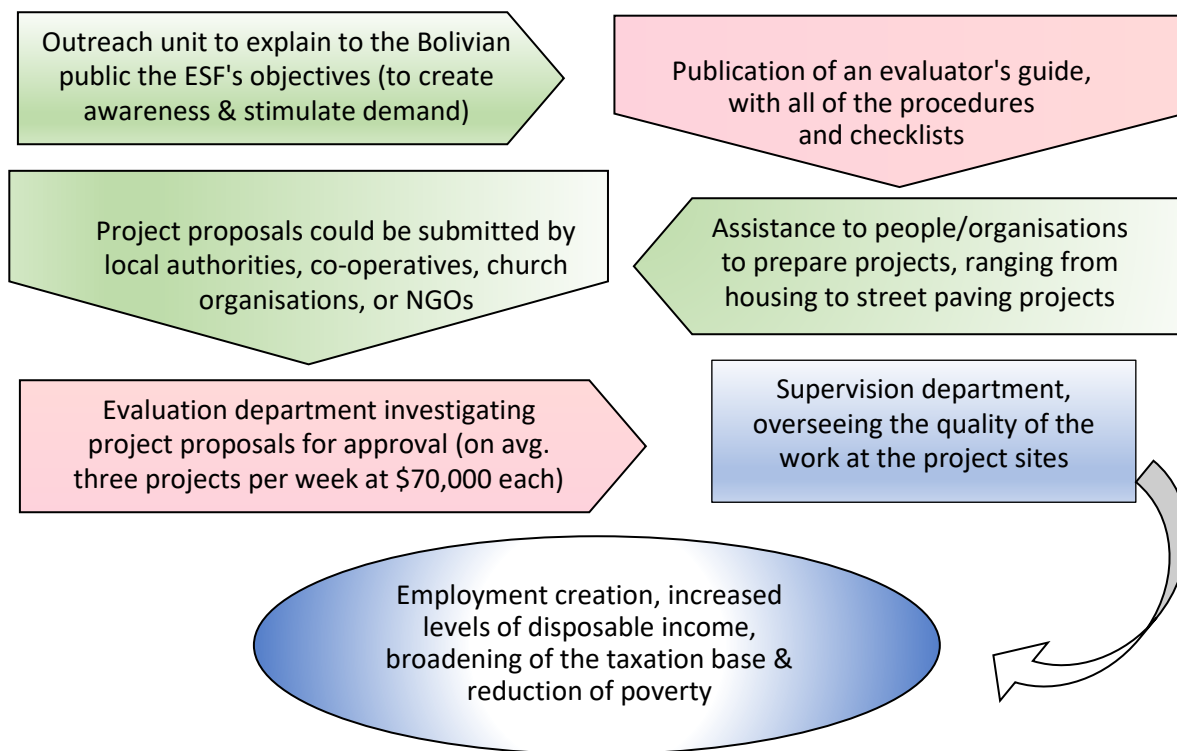


Table 2.3: Average quality rating of infrastructure projects implemented under Bolivia's Emergency Social Fund (ESF) by project type

	Number of projects	Avg. rating		Number of projects	Avg. rating
Social infrastructure	142	1.8	Economic infrastructure	44	2.0
Water & sewage	24	1.7	Urban paving, markets	26	2.4
Housing	20	1.6	Access roads	7	1.6
Health	14	1.9	Irrigation/drainage	3	1.0
Schools/education	56	2.0	Erosion control	3	1.0
Historical renovations	5	1.4	Reforestation	3	1.5
Orphanages/ret. homes	18	1.8	Other	2	1.5
Other infrastructure	5	2.2			

Rating method: 1 = good; 2 = acceptable; 3 = deficient; 4 = poor

Source: Jorgensen, et al. (eds.) 1992

Between 1988 and 1991, a substantial body of evaluations were conducted on the Bolivian Emergency Social Fund (ESF), with a view to assessing how well it worked. Table 2.3 depicts the average technical quality rating of the public works that were undertaken under the ESF, by location and by project type. These ratings were conducted for a sample of 186 different projects by independent engineers.

As pointed out by Grosh (1992), the ESF managed to appraise, finance, and monitor the implementation of thousands of small development projects. This was no mean feat given the prevailing public sector climate in Bolivia, where, typically, only about 50 percent of planned public investments came to fruition. The

division of labour between the programming, evaluation and supervision departments and the good collaboration between them is considered one of the reasons of ESF's success.

Bolivia's ESF has attracted a great deal of both national and international attention, and several programmes bearing similarities to the ESF have been set up in other developing countries. Proponents of an SEDF cite its demand-based approach, its efficiency and transparency, and its rapid results as a clear-cut rationale for consideration as a policy to complement social protection policies via public works and active labour market policies.

In the evaluation of the macroeconomic impact of the Bolivian ESF, it is important to note the positive longer-term effects, as emphasised by research conducted by Cruces et al (2017). During the ensuing years and especially since 2000, Bolivia experienced positive economic growth and improved all of the country's labour market indicators.

Despite the global recession caused by the financial crisis of 2008/09, Bolivia's economy managed to sustain positive growth during this unfortunate episode. Over the past two decades, unemployment has declined, educational levels improved and all the indicators of poverty and inequality decreased substantially (World Bank Aspire 2022).

Although criticism has been voiced against the programme's ability to provide permanent poverty alleviation, the objective of an SEDF is to simultaneously improve infrastructure and social service delivery and to create unemployment for relatively low-skilled workers, who invariably emanate from the poorest segments of society. Criticism of and SEDF's institutional position outside the public sector is unwarranted, as this aspect involves less bureaucracy and remains subject to sound corporate governance oversight, including that of the various global sponsoring countries and a Board that includes government representatives.

The need for a diversified approach – factor market reform

It is important to recognise the shortcomings of welfare policies that are designed to provide some security of income to the poor. Grants, whether conditional or not, represent the core element of such strategies. As important as these policies are, even when well targeted, they do not suffice for addressing the problem of unemployment. Cash transfers certainly assist poor individuals and families that are already in poverty and at serious risk, as proven by a plethora of international research, but they are invariably based on income redistribution, which mitigates to a varying degree a country's economic growth potential.

In the absence of a welfare system that is aligned to a pragmatic growth and development strategy, long-term poverty reduction will remain elusive. In order to reverse the cycle of poverty that characterises many poor communities, a broad-based strategy is required that ensures the sustainability of the fiscal resources required for immediate poverty reduction (such as cash grants) as well as policies designed to enhance the income generation potential of poor people.

The latter should ideally consist of long-term investments in human capital, especially health, education and training. An adequate level and quality of public social expenditures in these critically important areas are widely regarded as essential elements of a long-term poverty reduction programme. The World Bank (2000) has developed a so-called trilogy of policies which are necessary for reducing poverty, namely security, opportunity and empowerment.

Investment in human capital is a key element of such a strategy, as it can be designed to straddle the provision of some security to the poor (via conditional grants) and creating better opportunities for the poor via

enhanced participation in the economic growth process. According to Wodon & Velez (2001), Pro-growth reforms in urban and rural factor markets can help in improving earnings and employment opportunities for those who are less skilled, thereby resulting in poverty reduction.

In a review of several studies on the socio-economic impact of social welfare in South Africa, Woolard & Leibbrandt (2013) showed that the existing grant system seems to be promoting desirable education and health behaviours, even though these grants are unconditional.

Their research makes the point, however, that the ultimate return to these positive human capital outcomes should be an ability to become a productive citizen, which suggests that a more virtuous interaction with the labour market should be considered in future deliberations around welfare policy in South Africa.

Factor market policies have the added advantage of being able to generate more immediate beneficial impacts and examples of such policies can be found in many developing countries, especially in South America. A variety of socio-economic programmes to augment cash transfers have been implemented with a large measure of success in Mexico (Aguila et al 2012). They include:

- *Opciones Productivas* (options for productivity), which allows individuals in the marginalised regions to develop productive projects and opportunities for self-employment, which assists in the generation of additional income and the well-being of their households. It also provides access to financial services, such as saving and lending.
- Another program provides beneficiaries in rural areas with transitory employment opportunities and training if it is required
- Mexican craftsmanship is supported by an agency that manages four different programmes to market crafts, organise contests, train craftspeople, and finance the production of crafts
- *Tu Casa* (your house) is an initiative that aims to reduce families' vulnerability by increasing their wealth, combining own savings with subsidies for housing acquisition or improvement
- A fifth program focuses on rural and indigenous communities, providing families with subsidies to construct, buy, or improve a home.

Measures designed to enhance the functioning of factor markets should ideally form an integral part of a developing country's welfare policies. While investments in human capital tend to have an impact on poverty only in the longer run (for example, when healthy and better-educated children reach adulthood), factor market policies may have more immediate beneficial impacts.

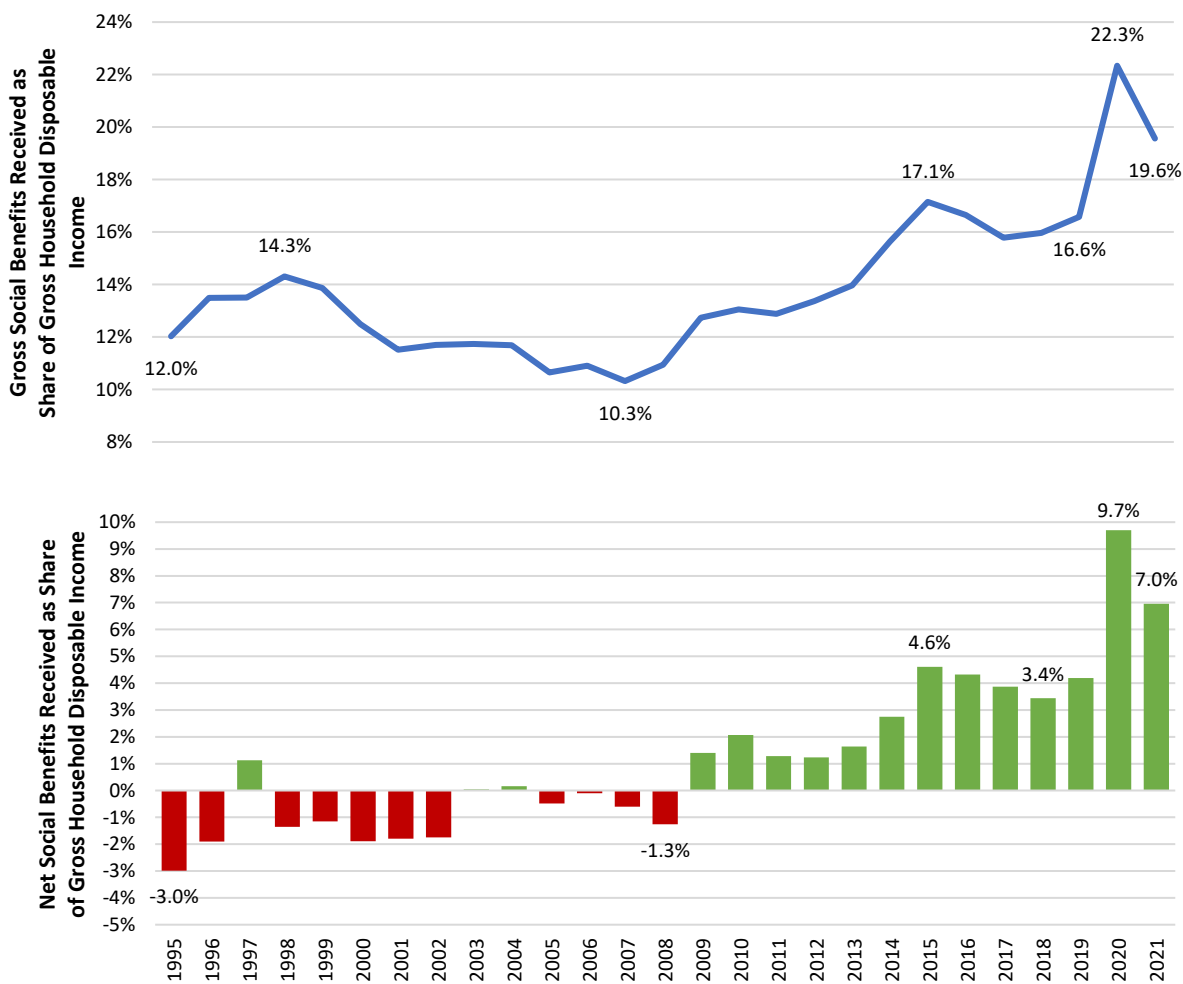
3. The Broader Context to Social Grants

Trends in social benefits received

In South Africa social grants form part of a broader system of social protection that includes social security funds – such as the Unemployment Insurance Fund and the Compensation Fund – where households are both contributors and beneficiaries. Figure 3.1 (top) shows the scale of the gross social benefits received as a share of gross household disposable income. The gross social benefits received were equivalent to 12 percent of gross household disposable income in 1995.

This rose to over 14 percent in 1998 and then declined steadily to around 10 percent over the following decade. In the wake of the Global Financial Crisis of 2008/9 it trended higher to exceed 17 percent in 2015, then generally stabilized over the subsequent four years. The increase in benefits received during the first year of the COVID-19 pandemic saw the ratio rise sharply – from 16.6 percent in 2019 to 22.3 percent in 2020. In 2021, social benefits received were equivalent to 19.6 percent of the gross disposable income of households.

Figure 3.1: Trends in gross and net social benefits received by South African households



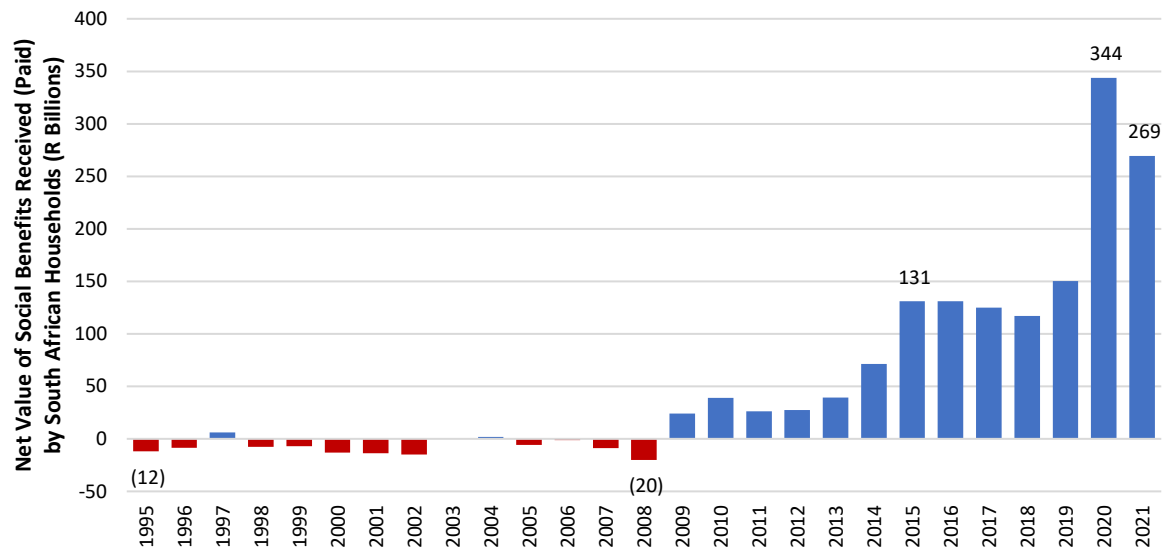
Source: South African Reserve Bank Quarterly Bulletin Production, distribution and accumulation accounts of South Africa, S-138.

Figure 3.1 (bottom) indicates net social benefits received (i.e. gross benefits received less contributions paid) as a share of gross household disposable income. It is apparent that, with a few exceptions, South African households were generally net contributors to social benefits (i.e. contributed more than they received back in benefits) between 1995 and 2008.

However, since 2009 a progressively greater share of household disposable income has been subsidized from outside the social benefit system (mainly the tax system), or through reductions in the accumulated surpluses of the social security funds.

Figure 3.2 shows the value of these net transfers from/to households. Whereas South African households paid R20 billion more in social contributions than they received back as benefits in 2008, by 2015 they were receiving net benefits equivalent to R131 billion and in 2020 this rose to R344 billion.

Figure 3.1: Value of net social benefits received/paid by South African households



Source: South African Reserve Bank Quarterly Bulletin Production, distribution and accumulation accounts of South Africa, S-138.

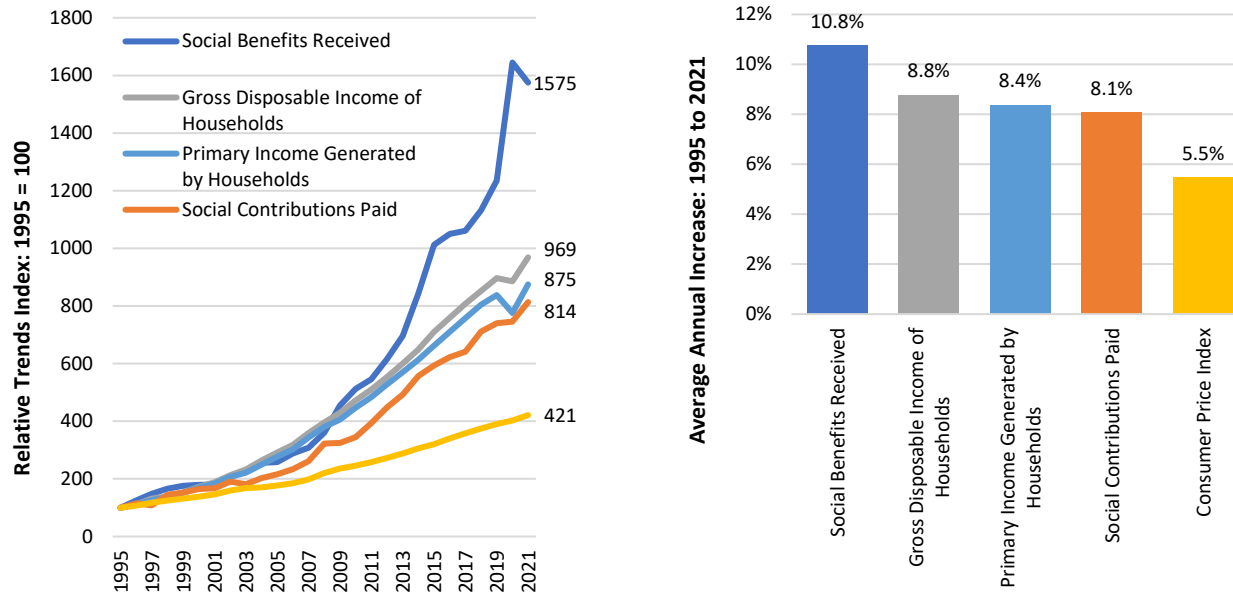
Figure 3.3 shows the relative trends in various metrics related to social benefits. Between 1995 and 2021 the nominal value of social benefits received increased by 1,475 percent (an average of 10.8 percent per annum).

By contrast, the gross disposable income of households rose by 869 percent (8.4 percent per annum), primary income generated by households¹ increased by 775 percent (8.4 percent a year), social contributions paid were up 714 percent (8.1 percent a year) and consumer prices increased by 321 percent (5.5 percent a year).

The start of the accelerated growth of social contributions received coincides with the Global Economic Crisis of 2008/9 as well as the adoption of the concept of a developmental state.

¹ Comprising compensation of employees and net interest, dividends and rental incomes.

Figure 2.3: Relative trends in social benefits received and related indicators



Source: South African Reserve Bank Quarterly Bulletin Production, distribution and accumulation accounts of South Africa, S-138., Statistics South Africa Consumer Price Index

The extent of poverty in South Africa

The 2030 Agenda for Sustainable Development adopted by all United Nations member states in 2015 identifies 17 Sustainable Development Goals (SDGs) that “recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests”.

In relation to the objective of eliminating poverty, the SDGs set the following goal targets:

- By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.
- Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.
- By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.
- By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.
- Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions.

- Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions.

Different poverty lines are used when attempting to measure poverty. Statistics South Africa employed the internationally recognised cost-of-basic-needs approach to produce three poverty lines, namely the Food Poverty Line (FPL), the Lower-Bound Poverty Line (LBPL), and the Upper-Bound Poverty Line (UBPL). These lines capture different degrees of poverty and allow the country to measure and monitor poverty at different levels. There are also internationally-used measures of both extreme and less-extreme poverty. The five different poverty lines included in this analysis are defined as follows:

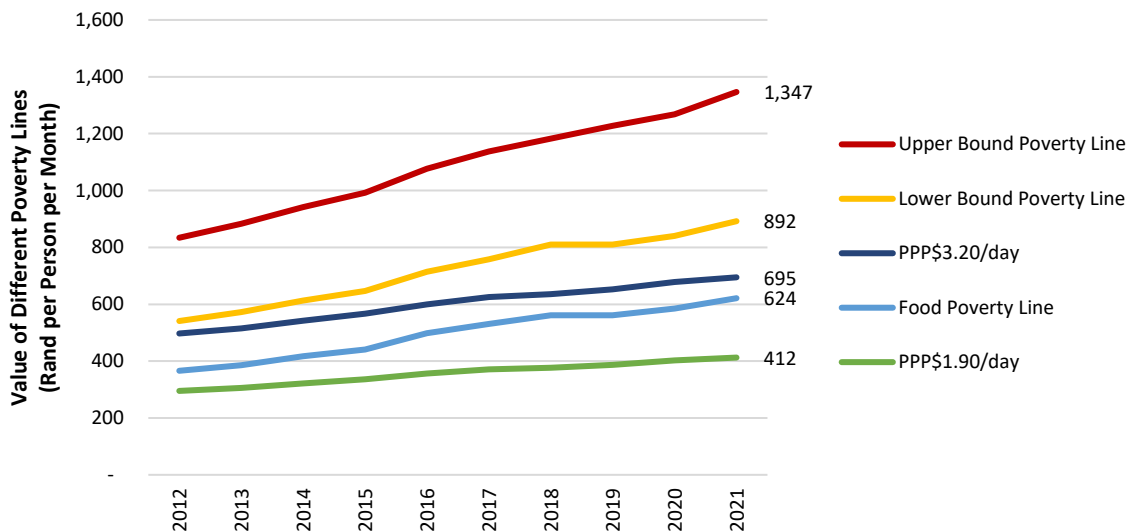
- i) *Food Poverty Line (FPL)*. The FPL is the rand value below which individuals are unable to purchase or consume enough food to supply them with the minimum per-capita-per-day energy requirement for adequate health.
- ii) *Lower Bound Poverty Line (LBPL)*. The LBPL is derived using the FPL as a base, but also includes a non-food component. Individuals at the LBPL do not have command over enough resources to purchase or consume both adequate food and non-food items and are therefore forced to sacrifice food to obtain essential non-food items.
- iii) *Upper Bound Poverty Line (UBPL)*. The UBPL is also derived using the FPL as a base, and also includes a non-food component. Individuals at the UBPL can purchase adequate levels of both food and non-food items.
- iv) *Daily income of less than the equivalent of PPP\$1.90/per person/day*. The global threshold of extreme poverty is set by the World Bank at 1.90 international (PPP) dollars per capita per day. Over 900 million people globally were estimated to have lived under this line in 2012, and over 700 million in 2015.
- v) *Daily income of less than the equivalent of PPP\$3.20/person/day*. A less extreme international definition of poverty refers to people living on incomes less than the equivalent to 3.20 international (PPP) dollars per capita per day.

The National Development Plan seeks to see the full population living above the LBPL by 2030ⁱ.

Figure 3.4 shows the monetary values associated with these different poverty lines. The UBPL increased from R834 per person per month in 2012 to an estimated R1,347 per person per month in 2021. By contrast, the equivalent rand value of the international PPP\$1.90/day² rose from R295 per person per month to R412 over the same period.

² The definitional requirement that international (purchasing power parity dollars) are used rather than US dollars often seems to be overlooked and makes a significant difference to the values of respective international poverty lines. For example, while PPP\$1.90/person/per day translates into an average monthly value of R412/person/month in 2021, the average market exchange rates that prevailed against the US dollar in 2021 would have required a monthly income of R854 – more than double the purchasing power parity equivalent. Similarly, an average income of R695 per person per month is required for the PPP\$3.20/day measure in 2021, but this increases to R1,438 per person per month if prevailing US dollar exchange rates are used.

Figure 3.4: The monetary value of different poverty line definitions

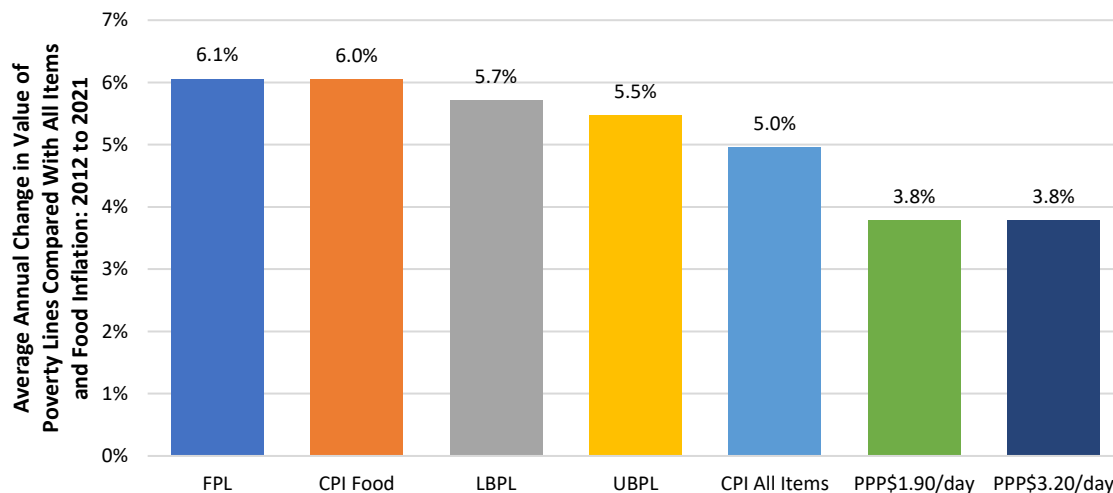


Sources of data: Statistics South Africa, Quantec Regional Database, own calculations

Figure 3.5 indicates the average annual changes in the monetary (rand) values associated with the different poverty lines. These are contrasted with the corresponding average changes in overall consumer prices as well as average food inflation. It is noteworthy that the Food Poverty Line (FPL) increased at a faster rate (6.1% p.a.) than the other poverty lines – due largely to the fact that CPI food inflation was higher than All Items inflation.

The average annual changes in the international measures (PPP\$1.90 and PPP\$3.20 per day) were the same at 3.8 percent. This suggests that – on average – annual inflation in South Africa was 3.8 percent higher than the weighted average for other countries over this period.

Figure 3.5: Comparative average annual changes in monetary value of poverty lines and changes in All Items and Food consumer prices from 2012 to 2021



Sources of data: Statistics South Africa, Quantec Regional Database, own calculations

Estimating the number of poor people in South Africa

There are a number of challenges associated with estimating the number of poor people in South Africa according to the different poverty lines. The most significant of these is that comprehensive analysis of the incomes and expenditures of individuals residing in South Africa is done infrequently as part of the Census. While this is supplemented by smaller sample surveys such as the General Household Survey the focus is typically on the income and expenditure of households rather than individuals.

Households are defined in the System of National Accounts (SNA) as “a small group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food.”³ It is therefore assumed that all the members of a household have the same poverty status: if the collective income of the household is below the corresponding poverty line, all members of the household are classed as poor.

However, incomes and expenditures are typically measured at the household level, while poverty lines are defined at the individual levels and household sizes can vary greatly⁴. To convert from households to individuals it is therefore necessary to know the average household size for each income or expenditure category.

The approach adopted in this study is as follows:

- i) The annual expenditure range per expenditure decile published in the Consumer Price Index was used. Annual values were extrapolated for the years in which new CPI weights were not calculated. The 2020 and 2021 values were estimated using the corresponding CPI inflation for each expenditure decile and the overall change in total household spending. This generates a range of possible household expenditure per decile over time – as shown in Table 3.1.

Table 3.1: Upper limit of monthly household expenditure according to expenditure decile (Rand/household/month)

Expenditure Decile	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Decile 1	1,070	1,160	1,257	1,363	1,477	1,541	1,608	1,678	1,626	1,823
Decile 2	1,783	1,932	2,093	2,267	2,456	2,566	2,681	2,802	2,717	3,035
Decile 3	2,226	2,502	2,811	3,158	3,549	3,710	3,879	4,056	3,918	4,360
Decile 4	2,979	3,346	3,759	4,222	4,742	4,963	5,193	5,434	5,234	5,809
Decile 5	3,990	4,446	4,954	5,520	6,151	6,440	6,742	7,058	6,792	7,530
Decile 6	5,135	5,720	6,372	7,098	7,907	8,285	8,682	9,097	8,745	9,667
Decile 7	8,461	8,898	9,359	9,843	10,352	10,829	11,327	11,848	11,389	12,651
Decile 8	11,840	12,438	13,066	13,726	14,419	15,130	15,877	16,660	16,000	17,874
Decile 9	18,481	19,411	20,388	21,414	22,492	23,612	24,787	26,021	25,063	28,078
Decile 10	> 18,481	> 19,411	> 20,388	> 21,414	> 22,492	> 23,612	> 24,787	> 26,021	> 25,063	> 28,078

Source of data: Statistics South Africa CPI Weights, CPI, National Accounts, own calculations. NOTE: Values for 2013 to 2015, 2017 and 2018 were extrapolated. Values for 2020 and 2021 were estimated using average annual CPI inflation for that decile.

³ Principles and Recommendations for Population and Housing Censuses, Revision 1. United Nations, New York, 1998, Series M, No. 67, Rev. 1, paras. 2.61-2.62

⁴ The General Household Survey accommodates household sizes ranging from 1 to 46 people

- ii) The average number of people per household per expenditure decile was then estimated using data contained the General Household Survey⁵. This was then used to calculate the average expenditure per person per month over time – as reflected in Table 3.2.

Table 3.2: Upper limit of monthly expenditure per person according to expenditure decile (Rand/person/month)

Expenditure Decile	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Decile 1	251	283	321	362	395	404	398	392	358	379
Decile 2	353	434	533	655	732	715	727	738	696	755
Decile 3	431	558	723	936	1,061	1,084	1,091	1,098	1,021	1,094
Decile 4	820	933	1,061	1,208	1,390	1,501	1,473	1,445	1,306	1,359
Decile 5	1,149	1,269	1,401	1,547	1,690	1,759	1,913	2,081	2,080	2,396
Decile 6	1,048	1,294	1,597	1,970	2,204	2,272	2,456	2,654	2,632	3,001
Decile 7	2,414	2,493	2,574	2,658	2,777	2,925	3,223	3,552	3,598	4,211
Decile 8	3,132	3,366	3,619	3,889	4,164	4,345	4,576	4,819	4,644	5,207
Decile 9	4,784	5,270	5,804	6,393	6,384	6,834	7,359	7,926	7,832	9,001
Decile 10	> 4,784	> 5,270	> 5,804	> 6,393	> 6,384	> 6,834	> 7,359	> 7,926	> 7,832	> 9,001

Source: Statistics South Africa CPI Weights, CPI, General Household Survey, own calculations. NOTE: Values for 2013 to 2015, 2017 and 2018 were extrapolated. Values for 2020 and 2021 were estimated using average annual CPI inflation for that decile as well as the change in nominal household spending.

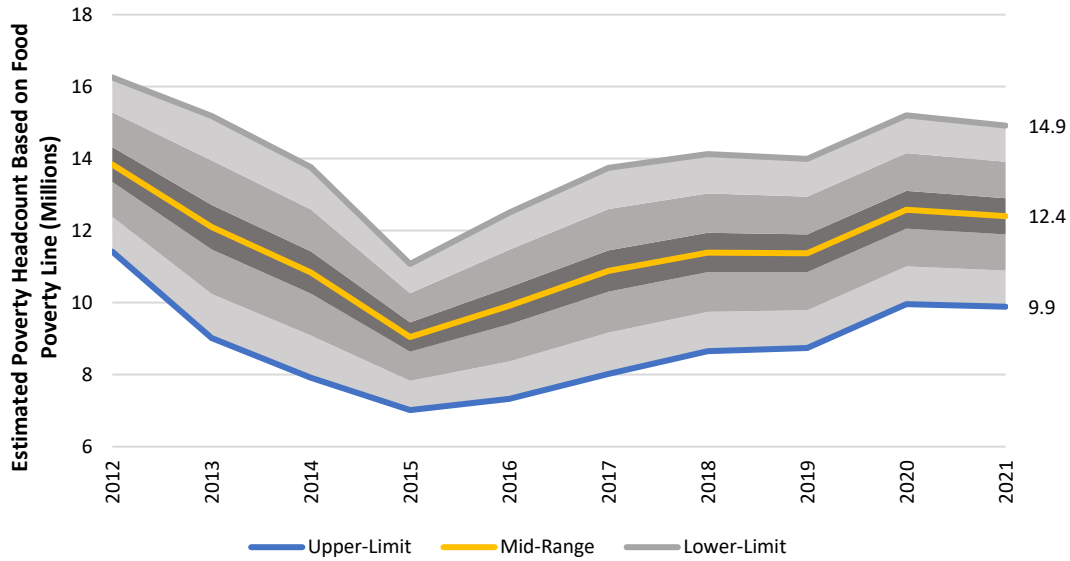
- iii) The monetary values of each poverty line were then compared with the corresponding lower, upper and mid-range expenditure values for each decile. If the value of a particular poverty line in a particular year was somewhere between the expenditure values for the second and third decile, then the number of people estimated to be poor would be two times the relevant population decile (one tenth of the population estimates for that year) plus the ratio of the difference between the poverty line value and the lower-limit of the expenditure decile and the difference between the lower- and upper-limit of the expenditure decile multiplied by the number of people in the population decile. The resulting “headcount” estimates for each of the poverty lines are shown in figures 5 to 9.

Figure 3.6 shows the resulting estimated number of people that would be classed as poor in relation to the Food Poverty Line (FPL). In 2021, the number of people that had insufficient income to meet their essential food intake requirements to ensure adequate health ranged from 9.9 million (associated with the upper-limit of the expenditure decile) to 14.9 million (associated with the lower-limit of the expenditure decile), with a mid-range of 12.4 million people.

The number of “food poor” people initially declined between 2012 and 2015 – with the mid-range falling from 13.8 million to 9 million. However, since 2015 the number has increased steadily – accelerating in 2020 to 12.4 million.

⁵ There was a typically a relatively low response rate to questions regarding income. It was assumed that the unresponsive portion of the sample was spread across the population in proportion to actual response rates.

Figure 3.6: Estimated number of South Africans classed as poor based on Food Poverty Line

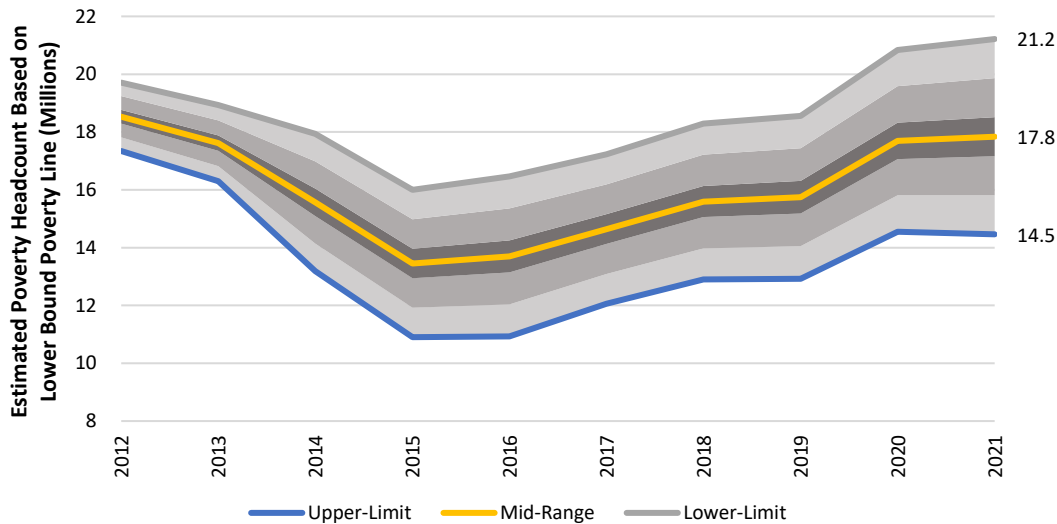


Source of data: Statistics South Africa CPI (various), General Household Survey, own calculations

NOTE: Upper-limit refers to the upper-limit of the expenditure range within each decile. People at the upper-limit of the range have more to spend and there are therefore relatively fewer people classed as poor when this is taken into account. Conversely, “lower-limit” refers to the lower-limit of the expenditure range within each decile. People at the lower-limit of the range have less to spend and there are therefore relatively more people classed as poor when this is taken into account.

Figure 3.7 indicates the estimated number of people that are poor based on the Lower Bound Poverty Line (LBPL). In 2021, estimates range from 14.5 million to 21.2 million with a mid-range value of 17.8 million.

Figure 3.7: Estimated number of South Africans classed as poor based on Lower Bound Poverty Line



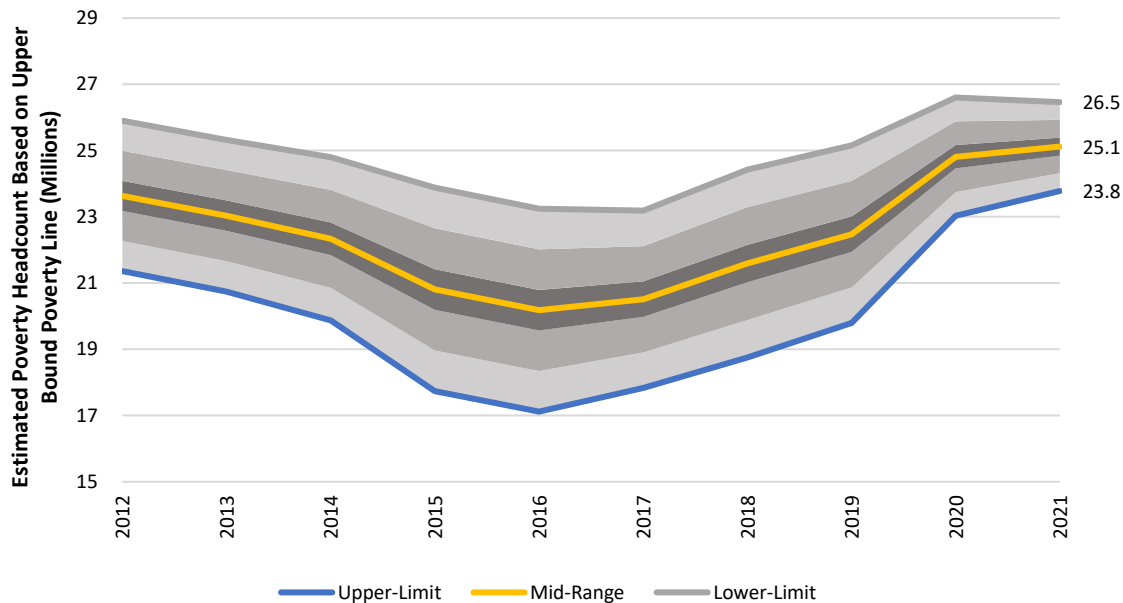
Source of data: Statistics South Africa CPI (various), General Household Survey, own calculations

NOTE: Upper-limit refers to the upper-limit of the expenditure range within each decile. People at the upper-limit of the range have more to spend and there are therefore relatively fewer people classed as poor when this is taken into account. Conversely, “lower-limit” refers to the lower-limit of the expenditure range within each decile. People at the lower-limit of the range have less to spend and there are therefore relatively more people classed as poor when this is taken into account.

As with the FPL, the number of people classed as poor using the LBPL dropped quite sharply between 2012 and 2015 – from a mid-range of 18.5 million to 13.5 million. Since 2015, 4.3 million additional people have been classed as poor according to this poverty line.

Figure 3.8 shows the number of people classed as poor according to the Upper Bound Poverty Line (UBPL). In 2021 estimates ranged from 23.8 million to 26.5 million, with a mid-range value of 25.1 million. In the case of this poverty line, the number of people classed as poor using the mid-range declined from 23.6 million in 2012 to 20.2 million in 2016 but increased by 4.9 million people in subsequent years (from 2016 to 2021).

Figure 3.8: Estimated number of South Africans classed as poor based on Upper Bound Poverty Line



Source of data: Statistics South Africa CPI (various), General Household Survey, own calculations

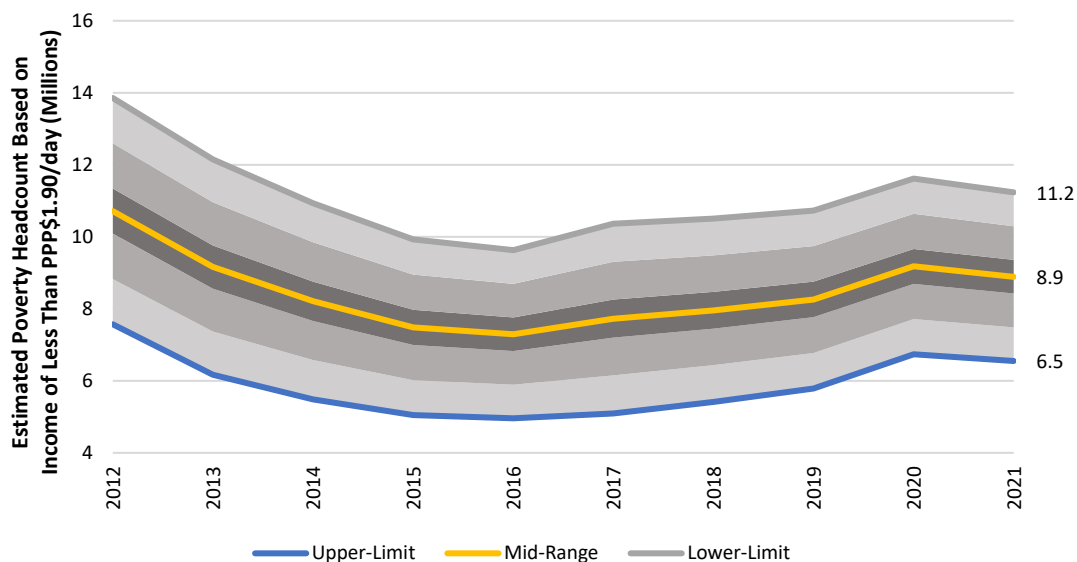
NOTE: Upper-limit refers to the upper-limit of the expenditure range within each decile. People at the upper-limit of the range have more to spend and there are therefore relatively fewer people classed as poor when this is taken into account. Conversely, “lower-limit” refers to the lower-limit of the expenditure range within each decile. People at the lower-limit of the range have less to spend and there are therefore relatively more people classed as poor when this is taken into account.

The number of people classed as poor according to the international definition of having incomes less than the equivalent of PPP\$1.90/day is shown in Figure 3.9. It indicates 2021 estimates that range from 6.5 million (associated with the upper-limit of the expenditure decile) to 11.2 million (associated with the lower-limit of the expenditure decile).

The mid-range estimate declined from 11.7 million in 2012 to 7.3 million in 2016 and then rose to 9.2 million in 2020 before declining to 8.9 million in 2021ⁱⁱ⁶.

ⁱⁱ⁶ These estimates differ significantly from those published in the Sustainable Development Report 2022. According to this 25.86 percent of South Africa’s population in 2012 had incomes below the PPP\$1.90/day equivalent. This translates into a headcount of 13.1 million. The 2021 estimate is 26.87 percent or 16.2 million people which is over 80 percent higher than the mid-range estimate shown in Figure 9.

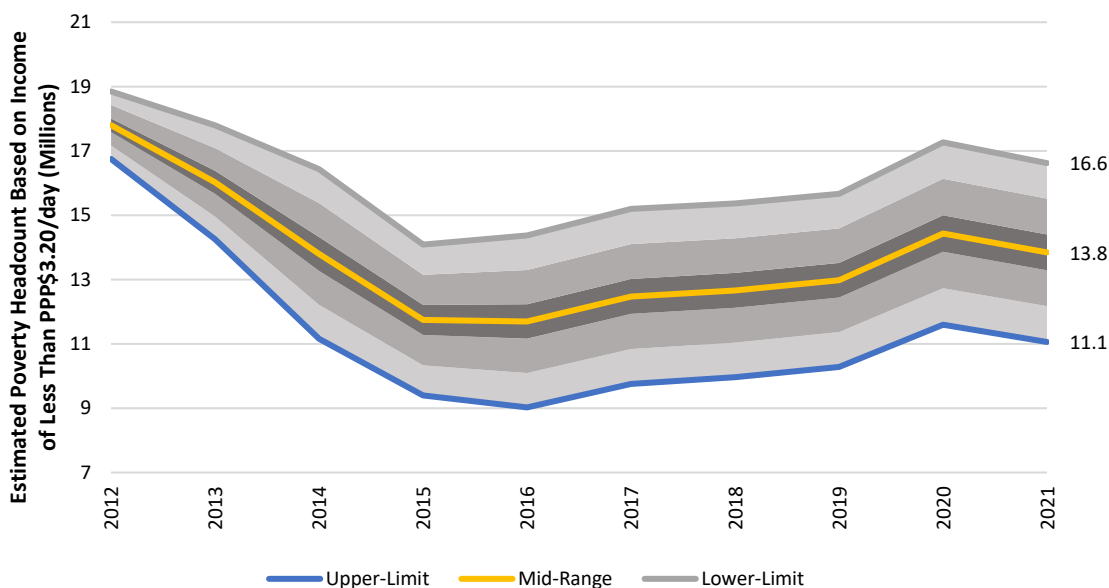
Figure 3.9: Estimated number of South Africans classed as poor based on international PPP\$1.90/day income limit



Source of data: Statistics South Africa CPI (various), General Household Survey, own calculations

NOTE: Upper-limit refers to the upper-limit of the expenditure range within each decile. People at the upper-limit of the range have more to spend and there are therefore relatively fewer people classed as poor when this is taken into account. Conversely, “lower-limit” refers to the lower-limit of the expenditure range within each decile. People at the lower-limit of the range have less to spend and there are therefore relatively more people classed as poor when this is taken into account.

Figure 3.10: Estimated number of South Africans classed as poor based on international US\$3.20/day income limit



Source of data: Statistics South Africa CPI (various), General Household Survey, own calculations

NOTE: Upper-limit refers to the upper-limit of the expenditure range within each decile. People at the upper-limit of the range have more to spend and there are therefore relatively fewer people classed as poor when this is taken into account. Conversely, “lower-limit” refers to the lower-limit of the expenditure range within each decile. People at the lower-limit of the range have less to spend and there are therefore relatively more people classed as poor when this is taken into account.

Figure 3.10 shows the estimated number of people classed as poor according to the international PPP\$3.20/day poverty line. Estimates range from 11.1 million to 16.6 million in 2021 – with a mid-range of 13.8 million. The mid-range values declined from 17.8 million in 2012 to 11.7 million in 2015 and 2016, and then increased steadily to 14.4 million in 2020⁷.

When these estimates are expressed as a share of South Africa’s population – as reflected in Table 3.3 and Figure 3.11 - the prevalence of poverty is put into context. Using the mid-range estimates the share of the population classed as poor according to the Upper Bound Poverty Line decreased from 45 percent to 38 percent between 2012 and 2015, but subsequently increased back up to 42 percent in 2020 and 2021.

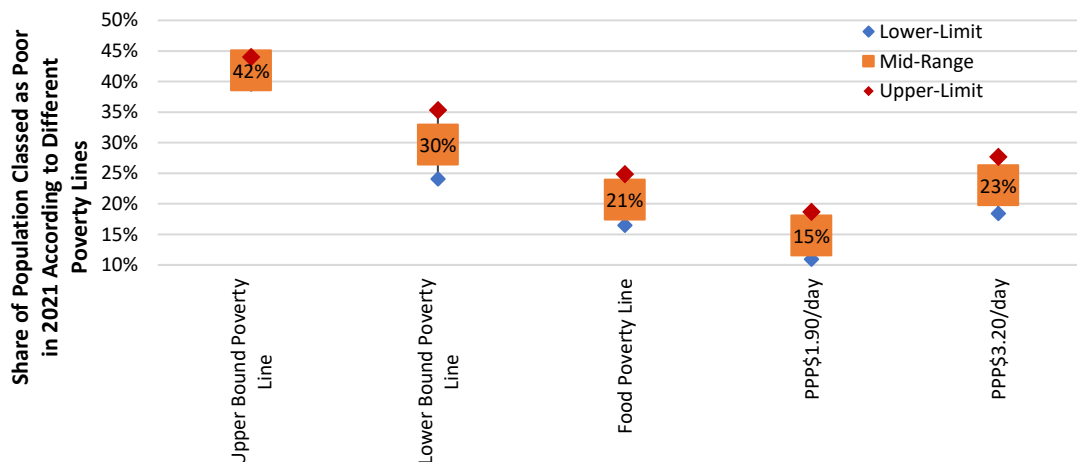
The other poverty lines followed similar trends, with the share of the population that is “food poor” dropping from 26 percent in 2012 to 16 percent in 2015 and then increasing back to 21 percent in 2020 and 2021.

Table 3.3: Share of population classed as poor according to different poverty lines and decile expenditure ranges

Poverty Line	2012			2015			2020			2021		
	Low	Middle	Upper	Low	Middle	Upper	Low	Middle	Upper	Low	Middle	Upper
Upper Bound Poverty Line	40%	45%	49%	32%	38%	43%	39%	42%	45%	40%	42%	44%
Lower Bound Poverty Line	33%	35%	37%	20%	24%	29%	24%	30%	35%	24%	30%	35%
Food Poverty Line	22%	26%	31%	13%	16%	20%	17%	21%	26%	16%	21%	25%
PPP\$1.90/day	14%	20%	26%	9%	14%	18%	11%	15%	20%	11%	15%	19%
PPP\$3.20/day	32%	34%	36%	17%	21%	25%	19%	24%	29%	18%	23%	28%

Source of data: Statistics South Africa CPI (various), General Household Survey, Mid-year Population Estimates, own calculations

Figure 3.11: Share of population classed as poor in 2021 according to different poverty lines



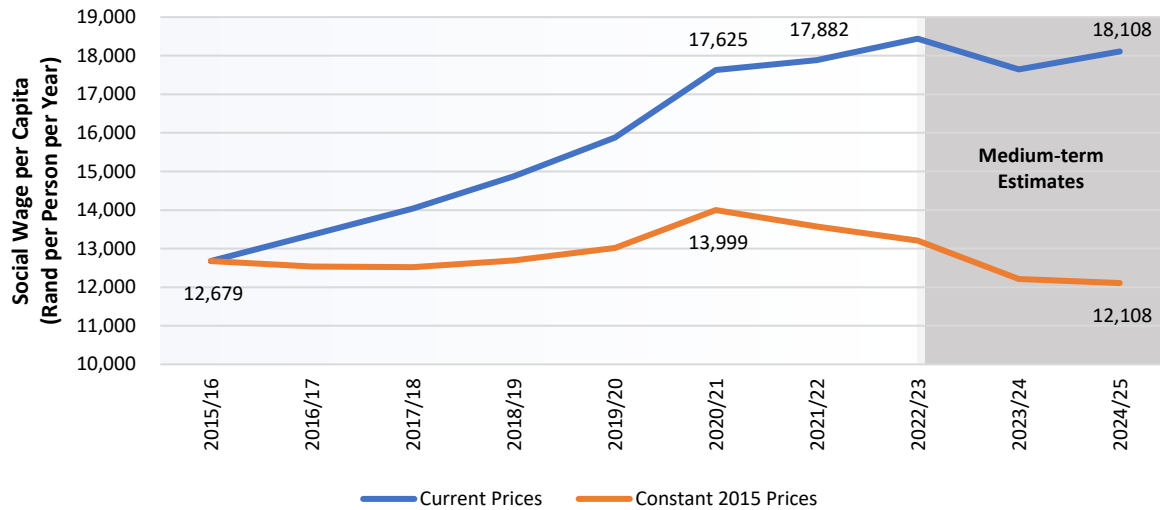
Source of data: Statistics South Africa CPI (various), General Household Survey, own calculations

⁷ The mid-range estimate in 2021 of 13.8 million is 38 percent lower than the estimate contained in the Sustainable Development Report 2022 (37.3 percent of the population – which equates to 22.4 million people)

South Africa's social protection response to poverty

The preceding analysis focused on both the level and dynamics of South Africa's poverty problem. The policy response has largely been to expand social protection through increases in the number of people receiving social grants and higher-than-inflation increases in their value. However, the social wage – defined as publicly provided services that replace or subsidise day-to-day expenses such as housing, education and amenities, and thereby reduce the cost of living to recipient households – extends beyond income transfers.

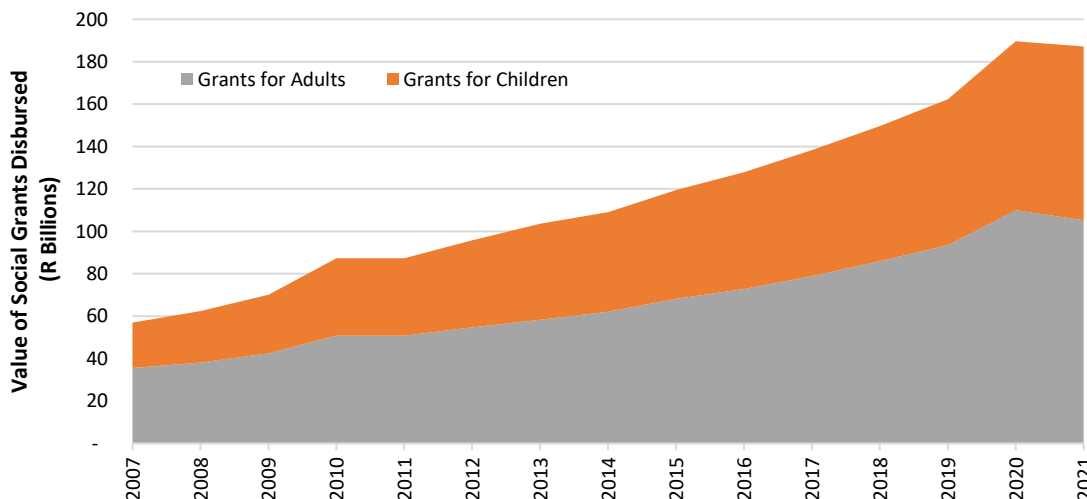
Figure 3.12: Value of the social wage per capita



Source of data: National Treasury, Budget 2022; Statistics South Africa CPI (various), Mid-year Population Estimates, own calculations

Figure 3.12 indicates trends in the nominal and real value of the social wage (as quantified by National Treasury) on a per capita basis. Nominally, it increased from almost R12,700 to close to R17,900 between fiscal 2015/16 and 2021/22 (an average annual increase of 5.9 percent) and is budgeted to rise further to over R18,400 in 2022/23. In real terms it increased by 1.1 percent a year between 2015/16 and 2021/22 but is projected to decline significantly over the medium term (i.e. till 2024/25). In reality, many of the services and transfers that make up the social wage are target at, or largely used by, lower income households. The per capita social wage for those recipients is therefore likely to be substantially higher than shown in Figure 12.

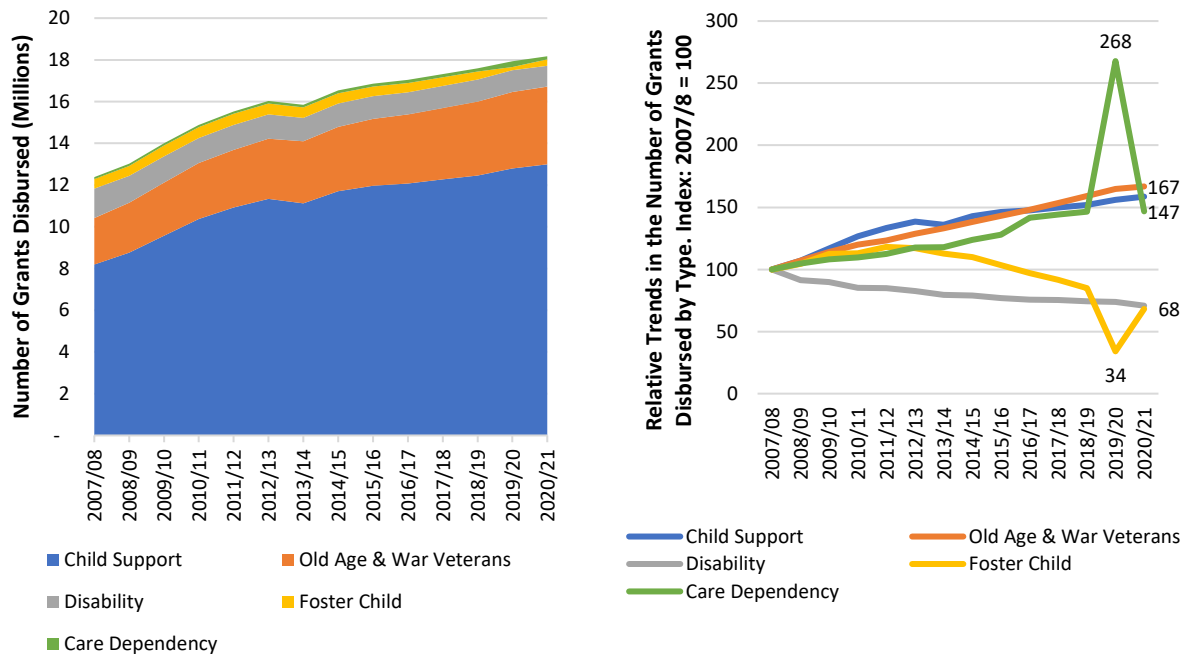
Figure 3.13: Trends in the value of social grants disbursed



Source of data: South African Social Security Agency (via Quantec)

Figure 3.13 shows that the total nominal value of social grants disbursed increased from R57 billion to R190 billion between 2007 and 2020 – a 9 percent a year average increase. In 2021 it declined to R188 billion.

Figure 3.14: Trends in the number of social grants disbursed



Source of data: South African Social Security Agency (via Quantec). NOTE: Grants in Aid are not shown in the right hand graph because their inclusion distorts the analysis. Between 2007/8 and 2020/21 the number of these grants disbursed increased by 617 percent.

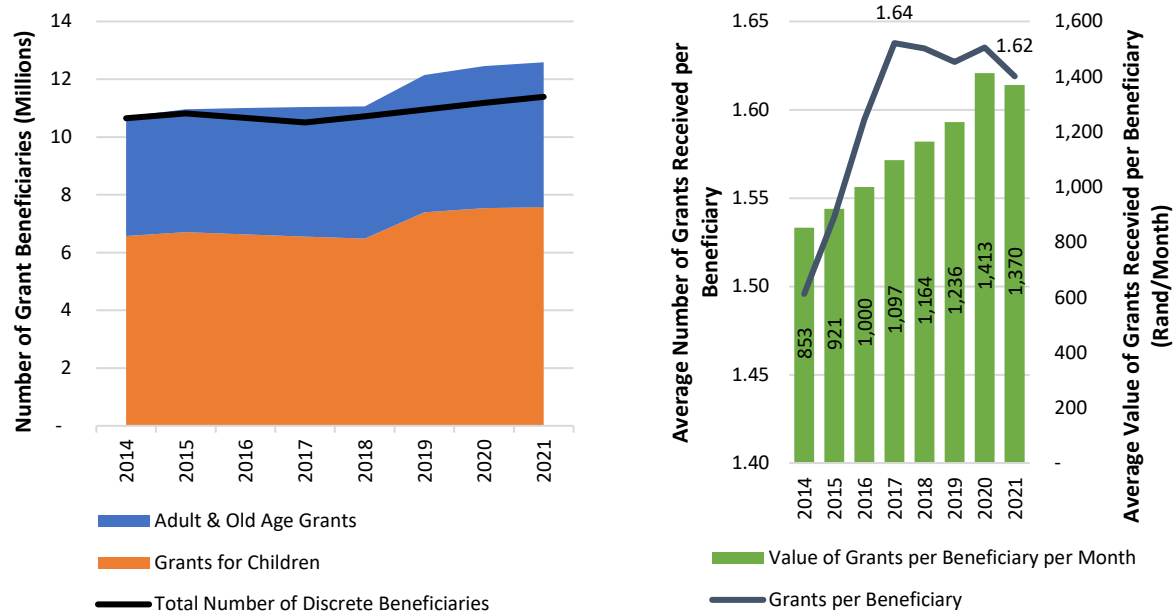
Figure 3.14 shows the corresponding trends in the number of grants disbursed. These increased from 12.4 million in 2007/8 to 18.4 million in 2020/21. In 2020/21 70 percent of these were Child Support Grants, 20 percent were Old Age and War Veterans Grants, 5 percent were Disability Grants. The remaining 5 percent were split between Foster Child Grants, Grants in Aid and Care Dependency Grants.

The total number of grant beneficiaries is shown in Figure 15 (left hand graph). This differs from the number of grants shown in Figure 14 because some beneficiaries receive more than one grant. There is also a difference between the total number of adult and child support grant beneficiaries and the total number of discrete beneficiaries since some recipients of grants to support children also receive adult support grants.

In 2021 there were 7.6 million beneficiaries of grants aimed at supporting children and 5 million beneficiaries of grants for adults, but only 11.4 million discrete beneficiaries – suggesting that around 1.2 million beneficiaries received both adult and child support grants.

Figure 3.15 (right hand graph) shows that in 2014 each beneficiary received almost 1.5 grants and that this increased to 1.64 grants per beneficiary in 2017. In 2021 it had declined to 1.62 grants per beneficiary. The graph also shows the average value of the grants received by each discrete beneficiary. This rose from R853 per month in 2014 to R1,413 per month in 2020. It declined to R1,370 per beneficiary per month in 2021.

Figure 3.15: Trends in the number of social grants disbursed



Source of data: South African Social Security Agency (via Quantec). NOTE: Grants in Aid are not shown in the righthand graph because their inclusion distorts the analysis. Between 2007/8 and 2020/21 the number of these grants disbursed increased by 617 percent.

Table 3.4 shows how the average value of each of the grants disbursed (calculated by dividing the total value of disbursements by the number of grants disbursed) has changed over time. Old Age Grants increased from R852/month in 2007/8 to R1,814/month in 2020/21 while Child Support Grants rose from R200/month to R549/month over the same period.

Table 3.4: Average value of grants disbursed per month by type

Grant Type	2007/8	2010/11	2015/16	2018/19	2020/21
Old Age Grant	R 852	R 1,050	R 1,386	R 1,657	R 1,814
War Veterans Grant	R 946	R 1,216	R 1,647	R 2,166	R 2,294
Disability Grant	R 904	R 1,169	R 1,471	R 1,751	R 1,924
Foster Care Grant	R 626	R 750	R 959	R 1,104	R 1,288
Care Dependency Grant	R 922	R 1,178	R 1,523	R 1,704	R 1,912
Child Support Grant	R 200	R 244	R 329	R 406	R 549
Grant in Aid	R 4	R 243	R 304	R 316	R 408

Source of data: South African Social Security Agency (via Quantec). NOTE: SRD grants not included because data on the number of grants disbursed was not available

The limitations of responding to poverty

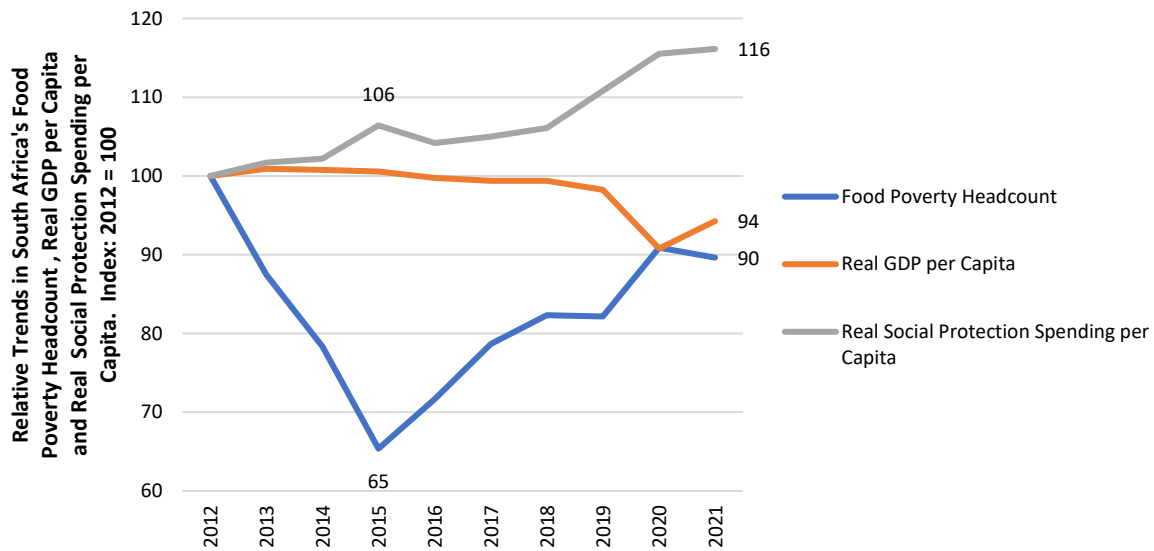
It is evident from the preceding analysis that South Africa has increased and expanded its social protection system significantly over the past decade and more. However, despite these efforts, the number of people that can be categorised as poor has increased steadily since 2015 – no matter what measure of poverty is used. This deterioration coincides with a persistent deterioration in the economic performance of the country, which resulted in a progressive decline in the real GDP per capita – a crude measure of average incomes before taxes and transfers.

As Figure 3.16 indicates, between 2012 and 2015, the food poverty headcount declined by 35 percent. Over the same period the real value of social protection spending per capita rose by 6 percent, but real GDP per capita only rose by 1 percent. Between 2015 and 2021 the food poverty headcount increased by 37 percent

while real social protection spending per capita increased by a further 9 percent and real GDP per capita decreased by over 6 percent. This suggests that – apart from any fiscal affordability and sustainability considerations - devoting progressively higher proportions of government revenues to social protection transfers will not, by itself, succeed in reducing poverty unless it is accompanied by a broadly supportive environment in which the rate of growth in real GDP exceeds the rate of increase in the population by a healthy margin.

It is therefore difficult to divorce the debate over the extent and structure of South Africa’s social protection system from the trade-offs that arise from alternative uses of those fiscal resources. To the extent that well-considered and efficiently-implemented public sector programmes succeed in supporting an increase in the capacity of the economy to grow at higher rates, the pressure on the social protection system will be reduced – allowing it to be targeted more effectively at those most in need.

Figure 3.3: Relative trends in the food poverty headcount, the real GDP per capita, and real social protection spending per capita



Source of data: National Treasury, Statistics South Africa, own calculations.

4. The performance of social protection programmes (SPPs)

Performance indicators serve as important guidelines for determining progress with development objectives in the domain of combating poverty via public welfare initiatives. Governments invest significant resources in the implementation of social protection programmes (SPPs), which necessitates the continuous monitoring of the effectiveness of these programmes and to also inform the future direction of social policies.

Two mainstream methodologies are utilised to assess the performances of the variety of SPPs that are implemented in virtually all of the world's developing countries. Performance indicators derived from household surveys assess the distributional effects of the social transfers on the welfare of beneficiaries, as well as their effect on disposable incomes and the combating of poverty. A second method relates to macroeconomic impact assessments, which are usually designed to measure a broader set of economic outcomes, such as the effects on the level of consumption, production, labour supply, human capital formation, and the stability of the public finances (especially taxation revenues, government debt and capital market interest rates).

The focus of this section is on the impact of SPPs in the quest to alleviate poverty and income inequality. It commences with an overview of comprehensive global research on social protection in developing countries conducted by the Universal Social Protection (USP) initiative. This is followed by concise overviews of SPP impact assessments in the Southern African Customs Union (SACU) countries and two studies on South Africa by local researchers.

Progress with combating poverty in developing countries

In 2016, the World Bank Group, the International Labour Organisation (ILO) and various bilateral and multilateral partners launched the USP initiative with the objective to support the Sustainable Development Goal (SDG) agenda for social protection. The USP partners have subsequently expanded and refined the research and analysis required for monitoring progress with combating poverty and inequality in developing countries around the globe, using a variety of performance indicators.

Key indicators and data sets

A selection of key indicators that are commonly used to measure progress with SPPs provides the basis for this analysis, which draws heavily on World Bank research conducted under the USP initiative. The indicators selected are: coverage, the reduction of the poverty headcount, benefit incidence and adequacy. They are defined as follows:

- **Coverage**
The percentage of the population participating in social protection programmes - SPPs (includes direct and indirect beneficiaries). This indicator is reported for the poorest quintile of the post-transfer welfare distribution. Specifically the indicator is computed as: The number of individuals in the bottom quintile who live in a household where at least one member receives the transfer divided by the number of individuals in that quintile.
- **Poverty headcount reduction**
Poverty headcount reduction is estimated as: Poverty headcount pre-transfer minus poverty headcount post-transfer, divided by poverty headcount pre-transfer
- **Benefit incidence**
Percentage of benefits received by the poorest quintile of the post-transfer welfare distribution,

relative to the total benefits going to the population. Specifically, benefit incidence is computed as: The sum of all transfers received by all individuals in the bottom quintile divided by the sum of all transfers received by all individuals in the population. The indicator includes both direct and indirect beneficiaries.

- **Adequacy**
The total transfer amount received by all beneficiaries in the bottom quintile as a share of the total welfare of beneficiaries in that quintile (includes both direct and indirect beneficiaries).
- **Public spending**
The total value of government spending on SPPs (excluding administrative costs), expressed as a percentage of GDP

Household surveys play a crucial role in monitoring programmes, given that they are systematically conducted on a time-series basis and the performance indicators gleaned from them complement the results of impact assessments in determining the achievements of social protection programmes. The analysis is based on subsets of household surveys (2008–20) from the Atlas of Social Protection: Indicators of Resilience and Equity (ASPIRE) database, corresponding to 96 countries with information about SSPs, supplemented by demographic data from the United Nations and the South African National Treasury.

Voluminous research has been conducted on the impact of an array of programmes aimed at poverty reduction, especially via social safety nets. Programmes aimed at enhancing social security may include cash transfers, in-kind transfers, social pensions, public works, and school feeding programs. A key finding of the latest State of Social Safety Nets Report (World Bank: 2018) is that even if many do not emerge from poverty, the absence of these programs would have caused many people to fall in to poverty and others to fall into deeper poverty, often being forced to sell their assets or borrow more. Another key finding that is relevant to the South African discourse on welfare policy, is that social welfare programmes also tend to lower inequality.

According to the World Bank’s ASPIRE household survey database, a total of 144 developing countries have social safety programmes in place. Table 4.1 depicts the numbers of developing countries that are implementing some form of social protection programmes (the administrative totals) and the numbers of countries for which more detailed datasets are available through household surveys.

Table 4.1: Numbers of countries in the ASPIRE household survey database & the administrative database (for the three categories of SSNs)					
Conditional cash transfers		Pensions		Unconditional cash transfers	
H/hold survey	Admin.	H/hold survey	Admin.	H/hold survey	Admin.
19	64	36	75	63	103
<i>Source: World Bank</i>					

In order to facilitate analysis, the Aspire database groups SSPs into standard categories, which aggregate different programme types. This means that the coverage indicator corresponds to the aggregated programme category and not necessarily to an individual program. For example, Latvia includes 10 programmes under unconditional cash transfers (UCTs), whilst Belize includes only one programme (the social welfare transfer). It is clear from the list contained in tables 4.2 and 4.3 that a large variety of individual categories of SPPs are being employed by developing countries, although they share the characteristic of being non-contributory. The social policy objectives of each country determines the choice of particular programmes within the broad classification identified earlier in section 2.

Table 4.3: Examples of unconditional cash transfer programmes in developing countries

Country	Type of programme
Armenia	Family poverty benefit
Bangladesh	Allowances for widows, deserted and destitute women
Belarus	Child care benefit, for children up to 3 years old
Benin	Decentralized services driven by communities
Botswana	Destitute Persons Program (DPP)
Bulgaria	Family or child allowance
Central African Republic	Emergency support to conflict-affected people
Croatia	Child and family benefits
Czech Republic	Parental allowance
India	National Family Benefit Scheme (NFBS)
Kenya	Hunger Safety Net Program (HSNP)
Kuwait	Physical disability grant
Latvia	Means-tested guaranteed minimum income allowance
Maldives	Single parents' allowance
Nepal	Basic education for girls
Nigeria	Eradication of extreme poverty and hunger
Senegal	Support for nutrition
Turkey	Support for the children of needy families
Uganda	Household income support
Ukraine	Child birth benefit

Source: World Bank ASPIRE

Table 4.3: Examples of in-kind social protection programmes in developing countries

Country	Type of programme
Bangladesh	Employment generation for the poorest
Belarus	Public works
Bolivia	Drought assistance
Burkina Faso	Cash for work
Cameroon	Labour-intensive public works
Costa Rica	Education scholarships
Estonia	Workfare via public works
Fiji	Food voucher programme
Gabon	Maternity grant in-kind
Grenada	School uniforms & transportation
India	National Rural Employment Guarantee Act
Latvia	Housing benefit
Lithuania	Compensation for heating expenses
Macedonia	Fee waivers for health insurance
Mauritius	Corrugated iron sheet housing
Namibia	Feeding programme for orphans & vulnerable children
South Africa	Expanded Public Works Programme
Sri Lanka	Free school uniform material
Tanzania	Basic education fee waiver

Source: World Bank ASPIRE

General observations from the performance of seven key categories of SPPs analysed in the World Bank's 2018 report on the state of social safety nets are:

1. The average beneficiary incidence of the 19 CCT programmes included in the ASPIRE database was 45% for the poorest quintile. In general, Conditional Cash Transfers (CCTs) are more effective in poverty alleviation than other SPP types. CCTs were pioneered by Brazil and Mexico towards the end of the 2nd millennium and have become popular in most other developing countries. These programmes aim to reduce poverty in a multi-dimensional manner by requiring beneficiaries to comply with conditions aligned to enhancing human capital, usually linked to school attendance and health check-ups.
2. Although UCTs are characterized by a wide range of beneficiary incidence across countries, 37 percent of UCT beneficiaries, on average, belong to the poorest quintile. One reason for this large variation is related to the aggregation of many types of UCTs in the World Bank database, as well as different objectives and eligibility criteria in the respective country programmes. It is important to note that universal programs tend to exhibit an even distribution. An example is the Child Money Programme in Mongolia, where the participation of all five quintiles is close to 20 percent. In contrast, the programmes in Kosovo and Montenegro are much more focused on the poorest quintile, which accounts for more than 70 percent of the total UCT beneficiaries.
3. Social pensions also have a substantial pro-poor distribution of beneficiaries with an average of 35 percent of beneficiaries belonging to the poorest quintile. There are, however, large variances in the performances amongst different countries, depending largely on the manner in which the pre-transfer indicator is constructed. For example, if social pensions have a high coverage and high benefit level of the poor, beneficiaries may tend to depend on them and hence group in the lowest quintile of the pre-transfer welfare distribution.
4. Beneficiary incidence of school feeding programs are in the same range as the remaining three indicators (in-kind transfers, public works and targeted subsidies), namely 34% for the bottom quintile. A large degree of variation exists between countries, with the most pro-poor programmes found in the Slovak Republic and Latvia, where 82 and 73 percent of the beneficiaries are from the poorest quintile, respectively.
5. In-kind transfers generally also benefit poorer households quite pro-poor. In the World Bank's sample of observed programs, 34 percent of beneficiaries of in-kind transfers belong to the poorest quintile, with food aid in Djibouti and Uruguay both having a beneficiary incidence of above 70%.
6. The beneficiary incidence of public works programmes for the poorest quintile is 33%, on average. When the second poorest income quintile is added, the beneficiary incidence rate remains at higher than parity, which still classifies public works as a pro-poor instrument. The reasons for this category trailing CCTs is related to the fact that most public works are limited to people who are able-bodied, unemployed and willing to work. Because these programmes are usually over-subscribed (the demand for employment positions exceeds the supply), people in higher income quintiles may also benefit from them.
7. On average, fee waivers and targeted subsidies have a similar beneficiary incidence than for public works, with 33 percent of their beneficiaries belonging to the poorest quintile. Examples of these types of SPPs include food supplements, tuition fee waivers and the subsidisation of housing, petroleum, kerosene and agricultural inputs.

The beneficiary incidence analysis conducted by the different types of social protection instruments reveals that, on average, all types of programmes tend to be pro-poor (in terms of a higher percentage of beneficiaries belong to the first and second poorest quintiles). This conclusion also holds for the analysis across countries, which shows the presence of highly pro-poor programs in each program category, despite variations in beneficiary distribution across countries.

Performance indicators for upper-middle income countries

Although SPP transfer levels vary greatly across the different types and across countries, World Bank research indicates that such transfers account for 19 percent of the welfare of the poorest quintile, which confirms their meaningful impact on poverty reduction. Differences in impacts reflect, in part, different program objectives and the degree of transfer values captured in household surveys. For the total population, SPP benefits as share of beneficiary welfare is 7 percent for high-income countries, whereas for low-income countries and upper-middle-income countries it is 11 percent and for lower-middle income countries it is 9%.

Due to this relatively small variance in the shares of SPP impacts on beneficiary welfare in the different country income groups and the relevance of like-for-like comparison, the focus of the following analysis will be on the upper-middle income group of developing countries, of which South Africa is a member. A total of 30 countries for which sufficient and recent data are available have been included. It should be noted that the averages have been determined by a weighting exercise, based on the size of the populations. These 30 countries are ranked in terms of their performances against the four key indicators identified earlier, namely coverage, the reduction of the poverty headcount, benefit incidence and adequacy, as well as a fifth indicator, namely government expenditure on SPPs as a percentage of GDP.

i. Coverage

It is clear from the data in table 4.4 that South Africa is the standout performer amongst its peers for the coverage of SSPs.

Table 4.4: Coverage of all social protection programmes (SPPs) for upper-middle income developing countries

Country	Reference Year	Coverage %	Country	Reference Year	Coverage %
South Africa	2020	99.0	Azerbaijan	2014	72.3
Malaysia	2016	97.7	Guatemala	2013	72.2
Thailand	2019	95.3	Montenegro	2018	71.7
Romania	2018	93.5	Moldova	2017	71.0
Peru	2018	90.4	Brazil	2018	67.2
Costa Rica	2014	88.9	Argentina	2017	66.5
Russia	2018	88.8	Botswana	2019	65.6
Paraguay	2016	88.2	Albania	2018	60.6
Bulgaria	2017	86.9	Turkey	2016	57.7
Armenia	2017	77.5	Kazakhstan	2017	56.1
Belarus	2017	77.4	Bosnia & Herzegovina	2017	52.7
Georgia	2013	75.8	Mexico	2015	52.6
China	2016	75.0	Namibia	2018	51.7
Average		73.9	Mauritius	2015	51.4
Serbia	2013	73.8	Ecuador	2015	49.0
			Colombia	2018	43.4

Note: Average weighted by population share in 2021

Sources: World Bank ASPIRE database; United Nations; National Treasury

It should be noted that World Bank data for South Africa has been updated with the addition of the Social Relief of Distress (SRD) grant, commonly referred to as the Covid grant, which has raised the coverage level, but only marginally so. When comparing the most recent data in table 4.4 with the earlier World Bank report on social security nets (2018), it is also clear that most countries have been able to expand their coverage between 2014 and 2018. Reasons for the coverage indicators being particularly high include the following:

- The figures are based on the full spectrum of social protection measures, not merely safety nets. They include old-age pensions, labour market interventions, cash transfers, public works, school feeding schemes and targeted subsidies.
- The calculation includes direct and indirect beneficiaries

Pre-transfer welfare is utilised in the estimation of the poorest quintile. South Africa’s sterling performance with regard to the coverage of SPPs is particularly impressive when juxtaposed with the global average for developing countries of 56% (as determined in the 2018 World Bank study). It is also worth noting that even if the high-income group was included in the above analysis, South Africa would still be ranked first.

This performance proves that South Africa’s social welfare policies are exceptionally comprehensive and suggests that further refinements to social protection should concentrate on the level of the benefits and also the introduction of conditionality, especially in the area of human capital development and consideration of an income grant for unemployed people.

Another indicator associated with coverage of SPPs (and the prevalence of poverty) is the percentage of the population that receives cash grants, where South Africa is ranked second best amongst developing countries (illustrated by Table 4.5)

Table 4.5: % Of population of developing countries that receive social assistance in the form of conditional and unconditional grants

Country	Year	%	Country	Year	%
Romania	2014	53.4	Nepal	2013	14.8
South Africa	2021	45.7	Kazakhstan	2014	14.7
Guatemala	2013	35.0	Chile	2015	13.4
Indonesia	2016	32.5	Peru	2015	11.3
Colombia	2015	32.2	Turkey	2013	10.2
Sri Lanka	2015	31.2	Poland	2016	10.1
Ecuador	2014	29.2	Tanzania	2016	9.7
Bolivia	2015	29.1	Tunisia	2017	9.5
Yemen	2017	28.4	Thailand	2011	8.4
Azerbaijan	2014	27.4	Zambia	2016	7.6
Mexico	2015	23.9	Bangladesh	2013	7.6
Bulgaria	2014	23.7	China	2015	6.0
Brazil	2015	21.8	Russia	2013	5.9
Phillipines	2015	20.7	Vietnam	2014	5.0
Pakistan	2014	16.0	Ukraine	2016	4.4
Serbia	2013	16.0	Ghana	2020	4.8
Egypt	2017	15.9	India	2016	2.0

Note: Countries with more than one million individual beneficiaries

Sources: World Bank (ASPIRE database); National Treasury South Africa

ii. Poverty headcount reduction

Over the past quarter of a century, the ability of social assistance to reduce poverty and inequality has been subjected to substantial research, most notably by the World Bank Group and its partners. The methodology employed in such exercises includes a comparison of the welfare position of beneficiaries before and after SPP transfers.

On the basis of the information observed in household surveys, the most recent comprehensive analysis by the World Bank (2018) shows that SPP transfers are making a substantial contribution in combating poverty. This finding holds for both an absolute poverty line as benchmark and a relative poverty line (measured in terms of the poorest quintile of the population). It is encouraging that individuals are escaping poverty or decreasing their depth of poverty because of social welfare policies. For the 79 countries with sufficient monetary information that were surveyed in the 2018 World Bank study, transfers reduced the incidence of absolute poverty (US\$1.90 at PPP per day) by 36%, whereas relative poverty (the bottom 20 percent) was reduced by 8% (on average).

On average, SPP transfers have reducing the poverty gap more than the poverty headcount. According to the analysis in the 2018 World Bank study, transfers reduced the absolute poverty gap by 45% and the relative poverty gap by 16%. At the time, these results were described by the authors of the study as “remarkable”, considering that these figures were underestimated because household surveys (upon which the study was based) do not capture the whole universe of SPPs implemented in developing countries. Therefore, it can be inferred that the real impacts were likely to be even larger.

These comments turned out to rather prophetic, as subsequent updating of the World Bank’s ASPIRE database has confirmed a fairly dramatic improvement in the reduction of the poverty headcount amongst all countries surveyed. In the 2018 study, the average reduction in relative poverty headcount was only 2% in low-income countries, 7% in lower-middle-income countries, 11% in upper-middle-income countries (South Africa’s group), and 15% in high-income countries.

Table 4.6: Poverty headcount reduction of social protection programmes (SPPs) for upper-middle income developing countries (since inception)

Country	Year	Reduction %	Country	Year	Reduction %
South Africa	2020	66.0	Brazil	2018	37.6
Belarus	2017	63.0	China	2016	37.3
Romania	2018	61.2	Average		35.8
Moldova	2017	59.1	Argentina	2017	34.6
Serbia	2013	58.0	Thailand	2019	27.7
Montenegro	2018	52.7	Costa Rica	2014	25.7
Armenia	2017	51.5	Botswana	2019	24.4
Bulgaria	2017	51.1	Mexico	2015	19.8
Mauritius	2015	49.4	Malaysia	2016	17.6
Russian Federation	2018	47.7	Namibia	2018	17.4
Georgia	2013	46.5	Ecuador	2015	15.9
Turkey	2016	42.9	Colombia	2018	12.0
Bosnia and Herzegovina	2017	42.5	Paraguay	2016	10.7
Kazakhstan	2017	42.2	Peru	2018	8.7
Albania	2018	38.2	Azerbaijan	2014	6.4

Note: Average weighted by population share in 2021

Sources: World Bank ASPIRE database; United Nations; National Treasury

Table 4.6 depicts the results of an updated analysis conducted for the purposes of this impact assessment, utilising the ASPIRE database. It should be noted that the 2020 figure for South Africa has been estimated by applying the average increase in the poverty headcount reduction between the 2018 World Bank study and the updated data, as at July 2022. The average elapsed period between these two data sets was 4.6 years. As was the case in the previous analysis, South Africa is ranked first amongst its peers in the upper-middle income countries.

The pace of progress with reducing poverty over the past decade provides a measure of credence to the ambitious ideals of the very first of the Sustainable Development Goals adopted by the United Nations in September 2015, namely to: “End poverty in all its forms everywhere”.

Viewed from the perspective of the slow progress with reducing the poverty headcount in low-income countries, it is clear that this group will require special attention, especially with regard to the lack of the fiscal resources required for cash transfers to the poor and vulnerable. Caveats do exist, however, that serve to explain, to some extent, the lower reduction in poverty and inequality observed for low-income countries. According to the World Bank (2018), this trend is likely driven by the following factors:

- Fewer low-income countries have recent household survey data available compared with other country income groups.
- Of the 22 low-income country surveys included in ASPIRE, only 14 surveys include monetary variables for SPPs.
- Many low-income country surveys neither capture SPP-specific information nor include the universe of programmes that exist in the country.
- Less than 10 percent of the global population live in low-income countries; therefore, the number of individuals moving out of poverty (in percentage terms) is lower than in other country income groups.

iii. Benefit incidence

Benefit incidence represents one of a group of metrics widely used to determine the extent to which SPP transfers are distributed amongst different income groups. The denominator of the relevant calculation is based on the sum of all transfers received by all individuals in the population, which introduces an element of bias in this indicator’s accuracy for determining progress with poverty alleviation.

If social assistance transfers are adequate enough to lift a significant proportion of people out of the bottom quintile, a relatively low reading for the benefit incidence should not be a cause for undue concern. As long as the benefit incidence is above the 20% neutral level, it still reflects a pro-poor outcome.

It is not always possible to draw general conclusions about the distribution of beneficiaries and benefits of a specific program without knowing detailed information on the program’s design, eligibility criteria, and implementation. Drawing on research by Seldon & Wasylenko (1992) and the World Bank (2018), specific caveats to be considered in the analysis of benefit incidence include the following:

- Some programs may not be pro-poor by design; for example, they may not be targeted specifically to the poor but to the general population, especially in the case of universal programs.
- The eligibility criteria of some programmes may be categorical (for example, in terms of disability) and not means-tested. In such cases, beneficiaries meeting the categorical requirements may not belong to the poor.

- The pro-poor performance based on benefit incidence is influenced by the way in which the pre-transfer indicator is constructed. If social pensions cover a sizable part of the poor and their benefit and dependency levels are high, there will be a trend for most beneficiaries to group in the lowest quintile of the welfare distribution once such transfers are removed, and vice versa.

Table 4.7: Benefit incidence of social protection programmes (SPPs) for upper-middle income developing countries

Country	Year	Incidence %	Country	Year	Incidence %
Peru	2018	50.4	Mexico	2015	28.0
Argentina	2017	48.6	Ecuador	2015	27.8
Montenegro	2018	43.1	Paraguay	2016	27.7
Turkey	2016	37.5	Albania	2018	27.6
Armenia	2017	35.9	Thailand	2019	26.5
Colombia	2018	35.5	Average		26.2
Serbia	2013	34.5	Malaysia	2016	24.6
Romania	2018	32.3	China	2016	24.2
South Africa	2020	32.1	Georgia	2013	20.1
Costa Rica	2014	31.7	Kazakhstan	2017	19.4
Brazil	2018	31.5	Namibia	2018	17.6
Guatemala	2013	30.5	Azerbaijan	2014	17.4
Moldova	2017	30.2	Bosnia and Herzegovina	2017	16.5
Belarus	2017	28.1	Russian Federation	2018	13.4
Bulgaria	2017	28.1	Mauritius	2015	11.8
			Botswana	2019	7.5

Note: Average weighted by population share in 2021

Sources: World Bank ASPIRE database; United Nations; National Treasury

- The methodology for measuring household benefits does not fully consider important issues such as the possibility of benefits being shifted and marginal benefits differing from average benefits.
- Some benefits from physical capital expenditure and human capital investment may accrue to households over more than one time period

In the final instance, data on benefit incidence need to be considered in conjunction with other key performance indicators, especially coverage, adequacy and whether the absolute value of welfare benefits is reducing the poverty gap.

Table 4.7: Indicates that South Africa's ranking for benefit incidence amongst its peers in the upper-middle income countries is lower than for the other performance indicators reviewed, but remains classified as pro-poor (above 20%, according to the World Bank norm).

iv. Adequacy

South Africa's exceptionally high ranking for most of the key indicators that determine a country's performance in the area of social assistance is also prevalent for adequacy, which is calculated as follows: The amount of transfers received by a quintile divided by the total income or consumption of beneficiaries in that quintile. In

terms of the latest reference year documented in the ASPIRE database, South Africa enjoys a score of above parity, which could be explained by an under-estimation of the income/expenditure of the bottom quintile (the divisor), as the data on the transfer amounts are verifiable (the dividend).

Table 4.8: Adequacy of social protection programmes (SPPs) for upper-middle income developing countries

Country	Reference year	Incidence %	Country	Reference year	Incidence %
South Africa	2020	99.4	Botswana	2019	20.7
Georgia	2013	80.9	Mexico	2015	19.5
Mauritius	2015	49.2	Bosnia & Herzegovina	2017	19.4
Namibia	2018	42.4	Paraguay	2016	17.7
Armenia	2017	33.5	Kazakhstan	2017	15.4
Serbia	2013	31.3	Peru	2018	15.3
Belarus	2017	28.7	Colombia	2018	14.2
Montenegro	2018	28.0	Thailand	2019	14.2
Bulgaria	2017	26.8	Average		13.4
Romania	2018	26.4	Turkey	2016	12.3
Brazil	2018	25.6	Albania	2018	10.9
Costa Rica	2014	22.7	Russian Federation	2018	10.7
Ecuador	2015	22.4	Guatemala	2013	9.9
Argentina	2017	22.2	Azerbaijan	2014	8.1
Moldova	2017	21.6	Malaysia	2016	7.8
			China	2016	6.0

Note: Average weighted by population share in 2021

Sources: World Bank ASPIRE database; United Nations; National Treasury

According to the World Bank’s most recent detailed report on social protection in South Africa, the country’s adequacy ratio is marginally less than parity (100% - see table 4.8), which secures the number one ranking within the peer group of middle-income developing countries and also within all developing countries.

The World Bank’s reference (2021) to the “small value” of grants in South Africa is not consistent with the evidence, as confirmed by the fact that in the earlier World Bank study on social safety nets (2018) South Africa’s disability grant was ranked the fourth highest out of a selection of different types of grant transfers from 36 countries. Whilst the SRD grant and child support grant are substantially lower than the social pension and the disability grant, South Africa still has one of the highest levels of annual per capita spending on SPPs, as depicted by table 4.9.

At a level of \$575 (2020 purchasing power parity – PPP, South Africa’s annual per capita public spending on SPPs is 52.6% higher than the average for the countries listed in the table. Although the comparison should take cognisance of the differences in reference years, it is clear that South Africa passes the adequacy test with flying colours.

It is nevertheless clear from the definition of the adequacy indicator that the prevalence of a significant degree of poverty will tend to be correlated with a relatively high adequacy level.

The average annual transfer per capita for beneficiaries of the South African grant system in 2020/21 is estimated to have been R7,837 for all grants, and R10,814 without the SRD grant (which remains a temporary arrangement). Compared to the per capita household expenditure of beneficiaries, this amount is highly significant. Averaged across all beneficiary households, the World Bank (2021) estimates grant income to be equivalent to roughly 25% of per capita household expenditure.

Table 4.9: Annual per capita government spending on social security programmes – selected developing countries (purchasing power parity US dollars)

Country	Reference Year	PPP\$ 2011	Country	Reference Year	PPP\$ 2011
Chile	2015	770	Panama	2015	325
Estonia	2014	716	Argentina	2015	278
Hungary	2013	698	Grenada	2015	275
Slovenia	2013	698	Kosovo	2014	255
Seychelles	2015	671	Serbia	2013	253
Croatia	2014	661	Montenegro	2013	246
Mauritius	2015	626	Bulgaria	2014	239
Slovak Republic	2013	626	Botswana	2016	232
South Africa	2020	575	Uruguay	2015	231
Kuwait	2010	525	Romania	2014	212
Poland	2013	501	Brazil	2015	204
Georgia	2013	483	Mongolia	2013	202
Russia	2015	437	Lesotho	2013	188
Ukraine	2014	393	Mexico	2015	181
Kazakhstan	2014	390	Latvia	2014	177
Bosnia & Herzegovina	2011	371	Malaysia	2013	164
Iraq	2013	368	Albania	2014	163
Saudi Arabia	2012	352	Macedonia	2014	151
Namibia	2014	334	Turkey	2013	150

Notes: Minimum level of \$150; South Africa PPP\$ for 2020

Sources: World Bank (2018 & 2022)

This is aligned to the 2021 General Household Survey conducted by Statistics South Africa, which found that grants constitute 24.4% of total household income – a high percentage by international standards. For Sub-Saharan Africa, the ratio of social assistance transfers to the household expenditures of beneficiaries is 19.4 percent and for all the upper-middle income countries it is only 5.6 percent.

Although this figure is as high as two-thirds for beneficiary households in quintile 1 and 40 percent for beneficiary households in quintile 2, overall, *per capita* social assistance transfers in South Africa are higher than most other developing economies.

v. Government spending

As is the case with all of the above SPP performance indicators, the data in table 4.10 confirms that South Africa also enjoys an exceptionally high ranking for the total fiscal value of social welfare programmes. The

South African government spends 4.3% of GDP on social protection, which is the second highest for the group of middle-income developing countries and three time more than the population-weighted average.

When the total government expenditure on social protection for the 2020 calendar year (as per the National Treasury’s 2022 Budget Review) is used as the basis for the SPP spending as percentage of GDP, the per capita spend determined in table 4.9 rises to \$893 and the figure in table 4.10 Rises to 6.6%, both of which would propel South Africa to the highest ranked country for these two performance indicators.

Due to the inclusion of administrative expenditure in the national budget figures, however, only the cash value of grants has been included in the above analysis (grants constitute 89% of government expenditure on social protection).

Table 4.10: Government expenditure on social protection programmes (SPPs) as % of GDP - upper-middle income developing countries

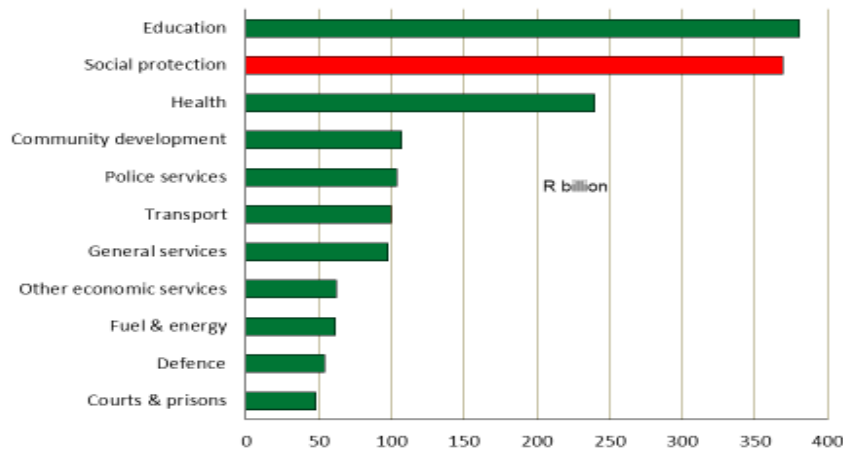
Country	Year	%	Country	Year	%
Georgia	2013	6.6	Ecuador	2015	1.5
South Africa	2020	4.3	Albania	2018	1.5
Mauritius	2015	3.5	Paraguay	2016	1.4
Namibia	2018	2.9	Peru	2018	1.4
Bosnia and Herzegovina	2017	2.8	Average		1.4
Colombia	2018	2.8	Thailand	2019	1.3
Botswana	2019	2.7	China	2016	1.2
Belarus	2017	2.4	Mexico	2015	1.2
Argentina	2017	1.8	Romania	2018	1.2
Serbia	2013	1.8	Turkey	2016	1.2
Kazakhstan	2017	1.7	Bulgaria	2017	1.1
Russian Federation	2018	1.6	Moldova	2017	1.1
Armenia	2017	1.5	Azerbaijan	2014	0.8
Brazil	2018	1.5	Malaysia	2016	0.8
Costa Rica	2014	1.5	Montenegro	2018	0.6
			Guatemala	2013	0.3

Note: Average weighted by population share in 2021

Sources: World Bank ASPIRE database; United Nations; National Treasury

The overriding importance afforded to social protection in South Africa is also reflected in its dominant position vis-à-vis other budget votes, as illustrated by figure 4.1. In the 2020/21 National Budget, social protection commanded 21.8% of total non-interest expenditure of the country’s public expenditure (consolidated national and provincial government and social security funds). By any relevant metric, as amply illustrated by the results of these key performance indicators, South Africa’s social assistance system represents a major intervention by government in addressing poverty. As duly acknowledge by various research studies, including those of the World Bank (2018 & 2021), the South African system of SPPs is extensive in terms of both the number of people it covers, directly and indirectly, and the amount of fiscal resources required for its funding.

Fig 4.1: Functional government expenditure in South Africa 2020/21 fiscal year – top-11 budget votes (Source: National Treasury 2022)

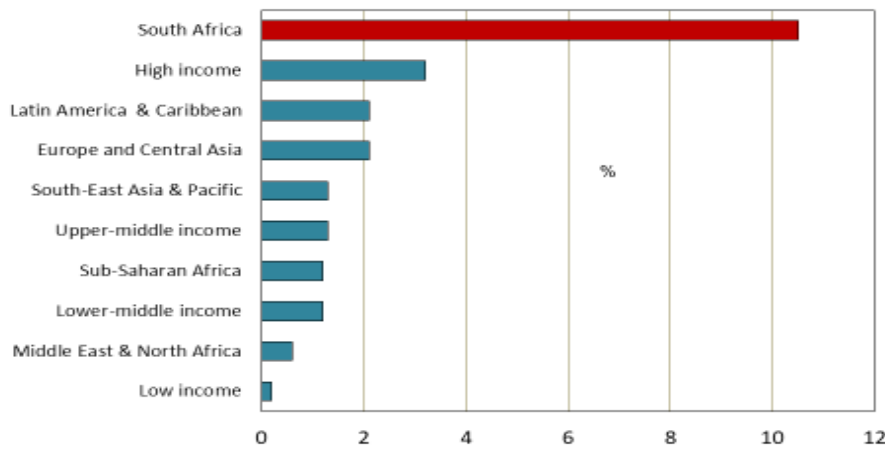


After the introduction of the SRD grant in 2020, almost half of South Africa’s population are direct beneficiaries of a social grant, while an estimated 77% of the population are either direct or indirect beneficiaries of the system.

Comparison – global regions and income groups

The data presented in this study clearly demonstrates the exemplary performance of South Africa in addressing poverty and inequality with appropriate social protection measures. Social transfers have been at the forefront of these policies, having reduced the poverty gap by more than 73% (World Bank 2021).

Fig 4.2: Simulated inequality reduction associated with SSPs – developing country income groups & regions (Sources: World Bank 2018 & 2022)



This is a substantially larger impact than is observed for any of the country groupings (see figure 4.2). South Africa’s social assistance system has proven to be highly effective in providing support to the poorest segments of the population, especially via social grants that provide financial resources to poor households which reduces the depth of poverty and inequality. Vulnerability is also reduced via the provision of regular and dependable income. Apart from the grant system, poverty reduction is also facilitated by the positive effects of other public expenditures in the areas of health, education, school feeding, public works and fee waivers.

The World Bank has commended South Africa for the existence of modern administrative delivery systems used for administering social grants. All social grants (except the foster child grant) are means tested in different ways using the national ID number and income or assets as a basis and comparing the documentation of applicants against national databases. As is the case in most developing countries, all direct transfers in South Africa are classified as pro-poor and the country stands out for the progressivity of its transfers—it has the most progressive grants for foster care, people with disabilities and old age pensions, whilst the World Bank (2022) has commended South Africa for the significant impact of the child support grant on reducing inequality.

Some concerns

Various studies on the state of social safety nets in South Africa, including evaluations of the criteria for the approval of grant applications by the Department of Social Development (DSD), have nevertheless pointed out a number of shortcomings of the social protection system, as well as suggestions for improving the design of SPPs. These include the following:

- The absence of a social grant that is accessible to working-age adults and which is not predicated on disability. Although the SRD grant has filled this void, its level of support is only 56.1% of the 2021 Food Poverty Level (FPL) and it remains a temporary policy measure introduced as a result of the additional hardship inflicted by the Covid pandemic on many poor people. Due to a large degree of fiscal leeway that occurred in the wake of a strong upward phase of the commodity cycle for metals and minerals during 2021, South Africa's National Treasury was in the fortuitous position to extend the SRD grant for the fiscal cycle ending on 31 March 2023, but uncertainty prevails over the future of this grant. If the SRD grant is removed without a suitable alternative to cater for the millions of unemployed people who have received this benefit, much of the gains from the social protection system will have been lost
- Insufficient conditionality exists in the grant system, especially with regard to requiring beneficiaries to become involved with public works programmes and the enhancement of human capital. Many examples exist in other developing countries of SPPs that have been successful in raising school attendance levels, health check-ups at clinics and skills development via workfare programmes.
- In July 2022, the DSD announced its concern over the low number of approvals for the SRD grant. Out of 11.4 million applicants for the month of June, only 5.2 million beneficiaries were approved, representing only 45.6% of the applications. As a result, the DSD intends to increase the allowable income threshold from R350 to the food poverty line of R624, meaning that the South African Social Security Agency (SASSA) will decline any applicant who receives more than R624 into their bank account for each relevant month. The value of the grant itself remains R350 per person per month for the period 1 April 2022 to 31 March 2023. Although South Africa's performance in terms of the poverty-reducing impact of social assistance is outstanding, the value-for-money performance is disappointing and suggests that the costs of South Africa's system are relatively high compared to other countries. Estimates of the benefit-cost ratio for social assistance in South Africa reveal that, while the country is on par with the average for upper-middle income countries, its performance is 17% weaker than the average for countries in Latin America and the Caribbean. In conclusion, it should be noted that the World Bank has identified an improved understanding and assessment of the cost structures and cost drivers associated with administering social assistance in South Africa as an area for future research (2021).

5. Country case study no. 1: Brazil

Introduction

Brazil's social welfare programme has proven to be successful to the point of widely being regarded as a role model for the combating of poverty in developing countries and emerging markets alike. In the context of the current debate on establishing a permanent income grant in South Africa, it is regarded as highly relevant to consider salient aspects of Brazil's Bolsa Família cash transfer programme (BFP), which was amended in December 2021 and renamed Auxílio Brasil.

Origins

The conditions for implementing fiscally sustainable welfare policies in Brazil started to fall into place after the peaceful transition from 20 years of military rule to the so-called re-democratisation of Brazil in 1985 and the writing of a new constitution, adopted in 1988.

Fernando Henrique Cardoso, a former Secretary of the Treasury, became president in 1994, winning the election by a very comfortable margin against his eventual successor, Luis Inácio "Lula" da Silva, leader of the Workers' Party. Four years later, he won a second term almost as easily, taking 53% of the vote to Lula da Silva's 31.7%. To date, he is the only president to win an outright majority of the popular vote since democratic elections were reinstated in 1989.

Cardoso's presidency saw institutional advancements in human rights and he was the first Brazilian President to address the large measure of inequality in the country. Under his leadership, four comprehensive welfare programmes were established that were ultimately consolidated into the Bolsa Família by Lula da Silva. Several authoritative historians and political economists, including Timothy Power, Marcus Melo and Carlos Pereira, primarily credit Mr Cardoso for getting the necessary sequencing right in the design of welfare policies: economic stabilization and state reform had to come first, followed by an attack on poverty and inequality, which was ultimately refined and consolidated by the Lula government.

The roots of the CCT model in Brazil were established in 1995, as an innovative anti-poverty intervention by a number of municipalities in low-income regions that required education-related conditions to be met by the beneficiaries. In 1997, Cardoso convinced the Federal government to assist with the funding of these social programs. In 2001 it was expanded and renamed "Bolsa Escola" and soon after, the government initiated a program named "Bolsa Alimentação" which was a cash transfer program that required health conditions to be met by the beneficiaries. Another programme followed in the same year, namely Auxílio Gás. The latter was an unconditional cash transfer (UCT) involving a subsidy for the purchase of cooking gas by poor households.

Amalgamation

In 2003, under the new presidency of Lula da Silva, Bolsa Família was created to overcome the conceptual and operational fragmentation of numerous federal cash transfer programmes. It is estimated to have reached over 20 per cent of the Brazilian population and has achieved significant positive results in the quest to alleviate poverty, as detailed in the following sub-section. The BFP was not an immediate success, however, due to perceived shortcomings in its implementation, which led to fierce criticism from all quarters. Within a year of its adoption as an amalgamation of existing cash transfer programmes, the BFP was facing a crisis of legitimacy threatening to turn it into a political liability for the federal government.

The programme's administration was improved post haste (inter alia with the assistance of the World Bank) and, together with various positive assessments from independent impact studies turned the tide of public opinion around fairly quickly.

Over the past two decades, Brazil’s Bolsa Família programme (BFP) has become synonymous with Latin America’s progress in combating poverty via conditional cash transfers (CCTs). *The Economist* has described the BFP as an “anti-poverty scheme invented in Latin America [which] is winning converts worldwide”. In 2020, the program covered 13.8 million families, and paid an average of R\$34 per month, in a country where the minimum wage is R\$190 per month. It was a key element of former President Luiz Inácio (“Lula”) da Silva’s social policies and is reputed to have played a role in his second electoral victory of 2006.

According to Robles & Mirosevic (2013), two main landmarks for the eventual success of non-contributory social protection in Brazil were, on the one hand, the fact that legislation was introduced in order to support social programmes and their articulation; and, on the other hand, the creation of an entity in charge of organising them in 2004, the Social Development and Combat to Hunger Ministry. Prior to 2004, the institutional responsibility for social protection was fragmented across several ministries.

Impact of Cadastro Único governance project & Senarc

One particular project that managed to enhance the effectiveness of the BFP was the World Bank’s governance project (see table 5.1), aimed at improving basic programme management, oversight and control. This was done on three levels, namely nation-wide utilisation of the registry of beneficiaries (the Cadastro Único); management of benefits; and electronic monitoring of compliance with education and health conditionalities. Project finance was used to:

- i. Train and provide technical assistance to state and municipalities to support the use of Cadastro Único as the main mechanism for selecting BFP’s target population
- ii. Create municipal- and state-level delivery units to support BFP design and monitoring and to interact with social service providers, including transfer of dedicated resources to serve the BF population
- iii. Configure Cadastro Único to allow multiple public agencies to select beneficiaries from its database of low-income families

Table 5.1: Impact of the World Bank project to improve the governance of Bolsa Familia

Impact area	Outcome
Poverty alleviation	Declines of 58% in extreme poverty and 30% in overall poverty between 2004 and 2014
Reduction of inequality	A reduction in inequality of 41% between 2004 and 2014
Coverage	By the end of 2018, BFP had reached a record number of beneficiaries, namely 46.9 million people
Monitoring of conditionalities	Significant improvement of monitoring via the Cadastro Unico and technical assistance to states & local governments
Harmonisation of cash transfers with the BFP	All states were in compliance at the end of 2018
Harmonisation with other federal social assistance programmes	A total of 24 other federal programs were utilising Cadastro Único to identify poor or vulnerable beneficiaries
Education	(i) School attendance by BFP beneficiary children reached a record high of 91% during the project’s life (ii) Higher levels of school enrolment & progression were attained
Health	Independent studies confirmed positive impacts on the health, nutrition, and survival of targeted individuals, including a significant reduction in the under-five mortality rate

Sources: World Bank (2020); Soares et al (2007)

The seriousness with which social protection has been approached by the Brazilian government since the return to sustained economic growth (following the end of military rule) is aptly demonstrated by the array of institutions that were created to implement cash transfers and other specific social services, as illustrated by table 5.2 and the comprehensive range of functions undertaken by the National Secretariat for Citizen Income (known by the acronym of Senarc), (see table 5.3).

Table 5.2: Institutional framework for social protection in Brazil

Policy/Institution	Functions
Organic Law for Social Assistance	Protection of families throughout their life cycles & assistance with integration into the labour market and community life
Ministry for Social Development and the Combating of Hunger (MDS)	Overarching organisation and articulation of social programmes, including the Bolsa Familia
Social Assistance Councils (comprising parity composition between government & civil society)	normative, deliberative and monitoring roles with regard to social assistance policy, including budgeting
National Policy for Social Assistance	Expansion of the network of social services based on different modalities for social assistance services (basic and specialised)
System for Social Assistance	Management model for social assistance, including a structure for both existing and new services (aimed at integration & coordination)
Social Assistance Reference Centres	General assistance with the network of services at municipal level in highly vulnerable areas (also involving the private sector)
Integral Attention and Protection Service for the Family	Specialised attention to families and persons suffering from social exclusion or the violation of their rights
Programme for the Eradication of Child Labour	Specialised attention to children aged between 7 & 16 who work in harmful occupations, living in families with per capita incomes below one minimum wage
National System for Nutritional and Food Security	Protect of the right to adequate food, including access to water & foods produced through family agriculture
Fund for the Combat and Eradication of Poverty	Creation of a stable allocation of resources to the MDS
National registry and information system (CadÚnico)	Generation of information on families eligible for programmes, monitoring of benefits delivered to the recipients & inputs for the Family Development Index
Special Secretariat to Overcome Extreme Poverty (within MDS)	Development of a poverty map and an opportunity map, as well as intersectorial coordination

Sources: Coutinho (2014); Jaccoud et al (2010); Robles & Mirosevic (2013)

Some concerns over future fiscal affordability

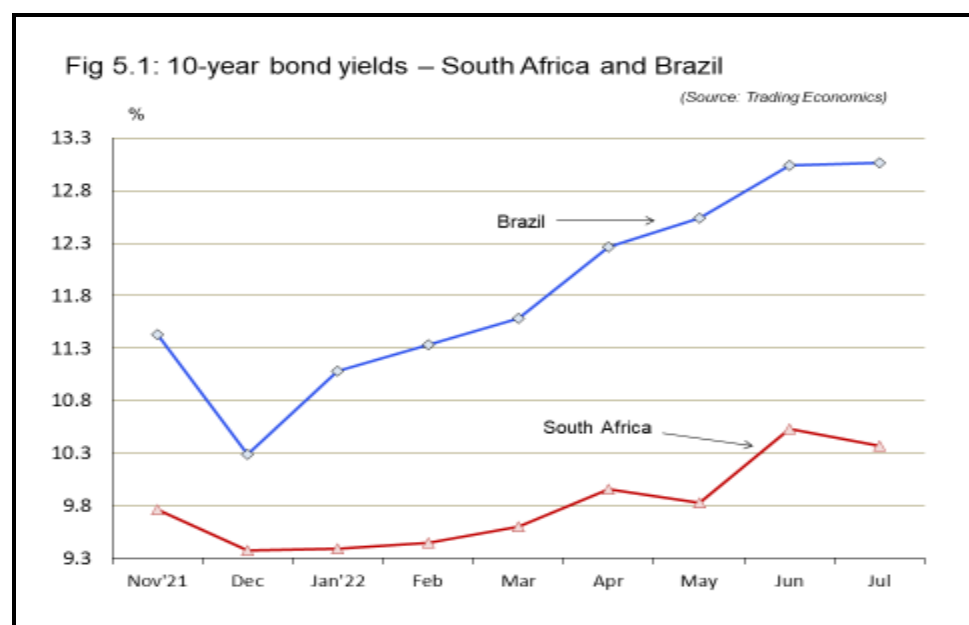
At the end of 2021, the BFP rather dramatically ceased to formally exist, with Brazil's head of state, Pres. Jair Bolsonaro sanctioning a new cash transfer program called Auxílio Brasil. It is well-known that the success of the BFP was a mainstay of a previous head of state, Lula da Silva (leader of the Workers' Party), who is now in opposition and, according to recent polls, more than likely to be re-elected in 2022. Bolsa Família has won international acclaim for reducing extreme poverty in Brazil and enjoys overwhelming popular support in the country.

Table 5.3: Responsibilities of the National Secretariat for Citizen Incomes - Senarc (relating to the functioning of Bolsa Família)

1. Creation of standards to implement the program
2. Establishment of the criteria for beneficiary registration
3. Determination of amounts to be paid to beneficiaries
4. Establishment of the dialogue with municipalities
5. Define the counterparts and ensure follow up
6. Stipulation of goals and, in this way, propose BFP's annual budget
7. Determination of contribution quotas per municipality
8. Establishment of associations with the states and other entities of government
9. Monitoring & regular evaluation of the program throughout its execution
10. Preparation of the questionnaire for the CadÚnico
11. Determination of the criteria for the suspension or cessation of benefits
12. Coordination of auditing activities in the case of suspected fraudulent conduct

Sources: Lindert et al (2007); Robles & Mirosevic (2013)

The new programme has already started paying out an average amount of R\$223 per month, 18% more than the average under the BFP. The number of beneficiaries has also been increased to an estimated 14.6m families, up from the 13.9m under the BFP, which ran for 18 years before being terminated (de jure) at the end of 2021.



Judging by the weakness of Brazil’s currency during the second half of 2022 and the rise in the country’s long-term bond yields (see figure 5.1), investors are fearful of an erosion of fiscal rectitude. Oxfam Brazil is on record for sharing the concern over insufficient fiscal guarantees for the new programme, whilst also pointing out its lack of fully defined values. In the past, Pres. Bolsonaro had regularly voiced criticism over the BFP, referring to the programme as being socialist. His about-turn in implementing a cash grant system that is more expensive to the fiscus seems to be heavily influenced by political ambition aimed at possible re-election (Harris et al, 2021). Government’s stated aim is to raise the monthly grant to R\$400 per month, which will amount to more than double the previous level.

In order to make sufficient funds available for Auxílio Brasil's hefty increase, government has changed the reference period for calculating inflation, in order to lift the constitutional cap on spending that limits budget increases in line with inflation, as well as delaying the payment of certain court-ordered state debts. Although these amendments do not represent a technical breach of the fiscal ceiling, the deferment of state obligations may be viewed as a path to a possible default, which will render the new programme unsustainable.

The rule on fiscal spending limits was passed by Congress in 2016 with the aim of getting public finances back into shape and is viewed as a cornerstone of Brazil's economic credibility. Draft legislation before Congress proposes changing the reference period for calculating inflation in order to lift the "ceiling", as well as delaying the payment of certain court-ordered state debts. The total public debt of Brazil is currently at a level of 83 per cent of GDP and insufficient control of the public finances is bound to lead to macroeconomic instability.

Global fund managers are compelled by law to adhere to strict governance rules and prescribed mandates regarding sound investment practice. Once a country's public debt breaches a certain limit, the taps for inward portfolio investment start turning off, thereby exacerbating an already untenable fiscal scenario, with grave implications for the economy. Although government's intention to bypass the constitutional cap on spending does not represent a technical breach of the fiscal ceiling, the deferment of state obligations may be viewed as a path to a possible default, which will render the new programme unsustainable.

Reasons for the success of Bolsa Família

Contrary to much stereotyping, T'Hart & Compton (2019) have provided substantial evidence that democratic governments are often quite good at what they do. Their research has developed the following definition of public policy success: *The creation of outcomes that are valued and sustained by a broad majority of society through a coordinated policymaking process.*

Brazil's Bolsa Família programme clearly fits the mould of international policy successes and the country is widely regarded as having pioneered the implementation of CCTs in the developing world. The first experiences with CCTs took place in the mid-1990s in Brazil, at municipal level. Variants of the Brazilian social protection policy instruments were later adopted at the national level in Mexico, as well as in most other Latin American countries and in the rest of the developing world. It was estimated in 2017 by the World Bank that social protection mechanisms designed on the Bolsa Família principles had been adopted in more than seventy different countries. Key reasons for the success of the BFP are as follows:

1. Partnership between civil society and the state

An important issue underpinning the success of the BFP is the Constitutional obligation to promote decentralisation and social participation at all levels of policy making, imprinting a unique feature to social policy in Brazil. According to Coutinho (2014), this has served to facilitate complementarity between representative and participative democracy. As a result, several national social policy councils have been created that comprise both representatives of civil society and public institutions, thereby aligning to a significant extent the wishes of the electorate with the regulatory and policy powers of government (at all levels). These councils are not merely involved with the implementation of welfare grants, but also cover other social policy areas, including education, health, labour, food security, and development in its broadest sense. They follow clearly defined responsibilities, and in some cases, they have ruling power to define policies' directives and resources (Jaccoud et al 2010). During the Bolsa Família policy design process, local stakeholders included high-level federal bureaucrats, poverty campaigners, academics, and the World Bank. After a period of initial conflict among the ministries managing the existing CCTs, the BFP ultimately was supported by all stakeholders, recognising the need to unify efforts in the context of combating poverty

2. *Lowering of poverty*

The Bolsa Família programme represents the most progressive social welfare system implemented and maintained by the federal government of Brazil and has proven to be a programmatic success in reducing poverty and inequality. According to Paiva et al (2019), extreme poverty in the country would be one-third higher in the absence of BFP transfers and it accounted for just above 15 per cent of the fall in the Gini coefficient during the first decade of the twenty-first century.

3. *Positive human capital development*

A large and growing volume of impact evaluation have clearly demonstrated positive effects on school attendance (Brazil) and school progression (Brazil). Several health outcomes improved as a result of the programme, including under-5 mortality rates.

4. *Employment creation*

Concerns about adverse effects on labour supply and fertility have also shown to be misplaced (Gerard et al, 2019) and these positive results were widely publicised. Even in cases where a disincentive effect on labour supply was present amongst beneficiaries, the increased level of consumption expenditure stimulated output and employment in relevant sectors of the economy.

5. *Sound administrative processes*

The administrative capacity of the BFP was developed over a period of two decades, which meant that the programme was a process success. The programme was kept free of undue political interference. Permanent civil servants that occupied key administrative positions were appointed on the merits of their qualifications and experience and not nepotism or loyalty to a particular political party, which meant that programme implementation was impersonal and transparent.

6. *Decentralised system*

The programme also employed appropriate mechanisms of coordination between different government areas and levels. The decentralised architecture of the BFP was considered innovative, whilst promoting incentives for quality implementation (Lindert et al.).

7. *Sound governance standards*

With the assistance of international experts and the World Bank, the structure of governance became progressively more capable of responding to technical implementation challenges, which eventually refined measurable policy outcomes.

8. *Political appeal*

Progress towards a more effective programme was accompanied by growing political support. Unequivocal affirmation hereof was provided at the beginning of 2022, when Pres. Jair Bolsonaro, who had previously been a vehement critic of the BFP, embraced the programme as part of his attempts to be re-elected in October 2022. Despite changing the name of the BFP to Auxílio Brasil and tinkering with some of the details – including raising the benefit levels, the principles, coverage and monitoring of the BFP remains intact. The popularity of the BFP eventually became a focal point in Brazil's elections, both at municipal and national level, as demonstrated in the last two presidential elections, when all candidates that were regarded as relevant, declared support for the programme. The programme was therefore a political success.

9. *Electoral impact*

There is also evidence that the programme had positive impacts on political support for incumbent candidates across four presidential elections (Zucco Jr.). Opinion polls conducted on the general

elections showed that three out of four voters were favourably disposed towards Bolsa Família, with approval above 50 per cent across all age, sex, race, religion, school and regional groups. In the last two presidential elections, all relevant candidates declared support for the programme (Paiva et al. 2019). According to comprehensive research by Zucco Jr on the so-called “Bolsa Família-effect” during four elections between 2002 and 2014, the effect was not regarded as large enough to swing a presidential election, at least until 2014, when estimates pointed to a huge increase in the number of votes that were swayed, from 3.6 million in 2010 to 8.1 million in 2014.

10. *International recognition*

After some growing pains during the initial years of implementation, the administration of the BFP improved and this was reflected in positive assessments from a host of evaluation studies. Lindert and Vincensini (2010) have documented the interplay between policy effectiveness and political support - sound technical management and positive policy outcomes fed back into political support. These positive policy outcomes led scholarly researchers and multilateral organisations to support the programme as an efficient tool in the fight against poverty in Brazil, which became globally relevant, with the key elements of the BFP having been replicated all over the developing world.

11. *Endurance*

The programme has also demonstrated resilience in the face of tumultuous political events – first with the impeachment of Pres. Dilma Rousseff in 2016 and then, a year later, with the conviction on corruption charges of Brazil’s most popular democratic president and pioneer of the BFP, Lula da Silva. The BFP also managed to survive the fiscal crisis of 2014 to 2017, caused by multi-dimensional factors stemming from the fact that it took many years for Brazil’s economy to recover from the global financial crisis. Other contributing factors were the rigidity of the public financial system, persistently low levels of business confidence, unduly strict monetary policy and the ineffectiveness of countercyclical policies (Holland 2019). The downgrading of the country’s government bonds from investment grade shortly after achieving this status for the first time also had a negative impact on inward portfolio investment. Nevertheless, at the transition of the BFP to the Auxílio Brasil at the end of 2021, there were 43.7 million people registered with the CadÚnico and in 2018 the benefits were adjusted at above-inflation rates. The success of the policy has clearly endured.

Postscript

One of the main virtues of the Bolsa Família programme is that it reaches a significant portion of Brazilian society that has never benefited from social programs. It is among the world’s best targeted programs, because it reaches those who really need it. An estimated 94% of the funds reach the poorest 40% of the population and various studies indicate that most of the money is used to buy food, school supplies, and clothes for children.

Success has sparked adaptations in more than 70 countries - including Chile, Mexico, and other countries around the world, such as Indonesia, South Africa, Turkey, and Morocco. Between 2007 and 2010, New York City implemented the *Opportunity NYC* conditional cash transfer program, modelled on Bolsa Família - an example of a post-industrial country adopting the experiences of a developing country.

The results of Bolsa Família show that it is possible to lower poverty in a sustained manner, integrating millions of people into the economic and social mainstream of the country, without compromising other economic development goals.

6. Country case study 2: India

The employment guarantee approach

Between 2002 and 2019 (just before the Covid pandemic), India experienced exceptionally high economic growth. In US dollar terms, the country's gross domestic product (GDP) at current prices increased from \$524 billion to \$2.8 trillion over this period – an average annual growth rate of 10.4%. In real terms, GDP per capita increased from just below \$2,700 to just below \$6,700 (at purchasing power parity in constant 2017 international dollars). This represents an average annual growth rate of 6% and is a clear indication of progress with the country's growth and development policies.

Despite relatively high rates of economic growth since a return to democracy, rural poverty continues to be a policy concern in India. An estimated two-thirds of the country's population live in rural areas, accounting for 75% of all impoverished citizens in India (Breitkreuz et al 2017). Poverty is especially concentrated among Scheduled Castes (SCs) and Scheduled Tribes (STs). Although these two groups represent 33% of the population, they account for an estimated 80% of the rural poor.

Although the criteria for classification as SCs and STs are not spelt out in the Constitution, they have become well established, subsuming the definitions contained in the 1931 Census and various official Commissions. Scheduled Castes have always been an integral part of the Indian society and have been socially and economically disadvantaged over a long period. (Breitkreuz et al 2017). Tribal communities live in various ecological and geo-climatic conditions ranging from plains and forests to hills and many areas that are hardly accessible. Tribal groups are at different stages of social, economic and educational development. Some tribal communities have adopted a mainstream way of life, whilst others (75 in total) are known known as particularly vulnerable groups, who are characterised, to a varying degree, by the criteria listed in table 6.1.

Table 6.1: Characteristics of vulnerable Scheduled Tribes in India

Indications of primitive traits
Pre-agriculture level of technology
Distinctive culture
Geographical isolation
Shyness of contact with the community at large
Backwardness
Stagnant or declining population
Extremely low literacy levels
Subsistence level of economy

Sources: Republic of India (2019)

Breitkreuz et al (2017)

Guaranteeing rural employment

As is the case in many other developing countries, India has also been grappling with a low labour force participation rate, estimated at 48.1% in 2019 by the World Bank (2022). In an attempt to address the problems posed by large-scale unemployment and pervasive poverty, the Government of India introduced several nationwide schemes to address poverty, including, in 2005, the Mahatma Gandhi National Rural Employment Guarantee Act (commonly referred to as NREGA). The scheme has two main objectives – to enhance the livelihood security of people in rural areas, and to boost the rural economy. It does so by guaranteeing wage employment to members of rural households who have volunteered to do unskilled manual work and through public works, including water-resource management and tree-planting.

It aims to enhance livelihood security in rural areas by providing at least 100 days of wage employment in a financial year to at least one member of every household whose adult members volunteer to do unskilled manual work. Women are guaranteed one third of the jobs made available under the NREGA. Table 6.2 provides a concise overview of the characteristics of this flagship programme aimed at poverty relief.

The major thrust of the National Rural Employment Guarantee Act (NREGA) in India is to provide part-time employment to unskilled rural dwellers. Its emphasis is on water harvesting initiatives, supplemented by other infrastructure-related projects closely linked to water management and agricultural production. In a country where more than 500 million people are estimated to be dependent on rain-fed agriculture (equating to almost 7% of the world’s total population), these are indeed worthwhile objectives.

Table 6.2: Characteristics of the National Rural Employment Guarantee Act (NREGA) in India	
Aims	Provide rural employment and boost rural economy through guaranteeing work on various infrastructure-related projects
Approach	Rights-based, demand-driven
Method	Provides at least 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work
Focus areas	Assists in the creation of durable assets and strengthens livelihood resource base of rural poor; provides farm-based productivity-enhancing infrastructure (wells, pumps) to defined socioeconomic groups
Activities	Digging tanks and ponds, construction and repair of embankments and check-dams, developing plantations to arrest soil erosion, land-leveling, road-building. Focus has been on watershed development and connectivity enhancement.
Governmental responsibility	Ministry of Rural Development
Level	Within the boundaries of the grass-roots (democratic) village-governing institutions in India (known as Gram Panchayat – GP)
Implementation	Main executing agency is the village-level GP, which ascertains community needs through the village authorities and village stakeholder meetings , issues job cards to volunteer households, allocates funds to selected projects, and ensures labourers receive their wages
Project period	Annual approach

The NREGA is closely associated with other important watershed initiatives, including the Integrated Watershed Management Programme (IWMP) in the state of Karnataka. These initiatives strive to provide livelihood options to disadvantaged persons in rural areas, whilst also improving the natural resource asset base.

A Poverty and Social Impact Analysis (PSIA) of the NREGA implementation in the state of Karnataka was commissioned by the World Bank Group in 2012. The study found that the NREGA budget in 2011/12 was more than one billion US dollars, with between 30% and 40% of disbursements directly linked to soil and water conservation (Satish, *et al.* 2013).

The key success of the initiative was in the area of employment. Between 70% and 80% of a total of more than 5 million job card holders had received employment under the scheme. Although few households had availed themselves of the full 100 days per annum of employment guaranteed under the scheme, the average number of days amounted to 50.

Income earned from participation in the scheme represented between 5% and 15% of total income and the study concluded that public works schemes such as these had the potential to provide long-term poverty reducing impacts.

A benefit-cost analysis of the schemes pointed to a payback period of about five to six years. The PSIA noted a number of misgivings surrounding the implementation of the NREGA, especially its minimal impact on closing the poverty gap in the areas surveyed and on outward migration to cities and other farming communities.

Table 6.3: Potential benefits of convergence between a workfare scheme (the National Rural Employment Guarantee Act - NREGA) and a public works programme - PWP (the Integrated Watershed Management Programme) in India	
Category	Advantages of convergence
Objectives	Similarity of objectives facilitates convergence in several key spheres relevant to the objectives and functioning of the programmes, especially employment creation
Life cycle & implementation	Dovetailing the project cycles would provide a framework to realise their long-term objectives in a sustainable manner, and would assist institutional development
Human resources	Convergence could widen the pool of human resources available, and skills and competencies of the PWP could enhance the planning, implementation and quality of projects. Convergence would also create more person-days and improve the chances of NREGA delivering on its 100-day per annum promise.
Planning & proposal formulation	PWP techniques would bring to NREGA the application of sophisticated tools and planning processes and a multiyear perspective, leading to better quality and longer shelf life of projects, with longer-term benefits
Capacity building	The more technological and science-based approach of PWPs can bring capacity-building potential to NREGA
Funding	To improve scale, quality, and speed of implementation of the PWP, NREGA can augment its funding and allow works to continue where funds are delayed or inadequate. The more labour-intensive works could be financed through NREGA.
Inclusiveness & transparency	Methodologies of PWPs could help realise accountability objectives of NREGA, especially via satellite-based remote planning, which could help verify targeting in planned locations for soil and water conservation works
Reporting	The PWP could move in the direction of NREGA by also reporting on a regular basis via uploading data on a web-based Management Information System (MIS) platform directly from local authorities. MIS has the potential to enhance transparency & provide access to market information.
Institutional arrangements	The common administrative and operational arrangements of NREGA and the PWP would facilitate convergence, with a CEO overseeing coordination and all key activities so that synergies and sustainable livelihood opportunities are created, an objective of both programs

The PSIA also included an assessment of the potential benefits of convergence between the NREGA and the IWMP. This list is quite comprehensive and is summarised in table 6.3. The relevance of these potential benefits to South Africa are fairly obvious, as the Expanded Public Works Programmes (EPWP) represents a pragmatic vehicle for the implementation of future workfare programmes (as discussed in the following subsection).

When utilising the IWMP in India as a proxy for other critical infrastructure-related projects, it becomes quite obvious that several of these potential advantageous outcomes could be achieved in South Africa, with the added benefit of an existing blueprint for combining workfare with a considered selection of public works programmes relevant to domestic circumstances.

Rural housing via workfare and subsidies

According to the United Nations, India, with its 1.4 billion people, will overtake China as the world's most populous country in 2023. Estimates of widespread poverty vary, depending on the definition of the poverty line. An estimate by the United Nations (2019) points to 364 million living in poverty, but research by Roy & van der Weide (2022) concluded that the poverty headcount rate in India had declined by 12.3 percentage points between 2011 and 2019 (from 22.5% to 10.2%), with reductions in rural areas having been more pronounced than in urban areas. Although this represents considerable progress, it still translated to 168 million people living in poverty prior to the outbreak of the Covid pandemic.

It is unsurprising, therefore, that India has placed considerable emphasis on social welfare programmes involving some element of workfare. Due to a low per capita income, the country has limited fiscal resources and a public debt/GDP ratio that has increased from 66.6% in 2014 to 74% in 2020. One of the country's key initiatives to combat rural poverty is the Indira Awaas Yojana (IAY) programme, based on the provision of grants for the construction of houses to members of SCs, STs, freed bonded labourers and to non-SC/ST category below the poverty line. The programme was launched in 1985 by Rajiv Gandhi, the then Prime Minister of India and was restructured as Pradhan Mantri Gramin Awas Yojana in 2015.

The objectives of the programme are:

- To support the construction of houses with ample provisions, including workplaces within the house and designed on the basis of the dweller's requirements
- To promote the use of technology and material that is environment-friendly, sustainable, affordable, and conducive for generating employment
- To empower and encourage local authorities (Panchayats) to take a lead role at the village level for the implementation of this housing scheme
- The houses will be under the joint ownership of the husband and wife (where relevant)
- The construction of the houses should be carried out by the beneficiary, and no contractors are to be involved

Addressing the Urban Conclave held in Uttar Pradesh's Lucknow on 5 October 2021, Prime Minister Narendra Modi stated that, since 2014, the construction of 11.3 million houses had been approved, most of which have been completed. Under the scheme, women will enjoy full or joint ownership of 80% of the houses.

Economic impact assessment of three flagship programmes

Realising that most of the research on the economic impact of social protection programmes was concentrated in the field of fiscal parameters, Sharma et al (2016) decided to evaluate the economic impact of three major social protection programmes, namely, the Mahatma Gandhi National Rural Employment Guarantee Act

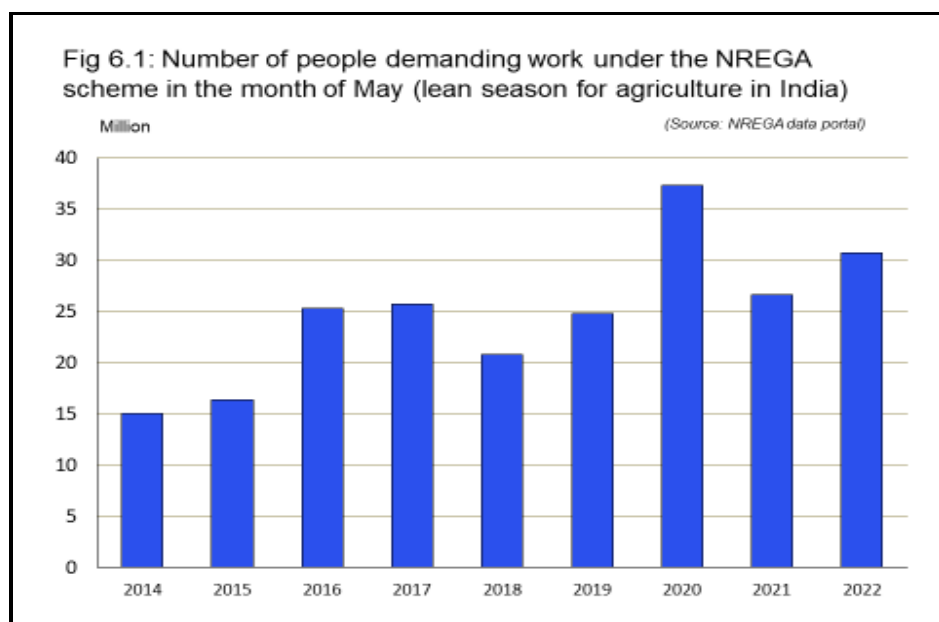
(NREGA), Indira Awaas Yojana (IAY), and the National Social Assistance Programme (NSAP) in 2011/12 utilising a social accounting matrix (SAM) multiplier analysis.

The authors drew on the premises identified by Mathers & Slater (2014), namely that social protection has a potential impact at the micro level (individuals and households), intermediate level (local-economy), and at the macro level (national-economy) through different channels. These include:

- At the micro level - an impact on growth through preventing the loss of productive capital,; the accumulation of productive assets,; enhanced access to labour markets; increasing innovation and risk-takin; and increased investment in human capital.
- At the intermediate level - an impact on growth through multiplier effects on the local economy; investment in public productive assets and infrastructure; and alterations to the functioning of the local labour markets.
- At the macro level - an impact on growth directly by increasing household productivity and employment; increasing aggregate demand; deepening capital markets; broadening the taxation base; and changes to public debt

It is further recognised that social protection can influence these outcomes indirectly (to a varying degree) by facilitating economic reforms; building human capital; contributing to social cohesion; and influencing demographic trends. No over-arching framework of social protection exists in India. Although there are some constitutional provisions and international conventions, which are ratified by the Government of India. In the absence of such a coordinated framework, it is estimated that there are more than thousand social protection programmes (SPPs) of varying scope being implemented by the state governments, the central government, or jointly, usually with the involvement of local authorities. Due to the non-availability of sufficient and reliable time-series data on other programmes, the study by Sharma et al was confined to three major social protection programmes implemented by the central government The NREGA, IAY, and NSAP. The macroeconomic impacts have been measured in terms of output, income, employment, and revenue effects.

A 32 sector SAM of India for 2007/08 was been constructed with two factors of production (labour and capital) and five household categories, for both rural and urban areas. The household categories were categorised in quintile classes based on monthly per capita expenditure for both rural and urban areas.



The main data sources were the input/output (I/O) table for 2007/08; the 66th consumer expenditure survey by the National Sample Survey Office; the income/expenditure survey by the National Council of Applied Economic Research for 2004/05, and National Accounts Statistics by the Central Statistics Office. The impact was evaluated of the three selected SPPs on the expenditure incurred by the government on during 2011/12.

The study found that these programmes have significant output effects. The indirect output effects are higher than the direct output effects due to linkages with other sectors of the economy. Moreover, these programmes have generated employment for large numbers of people, both directly and indirectly. From an employment perspective, there is no doubt over the significant impact of NREGA, as illustrated by the large numbers of people demanding work under this scheme (see figure 6.1).

The income effect of these programmes is found to be almost twice the value of government expenditure on the selected SPPs. In general, a higher income effect was evident for the bottom classes of rural households, in line with the objective of poverty alleviation. The programmes also generated significant government revenue through taxation (directly and on the induced income and consumption). Tables 6.4, 6.5 & 6.6 provide details of the macroeconomic impact of these three SPPs.

Table 6.4: Output effect of three national social protection programmes (SPPs) in India 2011/12 (\$billion)

SPP	Multiplier	Impact \$billion
NRGEA	2.90	206.6
IAY	2.43	58.7
NSAP	3.00	34.7
Avg. & Total	2.81	300.0

Notes: 1. Impact based on SAM methodology

2. Output effect measured at the 2012 average \$/rupee exchange rate

Sources: Sharma et al (2016); Bookmyforex.com

Table 6.5: Employment impact of three national social protection programmes (SPPs) in India 2011/12 ('000)

SPP	Direct	Indirect	Total
NRGEA	2,475	4,100	6,575
IAY	143	1,062	1,205
NSAP	556	787	1,343
Totals	3,174	5,949	9,123

Notes: 1. Impact based on SAM methodology

Source: Sharma et al (2016)

Table 6.6: Taxation revenue impact of three national social protection programmes (SPPs) in India 2011/12 (\$billion)

SPP	Direct taxes	Indirect taxes	Total
NRGEA	4.63	7.67	12.30
IAY	0.27	1.99	2.25
NSAP	1.04	1.47	2.51
Totals	5.94	11.13	17.07

Notes: 1. Impact based on SAM methodology

2. Output effect measured at the 2012 average \$/rupee exchange rate

Sources: Sharma et al (2016); Bookmyforex.com

7. Macroeconomic impact of social welfare - international

Since the beginning of the new millennium, there has been unprecedented interest in the outcomes of social protection policies (SPPs) as a method to improve the aggregate welfare and level of human development in low-income and middle-income countries. Most of the academic & empirical studies in this field have concentrated on the effects of SPPs on lowering the prevalence of poverty and inequality and also on the effectiveness of social protection in targeting the poor, as discussed in detail in section 4.

Those that have utilised econometric analysis to gauge the effects of social welfare policies on economic output and growth (and, as an inference, on fiscal stability), have been sparse, especially due to the relatively short time span since the developing world has embraced the concept of social protection via non-contributory grants and other benefits aimed exclusively at improving the well-being of the poorest segments of society.

A comprehensive literature review has nevertheless resulted in a number of relevant impact analyses of the macroeconomic impact of SPPs that have been conducted in post-industrial countries and developing countries alike. This section highlights the key conclusions drawn from selected and relevant scholarly research, based on quantifiable evidence.

i. Haile & Niño-Zarazúa, (2018) – 55 countries

This study provided some insight into the effect of government spending on health, education and social welfare on three measures of aggregate welfare, including the Human Development Index (HDI), which incorporates a substantial weighting related to GDP per capita. The study utilised longitudinal data from 55 developing countries from 1990 to 2009 and found strong evidence to support the proposition that government social spending had played a significant role in improving aggregate welfare in the developing world.

ii. United Nations (2018) - global

According to its *2018 Report on the World Social Situation*, the United Nations stated that social protection is fundamental for achieving the Sustainable Development Goals (SDGs). The UN's research showed that, despite gaps in coverage, social protection systems are crucial to keeping people out of poverty, whilst contributing to gains in health and education among beneficiaries and reducing income inequality. In terms of the macroeconomic impact of social protection, it can also stimulate demand and boost consumption, and hence contribute to economic growth. During recessions, social protection spending can help revive economies and stimulate employment.

iii. International Labour Organisation - ILO (2011) - global

Research by the ILO confirmed that measures such as cash benefits, old-age pensions, in-kind transfers and disability benefits were instrumental in cushioning the impact of the 2008/09 global financial crisis among the most vulnerable groups in society, while also serving as a macroeconomic stabiliser and enabling people to overcome social exclusion and poverty in both developed and developing countries.

iv. Organisation for Economic Co-operation and Development – OECD (2019) – global

At the individual and household level, this study by the OECD on the economic effects of social protection policies identified a number of channels that have a positive impact, including via the accumulation & preservation of productive assets and the stimulation of innovation and entrepreneurship. The OECD also found that social protection can exert a positive effect on growth outcomes at community and national levels by generating multiplier effects from increased local consumption and production. The study pointed

out a number of indirect effects that could further spur growth, including the facilitation of economic reforms, building human capital and enhancing social cohesion.

v. Gechert, et al (2021) – Germany

This study involved a narrative dataset of legislative social security shocks, constructed for Germany. The dataset covered major legal changes in benefits and contributions from 1970 to 2018. The macroeconomic effects were estimated in a proxy structural VAR. In response to a cut in contributions, a fiscal multiplier of about 0.4 on impact occurred, that faded relatively quickly. For benefit increases, however, the impact multiplier was 1.1 and more persistent. The response of other macro variables suggested that benefits worked through a strong demand-side channel, while contributions exhibited supply-side effects. Combining the shocks with household data confirmed a strong consumption response of beneficiaries.

vi. Romer & Romer (2016) – United States

In 2016, Romer & Romer published a study aimed at determining the effects on the macro-economy of increases in social benefits in the US. The methodology and results of the study are widely regarded as one of the academic benchmarks for embedding changes to social benefits in a vector auto-regression (VAR) framework. Although the data utilised for this study (1952 - 1991) pre-dates the universal implementation of UCTs and CCTs in the developing world, the results remain relevant to any assessment of the macroeconomic impact of social welfare expenditure by the state.

The study determined that social security benefit increases over the reference period were highly irregular in timing and size, and presents evidence that most of the increases were not taken in response to current or prospective macroeconomic developments or as part of larger policy programmes. As a result, these benefit increases can be used to estimate the short-run macroeconomic effects of changes in transfers.

The key finding of the study is that transfers matter. The estimates suggest that a permanent increase in Social Security benefits raises aggregate consumer spending in the first month the larger benefits arrive roughly one-for-one. The initial impact is highly statistically significant and remains high for about half a year, after which it declines. An interesting conclusion was related to the estimated response of consumption to temporary benefit increases, which were found to be small and not statistically significant.

The study also compared the impact of permanent social security benefit increases with relatively exogenous tax changes, which showed a marked contrast. While the tax changes are slower to impact on consumption, their effects were much more persistent, more statistically significant, and far larger over an extended period than those for benefit increases. As a result, tax changes affect broader economic indicators, while benefit increases do not. Both types of changes had their primary impact on total consumption by raising expenditures, especially on durable goods.

vii. Nikiforos et al (2017) – United States

The underlying premise for the Levy Institute's research on an unconditional cash grant in the US was that it would substantially alleviate extreme poverty, which has been on the rise during an era in which existing unconditional transfer policies had been scaled back and repurposed. Although ample evidence of the global poverty-alleviation effects of welfare grants had been provided by a large volume of quantitative research, most notably the World Bank's ASPIRE data-base, questions still remained over the likely impact of such a policy on the macro-economy.

In attempting to provide an answer to this question, Nikiforos et al (2017) utilised the Levy Institute macro-econometric model to estimate the impact of three versions of such an unconditional cash assistance program over an eight-year time horizon. The Levy Macro-Economic model is used to examine the medium-

run prospects of the US economy and to simulate the effects of alternative policy options. It is Keynesian because the macroeconomic performance of the economy is driven by aggregate demand both in the short- and medium-run. Moreover, it follows the so-called Stock-Flow Consistent macroeconomic methodology, which allows for an integrated treatment of the real and financial sides of the economy;

After the global financial crisis of 2007-2009, analyses based on the Levy model have argued that conventional projections for the U.S. economy (for example, those produced by the International Monetary Fund) have consistently been overoptimistic. The same reports have also demonstrated that the extreme inequality in income distribution was one of the main causes of the economic crisis, and they have argued in favour of a large public infrastructure program (such as is currently being implemented by the Biden administration).

Three versions of unconditional cash transfers (UCTs) were examined by Nikiforos et al (2017), namely \$1,000 per month for all adults, \$500 a month for all adults, and a child allowance of \$250 per month. For each of the three versions, the macroeconomic effects of these transfers were modelled, using two different financing plans - increasing the federal debt, or fully funding the increased spending with increased taxes on households. The results were then compared to the effects to the Levy model's baseline growth rate forecast, as depicted by table 7.1 for two different funding models under two different levels of UCTs. The findings included the following:

- *For all three designs, enacting the grants and funding them by increasing the federal debt would grow the economy.* Under the smallest spending scenario, \$250 per month for each child, GDP is 0.79% larger than under the baseline forecast after eight years. According to the Levy Model, the largest cash program - \$1,000 for all adults annually - expands the economy by 12.56% over the baseline after eight years (excluding distributional effects). After eight years of enactment, the stimulatory effects of the program dissipate and GDP growth returns to the baseline forecast. Importantly, though, the level of output remains permanently higher.

Table 7.1: Macroeconomic impact of UCTs in the US after 8 years (Levy Institute model - deviation from baseline)

1. Debt financed, including distributional effects

	\$250 child	\$1,000 BIG
	%	%
Real GDP	0.84	13.1
Price level	0.26	3.77
Government deficit	0.52	9.11
Employment rate	0.12	2.11

2. Fiscally neutral, including distributional effects

	\$250 child	\$1,000 BIG
	%	%
Real GDP	0.27	2.62
Price level	0.06	0.56
Government deficit	-0.08	-1.39
Employment rate	0.04	0.31

Note: Distributional effects are due to different consumption propensities

Source: Nikiforos et al (2017)

- *When funding the policy by increasing taxes on households and incorporating distributional effects into the model, the economy also grows, but at a slower rate.* In a fiscally neutral aggregate model, a universal basic income grant (BIG) has negligible effects because the increase in the income of the households is fully compensated by the increase in taxation. However, a program related to comprehensive cash transfers like this implies a more egalitarian distribution of income - to the extent that it is financed by the increase in the taxes of households in high-income brackets. From a macroeconomic point of view, this translates into income gains for households with a higher marginal consumption propensity (MCP) and income losses for households with a lower propensity to consume.

Although not specifically modelled by the 2017 Levy Institute model, it stands to reason that UCTs targeted at poorer households will exacerbate the distributional effects inherent in the model (as has been confirmed by other econometric studies discussed in this section).

viii. Furceri, & Zdzienicka (2012) - OECD

The aim of this study was to assess the short-term effects of social spending on economic activity, using data from a panel of OECD countries from 1980 to 2005 and employing ordinary least squared (OLS) methodology. This involved the standard approach developed by Romer & Romer (1989), based on an estimation of a dynamic growth equation and the derivation of impulse response functions from the estimated coefficients.

From a theoretical point of view, the authors identified at least four channels through which social spending is likely to affect output positively in the short term:

- First, an increase in social spending will increase demand by rising public consumption
- Second, since a number of social policies target low-income individuals and credit constrained agents, an increase in social spending is likely to have a positive impact on private consumption expenditure
- Third, some measures of social spending, such as active labour market policies, may affect output by increasing employment (especially in the area of public works)
- Fourth, social spending in health may affect investment by enhanced human capital and, to the extent that private and public investments in the health sector are complementary, also by rising capital expenditure in the health sector

The authors included a test to determine the existence of crowding-out versus crowding-in effects on consumption and investment. The results suggested that while social spending had a positive and significant impact on consumption (mostly determined by health and unemployment benefits), it had a negligible and insignificant impact on private investment

The key conclusion derived at is that social spending has a significant short term effect on output - a 1% increase in social spending increases output by 0.12 percent in the short term and by about 0.25 after three years. In terms of multiplier effects, the estimates imply that an increase of social spending of 1 percent of GDP increases output by 0.57 percentage point. Furthermore, the increase in social spending has to be interpreted as social spending shock which leaves the debt-to-GDP ratio unchanged.

A third finding was that social spending was counter-cyclical in most of the countries. Countries with higher public debt and with a higher initial level of the ratio of total social spending to GDP were characterised by a lower level social spending growth.

ix. Gerard et al (2021) - Brazil

This study contributed to the literature on social welfare impacts by studying the effects of a large-scale means-tested cash transfer programme (the Bolsa Família - BFP in Brazil) on aggregate formal employment in local labour markets. It is well established that cash transfer programs have expanded widely in developing countries and have been credited for sizable reductions in poverty. However, their potential disincentive effects on the labour supply by beneficiaries have remained open to debate. The one argument is based on concerns that the targeting of some of these programmes, such as the use of means testing, could distort beneficiaries' incentives to work, especially in the formal economy where earnings are more easily verifiable.

By contrast, some studies argue that cash transfers can help beneficiaries find better jobs by unlocking liquidity constraints or that they can stimulate labour markets through increases in labour demand due to multiplier effects in the local economy. In practice, these effects can coexist, but evidence exists on their relative importance to inform the policy debate, despite formal job creation representing a primary focus of economic policies in developing countries. The reasons are obvious, as formal jobs are more likely to provide workers with enhanced social security coverage and better working conditions and are also associated with higher output and total factor productivity.

The authors used longitudinal administrative data covering the universe of formal workers and BFP beneficiaries, along with the benefits disbursed through the program to estimate the impacts of a policy that increased the total number of BFP beneficiaries by more than 17 percent (or almost two million additional families) in 2009. One of the key findings was that higher grant payments increased local formal employment, by exploiting variation in the size of the expansion across Brazilian municipalities. The evidence is consistent with multiplier effects of cash transfers in the local economy, which dominate potential negative effects on formal labour supply among BFP beneficiaries.

The differential increase in total BFP payments led to an increase in the number of private-sector formal jobs that reached 2% by 2011, two years after the expansion of the system. The effect on total payroll was slightly smaller (1.7%) because the increase in formal employment was concentrated in lower-skill occupations. The results were robust across various specifications and definitions of treatment intensity. The study also explored whether the overall increase in formal employment occurs despite negative effects of PBF on beneficiaries' formal labour supply or are partly driven by positive responses among beneficiaries. This was done by comparing formal employment outcomes for families that were eligible for different benefit amounts within a local labour market through a Regression Discontinuity (RD) design.

Taken together, the results of the study indicated that cash transfer programs are highly likely to exert positive effects on formal labour markets and the local economy at large, even if they create potential disincentive effects on beneficiaries' labour supply. The study also included an estimation of the effects on municipal GDP and taxes paid in the municipality. The results were in line with formal employment results, with increases in local GDP and local taxes reaching 1.7% and 2.7% by 2011, respectively.

x. Brazil (various authors)

In Brazil, most of the studies of economic multiplier effects have been concentrated on public sector investment programmes in social and economic infrastructure. A number of macroeconomic impact studies of SPPs have nevertheless been conducted in Brazil, most recently by Sanches & De Carvalho (2022). The study was based on a structural vector autoregressive (VAR) modelling exercise, to determine fiscal multipliers for social benefits in Brazil for 1997-2018. Social protection multiplier dynamics can be enhanced since people who receive these benefits tend to have a relatively high propensity to consume. As reported

by the Institute of Applied Economic Research Ipea (Sanches & De Carvalho 2022), 80 percent of resources transferred by the Bolsa Familia Programme (BFP) are received by the bottom two income quintiles.

Consumer expenditure data analysis in Brazil has found a consumption propensity of larger than one for the bottom income quintile, in contrast to only 0.43 for the top income quintile. The latter trend for a significant gap in consumption propensities between the rich and the poor is evident in all developing countries. It represents the fundamental logic behind the positive economic multiplier effects that have been determined in various studies on the impact of social assistance programmes.

The authors provided a disaggregated analysis which estimated social protection multipliers flowing from household consumption, private investment and different types of social benefits expenditures (including cash transfers, unemployment insurance, and pensions). Two periods were used as samples, with one that included Brazil's economic recession of 2014 to 2016. The study revealed that a social protection spending shock triggers a more significant output increase in the sample that includes the recession.

Table 7.2: Results of impact studies on economic multiplier effects emanating from government expenditures on social assistance in Brazil

Authors & study period	Impact & peak multiplier	Cumulative multiplier
Orair, Siqueira and Gobetti (2016) 2002-2016	Peak - 1.51 (during recessions)	8 (over four years)
Resende (2019) 1997-2018	Impact - 0.72	2.99 - 4.07 (accumulated in one year)
Sanches and de Carvalho (2019) 1997-2018	Impact - 0.77 Peak - 1.2	2.9 (accumulated over two years)
Sanches and de Carvalho (2019) 1997-2016	Impact - 0.7	1.9 (accumulated over two years)

Notes:

1. Studies were based on autoregressive vector (VAR) models
2. When including control variables for inflation, the interest rate & the exchange rate, Sanches & de Carvalho have found impact & cumulative multipliers of 1.1 and 3.6, respectively (over two years)

Overall, the findings aligned with the range of estimates of short-term multipliers for total government spending on social protection presented in previous empirical studies, as depicted by table 7.2. In particular, the macroeconomic effects of social protection were found to be similar to the evidence provided by Resende (2019), as well as the study by Orair, Siqueira and Gobetti (2016), which provided evidence of more significant economic multipliers during economic recessions.

The study by Sanches & Carvalho emphasises that social protection expenditure performed a significant income stabilising effect via aggregate demand during this period. They found that Brazil's GDP would have been 2.53% lower if social benefits had not continued to grow in 2016 and 2017 (due to constitutional obligations).

The key conclusion drawn from the above studies is that social benefits have relatively large multiplier effects in Brazil, comparable in size to those estimated for public investment, whether the economy is in recession or in growth mode.

8. Economic Impact studies on South Africa's welfare system

Over the past two decades, comprehensive research has been conducted on the impact of social assistance programmes in South Africa. The bulk of this research has concentrated on the impact of specific programmes on social development indicators, especially poverty and inequality. A literature study of the scholarly impact assessments reveals a large measure of consensus on the positive developmental impact of the South African grant system (as is the case with similar assessments conducted in other developing countries). Notable research studies include those by the World Bank (including the other countries in the Southern African Customs Union - 2022); Borat & Cassim (2014); Woolard & Leibbrandt (2013); the Economic Policy Research Institute (2012); Klasen et al (2011); Van der Berg et al (2010); and Armstrong & Burger (2009).

A concise overview of a selection of authoritative research on this topic is provided below.

World Bank impact study in SACU countries

An assessment of inequality in the countries comprising the Southern African Customs Union (SACU) was conducted by the World Bank in 2022. The SACU countries comprise South Africa, Botswana, Lesotho, Namibia and Eswatini. One of the key findings of this comprehensive research relates to the remarkable positive impact on poverty of social assistance programmes, especially in South Africa. Relative to countries with similar income levels, the reduction in the poverty headcount from social assistance is high (see table 8.1 and figure 8.1).

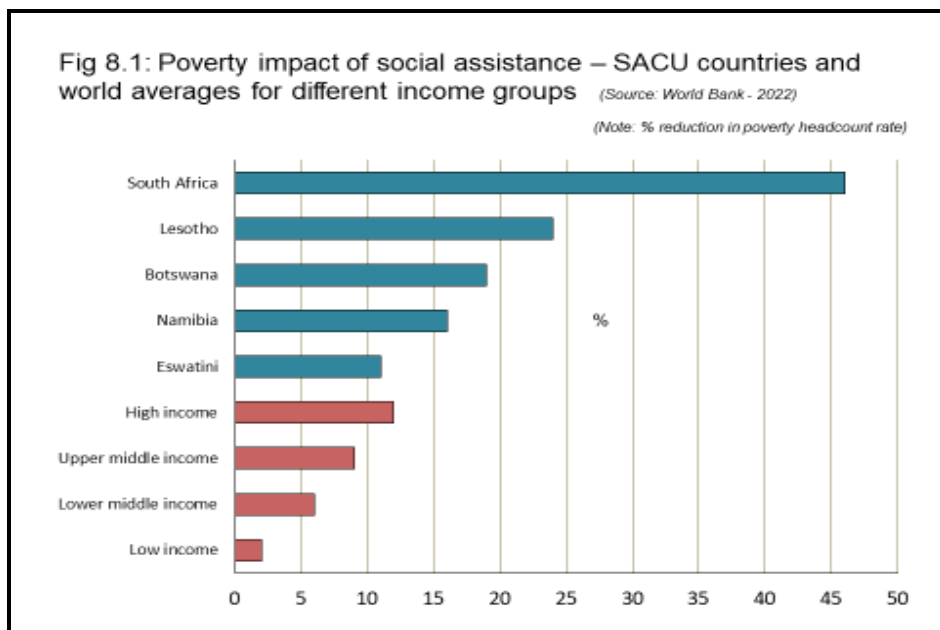
Table 8.1: Poverty impact of social assistance - SACU countries & world averages for different income groups

SACU country	% Reduction in poverty headcount
South Africa	46
Lesotho	24
Botswana	19
Namibia	16
Eswatini	11
World averages for income groups	
High income	12
Upper middle income	9
Lower middle income	6
Low income	2

Notes: Poverty impact is the simulated percentage reduction in pre-transfer poverty headcount due to social assistance

Source: World Bank (2022)

Even the SACU country with the lowest impact, Eswatini (11% of the poverty rate without transfers), is well above the average for lower- and upper-middle-income countries (6 percent and 9 percent, respectively). The World Bank study describes the poverty impact in South Africa as noteworthy (46%). This is equivalent to the overall impact of social protection and labour market programs in high-income countries (which differ substantially from social assistance, due to funding that mainly emanates from contributions by beneficiaries). In sharp contrast to high income countries, social insurance and labour market programmes in the SACU countries are very limited and therefore do not exert a meaningful impact on poverty reduction. According to the World Bank (2022), the absence of social insurance and labour market programs would only raise the poverty headcount rate by one per cent.



Other findings of the World Bank study on inequality in the SACU countries are:

- The impact of social assistance on poverty and inequality is correlated, but its impact on inequality is broader. Even when the benefits are not sufficient for people to reach an income or consumption level above the poverty line, social assistance still improves the overall income distribution.
- Social assistance significantly contains inequality in SACU countries via a larger impact on the Gini-coefficient than in other upper-middle income countries. In the latter group, social assistance reduces inequality by an average of 1.3%, whereas in SACU, the reduction ranges from 1.9% in Eswatini to 10.5% in South Africa. Without social assistance, South Africa’s Gini coefficient would increase from 63 to a 70.4.
- Combining high coverage and benefit levels significantly reduces poverty, as in South Africa, which sees the largest poverty impact among lower- and upper-middle-income countries. Although most SACU countries perform relatively well on both coverage and benefit levels, the impact on inequality is particularly low for Eswatini, a country with high social assistance coverage but unusually low benefits. It is also low in Namibia for the opposite reason, namely a relatively high level of benefits, but low coverage. South Africa, with both high coverage and high benefits, achieves the largest impact on inequality.
- Programs vary in terms of coverage and adequacy across countries. South Africa’s child support grant, the program with the largest impact on inequality, also has the widest coverage of the poor (82%). However, coverage is not a sufficient condition for reducing inequality. For example, school feeding in Lesotho also has high coverage (76.4% of the bottom quintile), but its impact is much lower, due to the relatively low level of fiscal commitment.
- The impact of social assistance on inequality is driven by specific programmes, primarily social pensions. The most effective programmes for reducing inequality in SACU are the child support grant in South Africa, the school feeding programme in Lesotho and the old-age social pensions in Eswatini and South Africa. The school feeding program in Lesotho, the disability grant in South Africa, and food transfers in Botswana also contribute (see table 8.2).

Table 8.2: Benefit/cost ratio of poverty gap reduction by types of programmes - SACU countries

Programme	Country	Benefit/cost ratio (%)
Child grant	South Africa	42
Old age pension	Eswatini	29
School feeding	Lesotho	29
Old age pension	South Africa	28
Child grant	Namibia	27
Cash for work	Lesotho	26
Old age pension	Botswana	24

Note: Benefit-cost ratio is estimated as (poverty gap pre-transfer minus poverty gap post-transfer) / total transfer amount

Source: World Bank (2022)

- The efficiency of social assistance in reducing poverty and inequality across the SACU countries can be improved. The benefit-cost ratio for the region is below 40% (which means that each \$1 spent on social assistance reduces the poverty gap by less than \$0.40). The benefit-cost ratio is highest in South Africa (34%). According to the he World Bank research, this is to be expected result for a country that means-tests two of its largest programmes, as benefit ratios for means-tested programmes are usually relatively higher, due to less inclusion errors and improved cost-efficiency.

In its concluding notes on the section dealing with quantifying the impacts of social assistance on poverty and inequality, the World Bank found that, without social assistance programs, poverty in SACU would have been much higher and that all direct transfers are pro-poor. South Africa stands out for the progressivity of its transfers.

Economic Policy Research Institute (EPRI)

A study was carried out by the EPRI in 2012 to determine the developmental impact of the South African Child Support Grant (CSG), based on evidence from a survey of children, adolescents and their households. The study was commissioned jointly by the Department of Social Development (DSD), the South African Social Security Agency (SASSA) and the United Nations Children’s Fund (UNICEF).

The methodology was based on the measurement of causal programme impacts as the difference between observed outcomes for the beneficiaries and what would have been the outcomes if this group had not received the CSG or received it later versus earlier. The research team compared the results of the survey to other national household surveys, including the 2008 National Income Dynamics Survey (NIDS) and the 2010 General Household Survey (GHS), and found their sample largely representative of the corresponding national populations.

The key finding of the study was that the CSG generates positive developmental impacts by directly reducing poverty and vulnerability amongst children in poor households. The study provides evidence of the positive impact of the CSG in promoting nutritional, educational and health outcomes and found, *inter alia*, that receipt of the grant at an early stage significantly strengthens a number of these outcomes, providing an investment in people that ultimately reduces indicators of poverty and inequality.

The study also found that adolescents receiving the CSG were more likely to have some positive educational outcomes and were significantly less likely to engage in behaviours that put their health and well-being at serious risk.

Van der Berg (et al) – 2010

The 2010 study by Van der Berg et al pointed out one of the difficulties in analysing the effects of social welfare in South Africa, namely the complex structure of many households. One example is the fact that many mothers who receive the child grant are not the primary caregivers of the children. Another problem may be encountered with the definition of household membership. In South Africa, the conventional view of a nuclear family is turned on its head, as many cases exist where three to four generations live in the same household.

Definitions of households vary, depending on whether membership is determined by physical presence in a household or by resource sharing which may include members who live in different places. Double counting during surveys will occur in the absence of the strict residency rule, which stipulates that a person must be a resident of the household for most of the year.

Regarding the impact of grants on social security and poverty in South Africa, Van der Berg et al (2008 & 2010) and Armstrong et al (2008) found that the various social grants are well targeted at the poor and that they have a significant mitigating impact on poverty. These studies included a caveat in terms of the assumption that the availability or otherwise of social grants has no impact on the behaviour of households in terms of labour supply, household formation patterns, etc. The results nonetheless suggest that social grants markedly reduce poverty by augmenting the incomes of poor households. A summary of these effects, which also includes data from the All Media & Products Survey (AMPS) and research by Leibbrandt et al (2004) - as determined at the time of the research - is provided in table 8.3.

Table 8.3: Summary of key effects of social grants discussed in Van der Berg et al (2010)	
Effect	Research finding
Targeting the poor	Fully 76% of government spending on social grants accrues to the roughly 50% of the population that constitute the poorest two quintiles of households
Incidence of poverty	(i) Grants raise the income share of the poorest 40% of households from 4.7% of pre-transfer income to 7.8% of post transfer income (ii) The incidence of poverty among households would have been 32.2% higher in 2005 had the various types of social grants not existed (<i>ceteris paribus</i>) (iii) Social grants reduced the incidence of poverty among individuals from a hypothetical 55.4% (zero income from grants) to 47.1% (i.e. by 15%)
Labour market	(i) There is no conclusive evidence on the deterrent effect of pension income on labour-market participation among prime-aged males (ii) No conclusive evidence exists of the Child Support Grant being a deterrent to obtaining employment
Fertility rate	Although the possibility exists that young mothers may deliberately fall pregnant to gain some financial independence from their households (by accessing the CSG), there is counter-evidence suggesting that the existence of the grant is insufficient motivation to fall pregnant
Source of income	Between 2003 and 2006, an increasing trend occurred in the proportion of CSG recipients having pensions & grants as the main income source of the household, namely increasing from 38.0% to 49.0%

Armstrong & Burger (2009)

This study contributes to the literature on social grants and their role in poverty alleviation and the reduction of inequality in South Africa by making use of decomposition techniques, based on the normalized Foster-Greer-Thorbecke index and data requirements from the 2005 Income and Expenditure Survey.

According to the results of the analysis, social grants were found to be highly effective in alleviating poverty and should be seen as a tool with which government may remedy the extent of economic hardship in society.

Furthermore, as the emphasis placed on the most impoverished in society increased, so too did the measure of the effectiveness of social grants in reducing poverty, indicating that South African social grants were well-targeted. Quoting research by Klasen & Woolard (2002) and Vander Berg, et al (2008) the study pointed out that the impact of social grants extends further than its direct beneficiaries, specifically on household formation.

A phenomenon has been observed of people moving into households in which grants are received, which spreads the benefit of the grant to other household members. This formation of households around social grant income has kept older people in their communities, empowered them and contributed to the reduction in their dependence on their children.

9. Some caveats to the design of social welfare systems

One of the most succinct explanations of the positive net welfare effect that a measure of income redistribution can exert on society was provided almost a century ago by Prof Lionel Robbins of the University of London by stating that “The loss of a pound is more significant to a poor man than to a rich man” (Robbins 1932). Although this simple rationale for a system of public welfare has been proven to bestow positive effects on the lowering of poverty and inequality without necessarily compromising economic growth, a number of caveats should be taken into consideration with the design of social welfare policies.

When there is consideration for the expansion of an existing welfare grant system to incorporate a basic income grant (as is currently the case in South Africa), it is imperative for a government to conduct an appropriate macroeconomic impact assessment of such envisaged changes, including a cost-benefit analysis.

In particular, any changes to the existing system of cash grants should consider the likely fiscal implications of targeted vs general assistance and also whether grants should be conditional or not. Some caveats to be considered in any amendments to the South African grant system are briefly discussed in this section.

Fiscal stability - lessons from Argentina

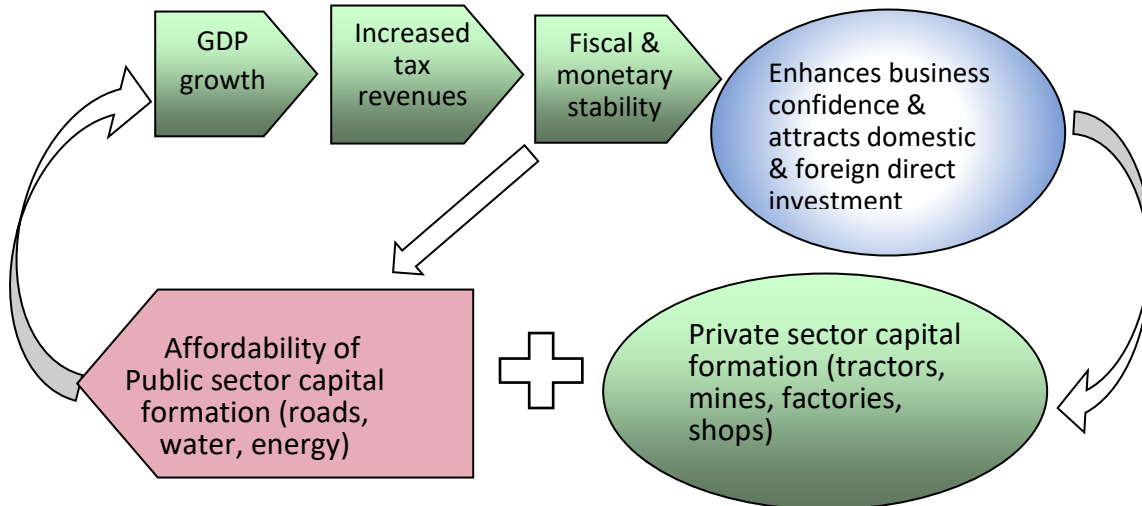
Argentina is South America’s second-largest country, but has a lowly ranking of 27th among the 32 countries in the Americas region, with an overall score well below the world average.

Modern history has not been kind to Argentina. During the early stages of the 20th century, Argentina was one of the wealthiest countries in the world, with GDP per capita exceeding that of several European countries, including France and Germany. In 2020, Argentina’s GDP per capita was 81% lower than that of Germany and also 21% lower than the world average.

Argentina’s vast agricultural and mineral resources are well documented and the country also boasts a highly educated population. In terms of basic macroeconomic supply-side theory, the country is exceptionally well-positioned to record sustained positive economic growth and increase the welfare of its citizens.

Unfortunately, however, Argentina has a long history of political and economic instability, fuelled, *inter alia*, by over-regulation and a lack of fiscal discipline, especially with regard to high budget deficits.

Ever since the end of World War I, Argentina entered successive phases of slow economic growth, mainly as a result of populist policies, including price controls, state ownership of financial institutions and excessive holdings of foreign currency-denominated public debt.



The country holds the unenviable record amongst emerging market economies of nine public debt defaults. Inadequate investment in infrastructure and private sector production structure have contributed to the regular occurrence of adverse terms of trade, resulting in balance of payments instability. In addition, government spending has exceeded the limits imposed by taxation revenue receipts, whilst financial market borrowing remains constrained and virtually unaffordable.

The crucial role that productive public expenditure in the area of infrastructure (such as roads, transportation, and housing) can play in promoting economic growth and employment creation is discussed in some detail in Annexure 1. A nutshell overview of the causalities at play is informative for the debate on welfare grants, as presented in diagram 1.

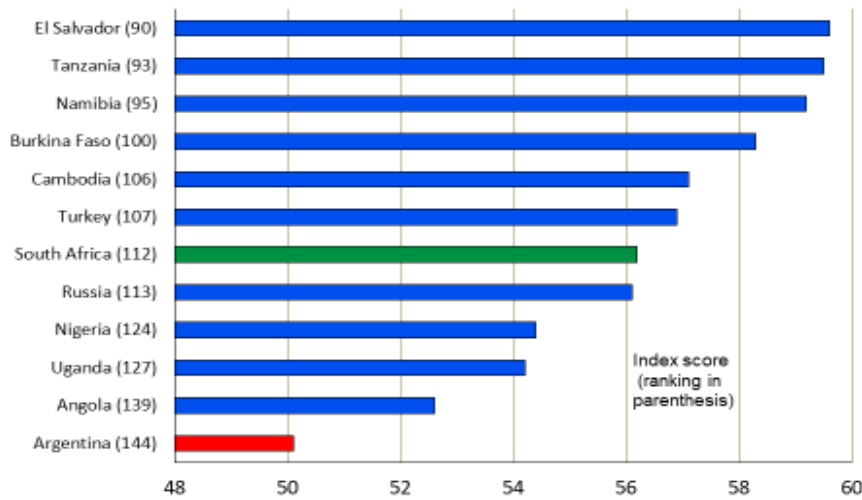
When government spending exceeds the sum of taxation revenue and capital market borrowing, rising deficits create macroeconomic instability, mostly in the form of higher inflation, increased borrowing costs, an erosion of the purchasing power of salaries and wages, lower growth and increased unemployment. More often than not, this sad state of affairs also leads to civil discontent and socio-economic unrest in Argentina has on occasion resulted in violence, looting and fatalities.

In an attempt to curb inflation until after the November 2021 elections, the government defied the fundamental principles of a free market economy by imposing economically harmful price controls on a large variety of products. According to the 2022 Index of Economic Freedom, compiled by the Heritage Foundation, Argentina has recorded a 0.3-point overall loss of economic freedom since 2017 and has fallen to the very bottom of the “mostly unfree” category.

This is a precarious position, as the next category is populated by repressed countries. The border between the latter group and “mostly unfree” countries is an index score of 50, with Argentina sitting at 50.1 (see figure 9.1).

Fig 9.1: Rankings of countries classified as mostly unfree by the 2022 Index of Economic Freedom

(Source: The Heritage Foundation)



Argentina's ranking of economic freedom has been dragged down by the following:

- A substantial decline in fiscal health. Government spending has amounted to almost 40 percent of total output (GDP) over the past three years, and budget deficits have averaged more than 6 percent of GDP. As at the beginning of 2022, public debt was equivalent to 103.0 percent of GDP.
- Weakness for the monetary freedom indicator (state-owned banks account for more than 40 percent of total assets and government exercises considerable control over financial activities)
- Popular disillusionment is widespread because of a consistently poor economic performance and the country's ninth sovereign debt default
- A judicial system that is plagued by inefficiencies and delays, as well as being susceptible to political manipulation, particularly at lower levels. Allegations of corruption in provincial and federal courts remain frequent and continue to undermine confidence in the judiciary.
- Rigid labour laws
- Foreign investment in various sectors remains heavily regulated

The message that emanates from the above concise analysis of key macroeconomic trends in a country that is widely regarded to be in the same peer group as South Africa is clear, namely fiscal policy can make or break a country's best intentions to improve the welfare of society. Sound fiscal policies, including relatively low and stable public debt/GDP ratios are usually associated with sustained economic growth, employment creation and the taxation revenues that automatically flow from such a policy stance.

Society at large and vulnerable members in particular pay a heavy price for inappropriate and unaffordable government expenditure plans and policies. Rising budget deficits and ill-conceived borrowing on international capital markets ultimately result in a combination of higher inflation, lower levels of business and investor confidence, currency depreciation and higher interest rates – all of which serve to hamper the quest for economic and socio-political stability. It is therefore regarded as a *sine qua non* for a developing country to maintain discipline with public spending programmes. Even a relatively short period of low growth can cause havoc with a country's public finances and can impede the ability to maintain welfare payments that have been constitutionally enshrined or guaranteed by parliament.

Consensus exists amongst researchers in free enterprise democracies that the best alternative to avoid the serious problems associated with defaults is for sensible macroeconomic policies. These include disciplined budgets, appropriate monetary policy aimed at containing inflation, and the pursuance of a growth agenda via deregulation, trade openness, the protection of private property rights and a tax system that does act as a disincentive for investment in new productive capacity (Sturzenegger 2002; Botha 2005).

The dangers of universality

At face value, a universal basic income grant (UBIG) may seem alluring to policy makers, as it provides social assistance in cash, without any conditionality, which obviates the need for that administrative and monitoring systems required for targeted programmes. On closer scrutiny, however, the implications of universality in unconditional cash transfers are fraught with several potential problems, including the following:

- As alluded to in the discussion of the economic woes of Argentina, a country that holds the record for the most government debt defaults (nine, and counting), periods of low or negative economic growth are always associated with lower taxation revenues. When a country also has labour regulations that are biased towards trade unions, the scope for containing government expenditure is considerably narrowed, as public sector salaries command the bulk of the national budget. In such a scenario, a universal grant system could create havoc with a country's public debt in a very short space of time, with grave implications for the exchange rate, higher inflation, higher interest rates, leading to a downward economic spiral.
- As pointed out by Gentilini et al (2020), the scale of a UBIG is, by definition, enormous and would involve a system-wide intervention, not just a programme. It is therefore complex and may involve structural amendments of labour market policies & regulations, including unemployment insurance, severance pay, unionisation, contributory pensions, and minimum wages.
- Nowhere in the world does a UBIG program of national scale exist, which means that there are no case studies to assist the determination of such a welfare policy on a country's socio-economic well-being. Depending on how it is financed, the net effects of benefits and financing could effectively turn a UBIG into a targeted program, via taxes (Gentilini et al – 2020).
- Due to the lack of any evidence-based knowledge of the likely socio-economic impact of a UBIG, it is impossible to gauge its effect on other social assistance instruments that are targeted by income (e.g. guaranteed minimum income programs) or categorical parameters such as age (like child support grants and social pensions).
- Apart from the fairly obvious inherent dangers to maintaining fiscal stability, a UBIG will, by its very definition, impact negatively on the quest to reduce income inequality.
- Idealistic notions surrounding the contribution that a UBIG could make towards poverty relief may also divert the attention of policy makers from the causes of inequities in societies, including uneven access to education and health systems, poorly functioning markets and corruption.
- The case against universality rests principally on the high cost of transfers that are significant enough to make a meaningful difference to the well-being of the poor (Gentilini et al 2020). In the event of a UBIG being financed, inter alia, by a reduction in existing social protection spending and increased taxes, important changes will occur in distributional outcomes among income and age groups that may or may not be desirable. A UBIG is inherently regressive and can never replicate the effectiveness of targeted (and inherently progressive) grant systems in alleviating poverty and inequality.

It is important to note that, despite the huge global expansion of social protection schemes during the past three decades, no country has opted to seriously consider a UBIG, but rather to maintain a combination of transfer modalities, based on a society's particular economic and socio-political characteristics (Alderman et al 2018). Well-functioning targeted UCTs and CCTs, large-scale programmes related to in-kind and food-based assistance and public works that create substantial employment are present in virtually every developing country. These interventions have succeeded in lowering poverty and income inequality and continue to do so.

The inherent fiscal and economic dangers of a universal basic income grant (UBIG) should be fairly obvious, especially in times of low growth. This constitutes one of the key reasons why such an approach towards social protection has not been implemented by any country in the world.

Poverty relief vs lower inequality – an inherent paradox

In the search for the most appropriate welfare policy for South Africa, it is important to point out the inherent conflict between development objectives of poverty alleviation and greater income equality. One of the well-worn traditional arguments supporting caution with the financing of welfare transfers to the poor, is not to lose sight of the importance of a stable, diversified and expanding taxation system. High income earners are the mainstay of the fiscal resources required for the payment of welfare grants, firstly by their considerable tax contributions (especially income tax, which is highly progressive) and also via indirect taxes and their ability to assist new capital formation through savings (contractual or otherwise). In a forever globalising world economy, highly skilled and experienced workers will always be in demand and are internationally mobile. Any effort to increase the level of progressivity of taxes or to introduce a wealth tax, may have serious detrimental effects on fiscal stability, which will undermine the quest for poverty alleviation.

A second and ideologically neutral argument is related to simple mathematics, which relates to the inherent trade-off between these two development objectives when, for instance, the amount of a particular grant is increased or when a new type of grant is implemented. This issue is highly relevant in the current South African debate, as an expert panel has recently recommended the implementation of a basic income grant in South Africa (RSA 2021). The panel was appointed by the Department of Social Development, the International Labour Organization and the UN-backed Joint Sustainable Development Goals Fund.

The purpose of social grants are to contribute to lifting poor people out of poverty. Lowering income inequality places differential emphasis on the income quintiles. Therefore, when the value of a grant, such as a basic income grant, is increased to keep track of a rising poverty line, it will undoubtedly have a positive effect on this key development objective, but not on lowering inequality, as the difference between the poorest income quintiles and those above them would have increased. This co-existence of a positive welfare effect with a negative distribution effect has been well-documented by various researchers, most notably Armstrong & Burger (2019), Van der Berg et al (2008) and Leibbrandt, et al 2010 & 1996).

It is contended, therefore, that the development debate in South Africa should focus on the relief of poverty. Together with an income grant targeted at unemployed persons, a combination of other policies, such as improved education and health programmes, and pro-growth measures, including incentives for investment in new productive capacity, should be allowed to address the issue of income redistribution in an evolutionary manner, thereby broadening and deepening the country's taxation base.

10. Modelling the impact of the basic income grant (BIG) on the economy

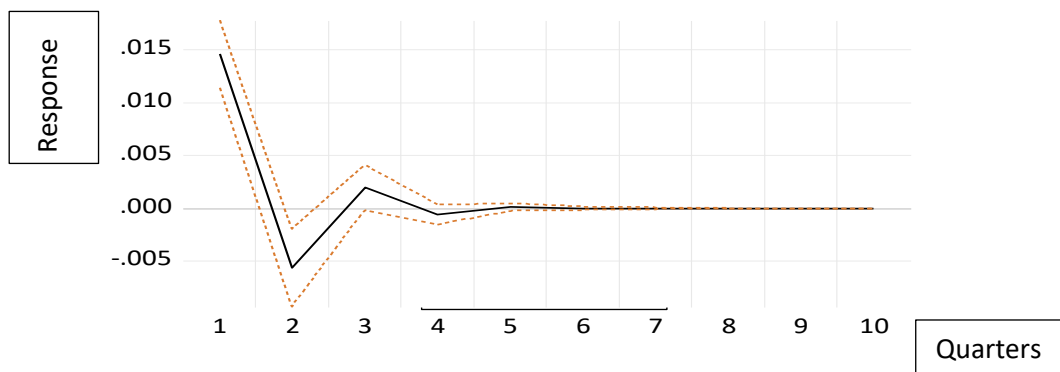
Introductory remarks

According to a working paper published by Janse van Rensburg et al (2021), the fiscal multiplier declined from 1.5 in 2010 to zero in 2019. This was mainly due to high debt levels and large tax increases hampering the aggregate demand effect from higher government spending.

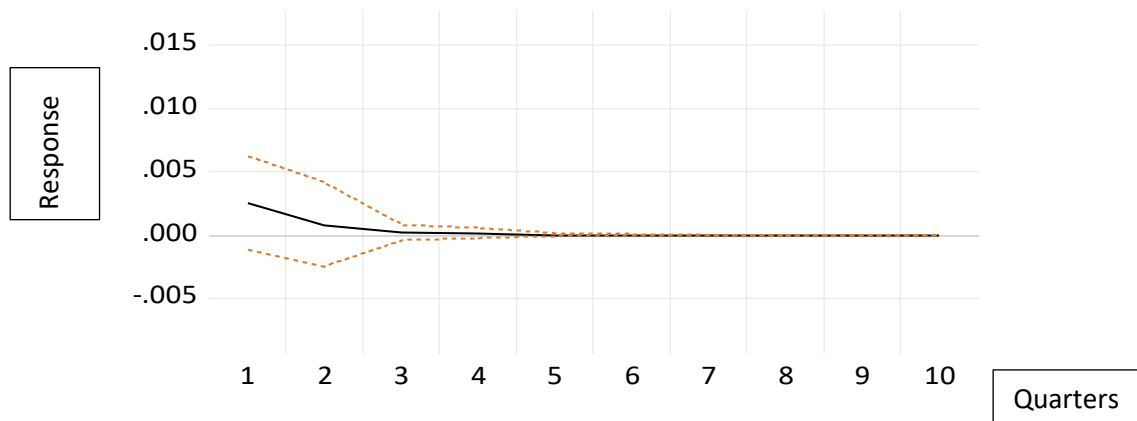
Literature shows that positive government spending shocks have a positive impact on growth and positive tax shocks have a negative effect on growth (Lehmus 2014; Blanchard & Perotti 2002; Stevans & Sessions 2010; Ramey and Zubairy 2018; and Kronberg 2021). The two graphs below present impulse response of GDP from government spending and tax shocks. The popular approach by Blanchard & Perotti (2002) was used to model the dynamic effects of shocks in government spending and taxes on economic activity.

A vector auto-regressive (VAR) model was fitted to establish the interrelationship between government spending, government tax revenue and GDP. Cholesky ordering was used to structure the VAR and the spending and tax variable was ordered first alternately. There was no difference between the responses of GDP. The impulse responses are shown below. GDP responds negatively to a tax shock and positively to a spending shock. Stability returns after five to seven quarters, but at a higher level of GDP in the case of a spending shock and vice versa. This is in line with the vast amount of literature available on this topic.

GDP response to Tax revenue shock



GDP response to Government spending shock



A study of Brazil by Sanches and Carvalho (2022) also followed this approach in order to investigate how the expansion of social protection can assist a post-pandemic economic recovery. One of the findings in this paper is that household consumption responds favourably to social expenditure shocks. The purpose of the analysis that follows is therefore to determine the causal relationship between household consumption and aggregate output (GDP) via a basic income grant (BIG) paid to unemployed persons.

Data and sample

The data sources are from the South African Reserve Bank database (obtained from Quantec EasyData 2022). The sample datasets are from the first quarter of 1990 up to the first quarter of 2022. The forecast period is from the second quarter of 2022 to the first quarter 2024. The dependent variable is the GDP at current prices (seasonally adjusted and annualised) and the independent variable is final consumption expenditure by households (FCEH) at current prices (seasonally adjusted and annualised) in R millions – both in logarithmic form.

The control variables are Government expenditure to GDP (GOV_GDP_), terms of trade (TOT), inflation (INF) and the prime rate (PRIME). A dummy variable (DUM) was added to account for the structural break in the data due to COVID-19. These specifications of the model are based on previous research by Chirwa and Odhiambo (2016); Fashina et al (2018); Hajamini and Falahi (2018); Özcan, C C and Uçak; and Ristanović et al (2018).

Assumptions

It is assumed that the BIG paid by the government will be spent by consumers who are characterised by a marginal consumption propensity of 100%, with the grants then being circulated back into the economy. The national food poverty line of R624 (as at July 2022) is used as a proxy for the BIG. According to the latest Quarterly Labour Force Survey there are 7,862,000 unemployed people in South Africa. If each receives a BIG of R624 it will amount to R4.9 billion a month and R14.7 billion per quarter. The purpose of this analysis is to determine the impact of this BIG via consumer spending on the GDP. There are two scenarios:

- Scenario 0: Baseline forecast of GDP with similar trends as 2021 for consumer spending
- Scenario 1: An increase in consumer spending by 0.4% (quarterly BIG payments of R14bn are 0.4% of FCEH)

Method and analysis

The autoregressive distributed lag model (ARDL) was fitted as indicated below:

$$Y_t = \alpha_0 + \alpha_1 t + \sum_{i=1}^p \beta_i Y_{t-i} + \sum_{j=1}^k \sum_{t,j=0}^{q_j} \beta_j t_j X_{j,t-1j} + \varepsilon_t$$

Where ε_t are the innovations, α_0 is a constant term, and α_1, β_i and β_j are (respectively) the linear trend, coefficients associated with lags of Y_t , and lags of the regressors $X_{j,t-1}$ for $j = 1, \dots, k$.

GDP is the dependent variable (Y_t) and the regressors ($X_{j,t-1}$) are FCEH, GOV_GDP, TOT, INF, PRIME and DUM as a fixed regressor. The variables have different orders of integration and hence the ARDL model is deemed an appropriate model taking this into account. Second order diagnostic testing indicated autocorrelation and heteroscedasticity which was corrected with the Newey West estimation.

The final model was: ARDL (4, 1, 1, 0, 0, 1). This indicates the dynamic structure of the specification of the model. The Variance inflation factor to detect multicollinearity was below 6 for all variables which indicates that multi-collinearity is not a problem in the function.

ARDL model results

Dependent Variable: LOG(GDP_SA)
 Method: ARDL
 Sample (adjusted): 1991Q1 2021Q4
 Included observations: 124 after adjustments
 Maximum dependent lags: 4 (Automatic selection)
 Model selection method: Akaike info criterion (AIC)
 Dynamic regressors (4 lags, automatic): LOG(HH_SA) GOV_GDP_SA
 TO_SA INF REPO
 Fixed regressors: DUM C
 Number of models evaluated: 12500
 Selected Model: ARDL(4, 1, 1, 0, 0, 1)
 Note: final equation sample is larger than selection sample
 HAC standard errors & covariance (Bartlett kernel, Newey-West fixed
 bandwidth = 5.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(GDP_SA(-1))	0.663277	0.075908	8.737937	0.0000
LOG(GDP_SA(-2))	0.050158	0.048363	1.037108	0.3020
LOG(GDP_SA(-3))	0.105013	0.037505	2.799958	0.0060
LOG(GDP_SA(-4))	0.122187	0.057943	2.108736	0.0372
LOG(HH_SA)	0.322950	0.117162	2.756446	0.0068
LOG(HH_SA(-1))	-0.274621	0.095921	-2.862976	0.0050
GOV_GDP_SA	-0.007397	0.002199	-3.363743	0.0011
GOV_GDP_SA(-1)	0.004985	0.002215	2.250063	0.0264
TO_SA	0.028621	0.024653	1.160925	0.2482
INF	0.001088	0.000438	2.481635	0.0146
REPO	0.000935	0.001145	0.816285	0.4161
REPO(-1)	-0.002597	0.001165	-2.228767	0.0279
DUM	-0.090796	0.027009	-3.361722	0.0011
C	0.263352	0.060624	4.344030	0.0000
R-squared	0.999898	Mean dependent var	14.42950	
Adjusted R-squared	0.999886	S.D. dependent var	0.865667	
S.E. of regression	0.009244	Akaike info criterion	-6.423671	
Sum squared resid	0.009400	Schwarz criterion	-6.105252	
Log likelihood	412.2676	Hannan-Quinn criter.	-6.294322	
F-statistic	82965.29	Durbin-Watson stat	1.898652	
Prob(F-statistic)	0.000000			

All variables are significant except for the TO variable, but it will be included in the model. The dummy variable is significant with a negative sign, indicating the negative effect of Covid-19 on the economy. The adjusted R² is very good (0.99), indicating a good fit and the probability of the F-stat is significant which means that jointly the explanatory variables explain 99% of the variation in the GDP.

Forecast evaluation

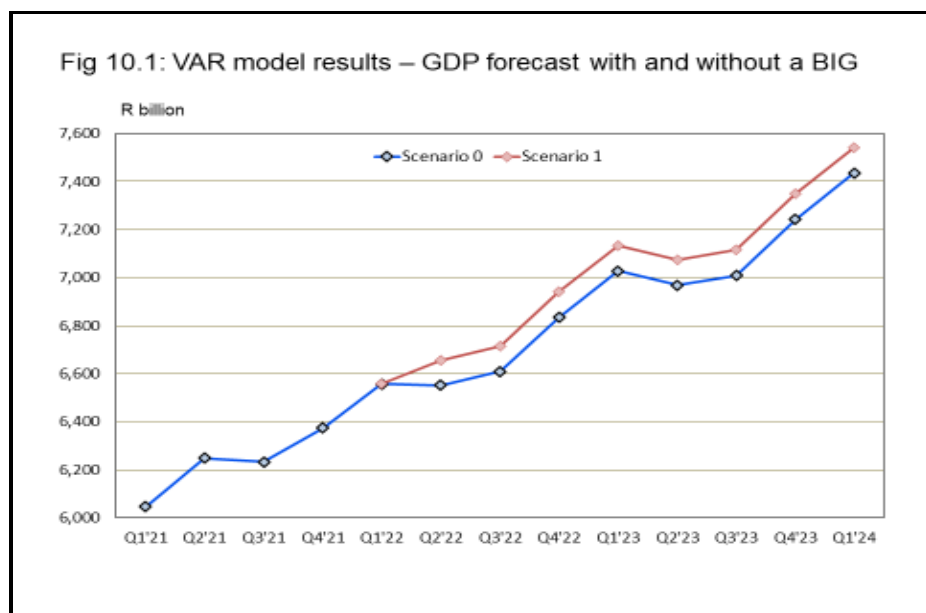
The static and dynamic forecast evaluation indicate a mean absolute percentage error (MAPE) of 0.57 and 0.94, respectively and a Theil inequality coefficient which is close to 0. This means the model is stable and forecasts will have a marginal error.

Forecasts

Quarter	Scenario 0 R billion	Scenario 1 R billion	Scenario 0 % change (y/y)	Scenario 1 % change (y/y)
Q2'22	6,552.1	6,657.3	4.86	6.99
Q3'22	6,609.2	6,714.4	6.04	8.39
Q4'22	6,834.9	6,940.2	7.24	7.85
Q1'23	7,028.0	7,133.3	7.19	7.17
Q2'23	6,967.7	7,073.0	6.34	6.94
Q3'23	7,009.3	7,114.6	6.05	6.86
Q4'23	7,242.4	7,347.7	5.96	6.67
Q1'24	7,435.1	7,540.3	5.79	6.42

Note: Red denotes forecasts

The difference between Scenario 0 and Scenario 1 in table 10.1 and Figure 10.1 indicates the impact that the consumer spending translating from a BIG will have on the GDP. The difference between the two scenarios is a 0.98% higher GDP growth rate, on average (in nominal terms) for the forecast period. Table 10.2 depicts the calculation of the positive GDP effect emanating from a BIG, as determined by the model results. The average annual impact of the BIG on GDP amounts to R105.3 billion, translating into a multiplier of 1.79, which is conservative when compared to the output multiplier for the economy as a whole, namely 2.71 (Quantec, 2022). Based on the most recent taxation multiplier, the average annual fiscal backflow effect arising from the BIG is R35,512 million.



Based on the number of unemployment people as at the end of the first quarter of 2022, the annual cost of a BIG (at the July 2022 minimum food poverty level of R624) amounts to R58,871 million. However, this cost needs to be reduced by the value of the Social Relief of Distress Grant – SRDG, which will be subsumed by the BIG, resulting in a shortfall of R25,850 million.

Table 10.2: Calculation of the GDP multiplier resulting from a BIG

	R million	Value
Average annual increase in GDP determined by the model	105,282	
Annual household expenditure arising from the BIG	58,871	
GDP multiplier		1.7883

Note: Household expenditure based on Q1 2022 unemployment data (QLFS - 7.862 million) and the 2021 food poverty line (R624)

In the event of a financing model based on raising an international bond valued at the amount required for the BIG during the first year of implementation, it would not be necessary to tamper with existing rates or levels of taxation, as the additional annual tax revenues flowing from the positive GDP effect will be more than ten times higher than the annual interest cost, as depicted in table 10.3 (under the assumption of a stable bond yield). It should be noted that the calculation contained in table 10.3 is based on the 2022 food poverty line of R663 per month. This funding option is quite attractive, as it represents less than one per cent of the total gross marketable loan debt of the national government.

Table 10.3: International debt financing option for a BIG at the 2022 food poverty line - first year (CSG status quo)

Scenario 1: CSG status quo	R million
Gross cost of a BIG	63,600
Minus: Saving on SRDG cancellation	-33,575
Capital requirement	30,025
Annual interest cost	1,764
Additional tax from a BIG	18,111
Net additional tax	16,347

Notes:

1. Interest rate based on coupon of 10-year US\$ bond issue of April 2022 by National Treasury
2. Additional taxation from the BIG as per the VAR model ratio & tax multiplier

Due to National Treasury's commitment to continue reducing the country's ratio of fiscal debt to GDP, consideration should be given to a more prudent option of financing the BIG via an amendment to the child support grant (CSG), whereby only unemployed primary caregivers receive the CSG (in addition to the BIG). The financing implications of this option, based on two different estimates of the amended number of beneficiaries, is provided in table 10.4.

The rationale behind this funding option is related to the positive impact on both poverty alleviation and income inequality that will arise from excluding employed primary caregivers from accessing the CSG. For married couples, the current CSG represents merely 5.5% of the qualification benchmark of R105,000 per annum (per child) and it is fairly obvious that significantly more can be done to combat poverty by shifting the CSG received by employed persons to those that are unemployed and whose income is, by definition, zero.

It is clear from the calculation in table 1.4 that a BIG is affordable. The cost of the amended CSG will either be negligible or result in substantial savings to the Exchequer, depending on the final number of unemployed primary caregivers and children that qualify for the BIG and the CSG, respectively.

Table 10.4: Fiscal cost implications of a BIG implemented at the 2022 food poverty line (R663)

Indicator/cost item	Notes	Number (m)	R million p.a.
Gross cost of a BIG	1		63,600
Saving on SRDG cancellation	2		-33,575
Gross cost (CSG status quo)			30,025
Current cost of CSG	3		74,837
Unemployed caregivers	4	3,997	
Adjusted CSG beneficiaries (Scenario 1)	5	4,409	
Adjusted CSG beneficiaries (Scenario 2)	6	7,994	
Cost of amended CSG (Scenario 1)			25,397
Cost of amended CSG (Scenario 2)			46,045
Net cost of a BIG - Scenario 1			-19,415
Net cost of a BIG - Scenario 2			1,234

Notes:

1. Unemployed persons Q2 (QLFS) X R663
2. Unemployed persons Q2 (QLFS) X R350
3. Beneficiaries in 2021 X R480
4. Estimated at 50% of unemployment
5. CSG beneficiaries in 2021 X ratio of unemployed to total labour force
6. Primary care givers X 2 children

Table 10.5 illustrates the beneficial impact on poverty alleviation and income inequality of the BIG being implemented together with only paying the CSG to unemployed caregivers

Table 10.5 Impact on income inequality & poverty reduction of amendments to the Child Support Grant (as recommended in the ISI's BIG Study)

Status quo (per individual)	Rand per month	
	Employed	Unemployed
Income (below CSG threshold)	8,700	0
CSG for 2 children	960	960
Total	9,660	960
BIG Study recommendation (per individual)	Employed	Unemployed
Income (below CSG threshold)	8,700	0
Basic Income Grant	0	663
CSG for 2 children	0	960
Total	8,700	1,623
% Decrease in income	-10%	
% Increase in income		69%
Improvement in ratio of income inequality		88%

Notes:

1. Employed calculation based on a couple earning R8,700 per month
2. CSG based on average of two children per household, calculated as follows: Number of children aged younger than 17 divided by the number of households with at least one child
3. Ratio of income inequality calculated as unemployed income divided by employed income

11. Conclusions

The debate on the feasibility of a basic income grant (BIG) has received new impetus, especially in the wake the detrimental economic effects induced by the Covid pandemic and the South African government's decision to implement a social relief of distress grant (SRDG), commonly known as the Covid-grant. When viewed against the backdrop of the stabilisation of South Africa's fiscal debt (as percentage of GDP) and the impressive growth of total taxation revenue, this grant has proven to be fiscally affordable. A vigilant eye nevertheless needs to be kept on the stability of the country's public finances, especially in the current environment of slower world growth and rising interest rates, both in the money market and the capital market.

This study is based on a comprehensive analysis of global social support programmes (SPPs) implemented by governments around the globe, with emphasis on the upper-middle income countries (South Africa's peer group). Two sets of outcomes regarded as relevant to the current debate on the feasibility of implementing a basic income grant in South Africa are reviewed and summarised, namely the impact on SPPs on the alleviation of poverty and their impact on the key macroeconomic indicators of total output (gross domestic product – GDP), employment and taxation revenues. Key conclusions drawn from the study are:

- In the absence of social welfare policies such as various grants and employment creation via public works, many more people would have fallen into poverty, whilst SPPs have prevented others from falling into deeper poverty, often being forced to sell their assets or borrow more. Social welfare programmes also tend to lower inequality.
- Conditional Cash Transfers (CCTs) are more effective in poverty alleviation than most other SPP types. CCTs were pioneered by Brazil and Mexico towards the end of the 2nd millennium and have become popular in most other developing countries. These programmes aim to reduce poverty in a multi-dimensional manner by requiring beneficiaries to comply with conditions aligned to enhancing human capital, usually linked to school attendance and health check-ups.
- The reasons for the widely acclaimed success of Brazil's CCT programme, previously known as the Bolsa Família, are related, *inter alia*, to the following characteristics: A partnership approach between civil society and the state; a decentralised system that avoided undue political influence; sound governance standards; a registry of beneficiaries, based on reliable and accurate data; and political appeal (due to its significant impact on poverty).
- Government-funded welfare policy, which effectively means the transfer of productive income from employed persons to people in need has been at the centre of public debate for more than a century. From an international legal perspective, the recognition of the right to social security has been enshrined in the United Nations' Universal Declaration of Human Rights. Although near-universal support exists for state-organised welfare institutions and programmes, a new approach towards the state's role in welfare has developed over the past three decades, the essence of which is that beneficiaries now have *obligations* as well as *rights*. In return for benefits, beneficiaries must seek work or participate in work-related activities, including education and training. The principle underpinning the new-found emphasis on benefit conditionality is that paid work continues to represent the most legitimising basis for entitlement. From a political perspective, the aims of a shift towards workfare programmes are tantalising and include prospects for greater fiscal stability, increased self-sufficiency of beneficiaries, the prevention of social exclusion and an increase in employment.

- India has achieved significant progress with the implementation of workfare programmes, especially in the areas of part-time employment to unskilled rural dwellers via the National Rural Employment Guarantee Act. Its emphasis is on water harvesting initiatives, supplemented by other infrastructure-related projects closely linked to water management and agricultural production. Another flagship SPP is the subsidisation of rural housing, with the requirement that the beneficiaries have to build their own houses.
- Governments invest significant resources in the implementation of SPPs, which necessitates constant monitoring of key indicators that measure progress with the development objective of poverty alleviation. As is evident from the datasets included in the Atlas of Social Protection: Indicators of Resilience and Equity (ASPIRE) and duly acknowledged by various research studies, the South African system of SPPs is extensive in terms of both the number of people it covers, directly and indirectly, and the amount of fiscal resources required for its funding. South Africa is the standout performer amongst its peers for virtually all of the SPP indicators, enjoying the number one ranking for the following: Coverage of SSPs; poverty headcount reduction; and adequacy. South Africa is ranked second amongst upper-middle income countries for the ratio of government expenditure on SPPs and second amongst all developing countries for the percentage of the population that receives social grants.
- Due to the significant dilution of the value of a universal income grant posed by fiscal affordability, a UBIG will not remotely be able to match the poverty reducing impact of a BIG that is targeted at unemployed persons. Due to the magnitude of the difference between the numbers of beneficiaries involved, a UBIG may also result in fiscal instability during periods of slow economic growth. Furthermore, a targeted BIG will, by definition, have a progressive impact on reducing income inequality, whilst a UBIG will have the opposite effect.
- It is clear that devoting progressively higher proportions of government revenues to social protection transfers will not, by itself, succeed in reducing poverty unless it is accompanied by a broadly supportive environment in which the rate of growth in real GDP exceeds the rate of increase in the population by a healthy margin. It is therefore difficult to divorce the debate over the extent and structure of South Africa's social protection system from the trade-offs that arise from alternative uses of those fiscal resources. To the extent that well-considered and efficiently-implemented public sector programmes succeed in supporting an increase in the capacity of the economy to grow at higher rates, the pressure on the social protection system will be reduced – allowing it to be targeted more effectively at those most in need.
- In the event of limiting the payment of the child support grant (CSG) to unemployed primary caregivers, the implementation of a BIG at the food poverty line (currently R663 per month) can comfortably be afforded by National Treasury, whilst simultaneously lowering the extent of income inequality and poverty. Such an initiative, which will eliminate food poverty in South Africa, will also serve to significantly reduce socio-economic unrest in the country.

12. Recommendations

Based on the conclusions arrived at in this study, it is recommended that government implements a basic income grant (BIG) at the level of the national food poverty line. Based on conclusive evidence of the inherent superiority of a welfare grant that is targeted at the poorest members, it is recommended that the BIG be paid to registered unemployed persons, which will further enhance the coverage of South Africa's social protection system. The main advantage of a BIG will be to expand the country's social protection system, which is already exemplary, into one that is likely to be the most comprehensive non-contributory system in the world. By providing the means with which food poverty is eliminated amongst millions of unemployed people, South Africa would have achieved the single most important millennium goal.

Due to the existence of empirical evidence supporting a positive causal effect between welfare grant payments and economic output, including the fiscal backflow (in terms of a broadening of the taxation base), it is not anticipated that a targeted BIG will place undue pressure on the public finances. This is especially the case in the event of the BIG being financed by an international bond issue, which boasts a lower interest burden than domestic bonds. The fiscal backflow emanating from the increased consumption expenditure of BIG beneficiaries is estimated to exceed the debt servicing cost by a significant margin.

A more attractive and fiscally prudent financing option for a BIG exists, however, namely via an amendment to the child support grant (CSG), which is the most costly of all the grants. In the event of a BIG being targeted at unemployed primary caregivers, its implementation is clearly affordable. Depending on the final number of primary caregivers and children that would qualify for the amended CSG, the cost of a BIG is either negligible or results in a substantial net fiscal saving. It is important to note that such an option will also provide the unemployed primary caregivers with access to the BIG (in addition to the CSG) and thereby lower the poverty headcount. It is neither in the interests of fiscal prudence nor of the quest for poverty relief to pay the CSG to people who are earning salaries well above the food poverty line.

The Department of Labour (DoL) should be tasked with establishing a comprehensive registry of unemployed persons, which should also include data on their permanent addresses, contact information, skills levels and whether they are currently beneficiaries of a welfare grant. In order to assist with accurate targeting and means testing, employers, including households, should be compelled to provide the DoL with similar information on their employees, including temporary workers. The DoL should cooperate with the Department of Home Affairs, the Department of Social Development and the relevant municipalities in the establishment and updating of the registry of unemployed persons. It is also recommended that guidance be sought from Brazil's Bolsa Família registry of grant beneficiaries (the Cadastro Único) and the World Bank project to enhance the administration and governance of the registry.

Regarding the evidence of the positive employment and welfare effects of public works programme, it is recommended that government pro-actively advances such programmes, especially in the area of low-cost housing. The RDP housing programme was one of the mainstays of the high and sustained period of economic growth between 2003 and 2007 and led to the construction of more than three million houses. Projects such as these create an opportunity for government to demonstrate its new-found commitment towards public-private partnerships and the expansion of the country's infrastructure. It also provides an opportunity to assist with the restoration of functionality at many municipalities, where the ultimate responsibility rests for service provision to households who will benefit from a housing programme. Infrastructure South Africa (ISA) and the Department of Human Settlements should cooperate with each other and with the private sector in establishing an office to coordinate a low-cost housing drive and to ensure that sound corporate governance

standards are adhered to. Consideration should be given to elements of similar projects in other developing countries, especially the rural housing programme in India.

It stands to reason that the most effective way to combat poverty is by creating jobs at remuneration levels above the national poverty line. Every job thus created obviates the need for a welfare payment to the relevant person. It is therefore recommended that a dedicated office be established to pursue job creation on a comprehensive scale, as an ancillary component to welfare policies. Such an office should be established via a public-private partnership (PPP), with due representation of employer organisations such as the National Employers' Association of South Africa (NEASA) and GrowSA. A suggested institutional implementing agency for this employment activation initiative is the Industrial Development Corporation, which is financially sound and has staff with knowledge of industry supply-chains.

The PPP should invite pragmatic proposals from the public at large on job creation initiatives, including a detailed business plan, which will then be evaluated by members of a team with the requisite skills in the areas of business management, accounting, banking, engineering, project management and economics – skills that are similar to the recently appointed Task Team involved with the country's infrastructure drive.

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