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①

Altman & Boyce Social grants - Benefit, many households

Policy Options to Leverage the System of Social Grants for Improved Access to Economic Opportunity

Paper I: Overview of grant beneficiary households

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1. Introduction

The distribution of social grants in South Africa expanded considerably between 2001 and 2007. There were 3.6 million beneficiaries in 2001, and 12.1 million beneficiaries in 2007. These grants target vulnerable sections of the population, mainly children, pensioners, and disabled. The context is one of extremely high unemployment and underemployment of labour market participants, so that able bodied adults of working age are often not able to support vulnerable members of their households who are not meant or able to work. A household with young, old or disabled members will require more support than one that has only labour market participants. This is true, whether the labour market participant is working, searching or discouraged. However, in a context of such high unemployment, there is concern that unemployed household members are depending on grants that are meant to target children, the aged or disabled. This causes the grant to spread very thinly, dramatically reducing its contribution to the intended beneficiary. Moreover, there has been some concern that the grant may be acting as a disincentive for some to search for work.

In this light, the Department of Social Development commissioned the IISRC to consider how beneficiary households might be more closely linked to economic opportunity. There is considerable evidence to show that:

- there are some people who prefer not to work
- however, the majority of the unemployed would like to work, not only to earn a living but also to derive meaning in life
- there is an equal probability of working or not working for those aged below 24 years, while about 30% of those aged 25 -- 34 were unemployed (by the official definition) in 2005.
- there are important barriers to employment for a large proportion of South Africans, and especially for beneficiary households.

This study identifies possible policy options to increase economic participation amongst social grant beneficiary households. It is assumed that the majority of recipients would work if they could, and that a minority would shirk.

There is a strategic opportunity in the system of grants that has hitherto not been sufficiently leveraged. The grant reaches 12 million beneficiaries once a month, through a trusted channel, with which it must stay in contact. While the beneficiaries are not themselves meant to be working (unless temporarily disabled), there are potentially millions of beneficiary household members that are or could be working. The channel of the grants administration offers a unique opportunity to reach poor working and unemployed people to enhance their participation in the economy.

Two papers have been prepared for a first phase of this project. Paper 1 reviews characteristics of beneficiary households. Critical attention is devoted to the presence of labour market participants and their current link to economic activity. We are interested in labour market participants, whether they are working, searching for work or discouraged. Their characteristics in terms of educational attainment, geographic location and forms of communication are also considered. Paper 2 considers possible instruments that could complement the system of grants, and their application to policy solutions that could enhance economic participation.

In this paper, the “beneficiary” refers to the person targeted by the grant (such as the child, pensioner, or disabled person, etc). A “recipient” is the person who physically receives the grant. This may or may not be the beneficiary. In other words, this might be the pensioner or disabled person, or it might be the mother of the child, or a care giver to a pensioner or disabled person. The “beneficiary household” refers to all the people living in the home with the beneficiary (such as the mother, father, relatives, etc).

2. Overview of social grants

The primary source of data on beneficiary characteristics is de Koker, de Waal and Vorster (2006). This is a review of the socio-economic characteristics and living arrangements of a sample of beneficiaries that was taken from the SOCPEN dataset and commissioned by the Department of Social Development. When presented by way of comparison, data on all households in South Africa has been taken from relevant Statistics South Africa (Stats SA) publications that are themselves based on recent censuses and/or nationally representative surveys (e.g. General Household Survey, Labour Force Survey etc.).

According to SOCPEN records, there were approximately 12 million grant beneficiaries of all types in South Africa at the end of June 2007. These are divided into 11 types of grants that are each directed to the achievement of a specific set of outcomes. The numbers awarded under each type of grant and, the value of each grant, are presented in Table 1.

In June 2007, there were 7.9 million Child Support Grant (CSG) beneficiaries, accounting for 66% of the number of grants. Old age pensioners were the next largest group with 2.2 million beneficiaries representing 18% of all beneficiaries. There were 1.4 million beneficiaries of the Disability Grant: recent figures from the DSD indicate that approximately 19% of disability grant beneficiaries are in receipt of a temporary disability grant and 81% are on a permanent disability grant.

Table 2: Type and number of grants in South Africa: 2001 to 2006

Grant Type	August 1997	April 2001	April 2005	January 2006	June 2007	Value of grant per month June 2007
Old Age	1 742 253	1 877 538	2 093 075	2 126 373	2 202 470	R870
War Veterans	11 495	6 175	3 340	2 889	2 221	R890
Disability Grant	754 830	627 481	1 307 459	1 311 148	1 401 052	R870
Grant In Aid	9 720	9 489	23 131	26 217	33 385	R200
Foster Care Grant	42 917	85 910	256 325	299 865	421 883	R620
Care-Dependency Grant	3 815	28 897	85 818	88 679	99 162	R870
Child Support Grant	400 599	974 724	5 633 647	6 894 428	7 930 807	R200
TOTAL	2 965 629	3 610 214	9 402 795	10 749 599	12 057 595	

Source: Figures for 1997–2006 from Pauw and Mncube (2007), based on data from National Treasury (2005). Figures for 2007 from SOCPEN data.

Due to the possibility of the receipt of more than one grant (grant type or number of the same grant) per household, this translates into fewer households than the total number of beneficiaries reported above. Looking at households, most households are in receipt of either one (36%) or two (31%) types of grants. By far the most common form of grant receipt is the Child Support Grant, with 51% of households reportedly in receipt of at least one child development grant.

Table 1 presents trends in the number of grant beneficiaries between 1997 and 2007. A cursory glance at the data reveals a large increase in the uptake of grants on the whole. Between April 2001 and July 2007, the number of beneficiaries increased by 8.4 million. In absolute terms, the largest increases were for the child support and disability grants (increases of 6.96 million and 773 571 respectively). The increases observed have been argued to reflect a combination of the difficult conditions which citizens are faced with, chief amongst these being the HIV and AIDS epidemic.

3. Household Composition

Given the purposes for which each grant is intended, it is safe to say that the underlying assumption that beneficiaries themselves will not be encouraged to seek work can be made; beneficiaries are either too young, too old or too sick to be eligible to seek employment. Arguably, one grant type where employment creation might present an alternative to the handout of a grant, or a supplement to it, is that of the award of a temporary disability grant.

However, grant beneficiaries live in households where labour market participants may be present.

There are, on average, five household members in beneficiary households (this is the median number). Approximately 70% of members in beneficiary households do not receive any type of grant. Therefore, there are 3.5 other household members per one grant beneficiary in beneficiary households.

Children are present in 80% of beneficiary households. The majority (57%) of beneficiary households are comprised of adult men, adult women and children. One-fifth (21%) of beneficiary households contained only adult women and children. Only 2% of beneficiary households contained only men and children.

It is noteworthy that in 25% of households, women were the only adults present meaning that in at least 25% of households a woman was the household head. Although households headed by females tend to be poorer on average, it has been argued that developmental outcomes amongst household members are better when a female acts as the head of the household (Wagstaff, 2001). Tentatively, such findings, as well as data on the composition of beneficiary households, would tend to support the notion that policy options be targeted toward females.

There are negative and positive benefits associated with the presence of ever-increasing numbers of other household members. While household members may be responsible for the primary needs (as caregivers, additional sources of income, sources of care and support) of grant beneficiaries, their presence may also divert resources away from grant beneficiaries. In fact, prior studies have found that those without access to support move in with those who do as part of their response to economic distress (Woolard and Klasen, 2004) and that grant incomes are likely to be pooled in household incomes and used to support *all* household members not just grant beneficiaries alone. These findings indicate that that any interventions that aim to leverage the grant need to take into account the behavioural responses of other

household members and the consequences associated with the household's overall response (Case and Deaton, 1996).

4. Household Income

A first step in thinking about potential deepening of economic activity should consider what sorts of economic activity labour market participants are involved in now. Monthly household incomes were estimated at a mean value of R1 260 and a median value of R 990. This masks significant inter-provincial discrepancies.

Importantly, the monthly per capita income of households, including all sources of income regardless of the employment status of household members, was usually below R412 per capita per month (2005 prices) that has been recommended as a poverty line by National Treasury for South Africa. It was calculated that approximately 70% of beneficiary households fell below this poverty line with the support of grants. Without grants, 94% would fall below the proposed poverty line. This result suggests that in practice, acute economic conditions and large household sizes limit the impact of the grant, even in the presence of other means of economic support i.e. the depth of poverty these households experience is insufficient to be alleviated by their limited economic opportunities alone.

The average beneficiary households consist of at least five members. More than three-quarters (78%) do not have members that are employed or in receipt of a regular income.

The data seems to suggest that, even if a member is employed, beneficiary households are likely to be experiencing severe economic distress. For example, almost one fifth of CSG recipients (18%) reported holding down a job for which they received an income¹. Of these, only 26% report being employed in the formal sector. The rest of the respondents reported being employed in sectors such as the informal sector, as farm labourers or working for a private person, presumably as a domestic worker. These sectors are characterized by precarious employment relationships, unstable incomes and generally low wages. De Koker et al (2006, chapter 6) show that 40% of employed CSG recipients worked for the full year, while the remaining 60% worked between one and nine months in the previous year.

BOX 1: A working mother from Alex

Thembi is a domestic worker living in Alex. She lives in a shack with her boyfriend who is unemployed, and her two children. Her brother also lives in her home, and does odd jobs. Thembi's employer pays R 1000 per month, so she qualifies for the Child Support Grant. Her salary enables a per capita earning of R200 per month, and the grant raises that to R 280 per month.

They could rise above the poverty line if her boyfriend or brother contributed at least what she earns to the household income, and/or if Thembi could find a better paying job, perhaps as an office cleaner.

¹ This includes only CSG recipients who are in the working age population. However, if pensioners are included, the percentage shifts only slightly to 17%.

There is no guarantee that incomes from formal employment in the private sector are sufficient to lift households out of poverty. Indeed, 57% of workers in the formal sector earned less than R2 500 per month in 2006 and 30% (2.1 million workers) earned less than R 1,000 per month (Sept LFS 2006). 1.4 million workers earned R 500 per month or less. The CSG requires a maximum household income of R 1,100 per month in the rural areas or in informal housing, and R 800 per month if the beneficiary household is in the urban area and living in formal housing (Hall and Monson, 2006). It is probable that households currently qualifying for the grants are more likely to access work opportunities in the lower earning realm of the labour market. For example, CSG care givers will typically be single, black and possessing low educational attainment.

The portrait above appears to be of households stuck in poverty, even in the presence of an income support and the employment of household members, who are usually employed in low-paid seemingly unstable employment. Woolard and Klasen (2004) identify some predictors of this long-term poverty cycle in South Africa as large initial household sizes, poor educational levels and weak access to employment opportunities. Arguably, the identification of these key areas provides insights into what areas policy can be directed to when attempting to alleviate poverty via increasing rates of economic participation.

The stability of income is almost as important as the absolute value of income for the attainment of long-term development goals. For this reason, information needs to be gathered on the composition of households' income in order to assess the sustainability of these income sources.

It was reported that approximately 85% of beneficiary household income is from grants. It is only amongst the top 5% of beneficiary households that most household income is from employment (78%). Regarding the employment status of household members, 62% of households indicated that they did not have a household member who earned an income through employment. A comparable figure for the general population is 37% (Bhorat, 2004). More than three-quarters (78%) of beneficiary households reported that other income sources were unstable streams of income. Levels of self employment were low at 5%. Speculatively, this low percentage and the conditions of the majority of these entrepreneurs as described in a review of this sector (Stats SA, 2005), suggests that there exists limited opportunities for long-term opportunities in this sector.

5. Desire to work

Concerns have been expressed about the perverse incentives associated with an expanding system of social grants. The concern is for welfare dependency. One set of concerns arises where the recipient increases the probability of acquiring a condition for which a grant is needed. The temporary disability grant, foster care grant and child support grant are the grants to which the most suspicion has been attached. A second set of concerns have been raised about the extent to which the provision of a grant in the household discourages work-seeking behaviour by the other members of the household.

There are clearly some people who may be influenced by the availability of grants in this way, and there are certainly anecdotal stories to this effect. However, there is little empirical evidence to show that this is a general problem. In a comprehensive investigation of the existence of perverse incentives among grant beneficiaries conducted using data from the SOCPEN database, Steele (2006) asserts that there is no evidence to support the notion that children are farmed out in pursuit of the Foster Care Grant (FCG) or that the award of the Child Support Grant (CSG) encourages women to have more children. All told, this study

contends that there is limited evidence for the existence of perverse incentives in the award of any grant. Makiwanc and Udjo (2006) studied teenage fertility trends using census and other survey data from both before and after the introduction of the CSG. Upon analysis, they find no evidence that the CSG resulted in any perverse incentives in the behaviour of this group.

Notwithstanding empirical work that supports the hypothesis that the presence of a grant in the household stimulates job-seeking behaviour (Ardington, Case and Hosegood, 2007), qualitative work conducted in rural parts of South Africa asserts that other household members may be reluctant to lose the relative stability offered by staying in a grant household and would thus be unlikely to seek work (Klasen and Woolard, 2001; Francis, 2006). This is argued to be particularly relevant in rural areas where employment opportunities are limited.

Studies conducted using the HSRC's South African Social Attitudes Survey (SASAS), however, find that poorer persons display a very favourable disposition towards work and express a strong willingness to do so should the opportunity arise (Noble, Ntshongwana and Surrender, forthcoming).

In contrast, the HSRC South African Social Attitudes Survey (SASAS) shows that unemployed and poor people have a very favourable disposition towards work and express a strong willingness to do so should the opportunity arise. In their analysis of SASAS data, Noble, Ntshongwana and Surrender (forthcoming) found that the majority of unemployed South Africans believe that work is essential to their meaning in life (50%), and feel extremely negative about being unemployed even when everyone around them is also unemployed (88%) (see Noble, forthcoming). The majority of poor people interviewed in SASAS (83%) said they would take a very low paid job if they thought it would give them a leg up. This speaks to a strong motivation to work, if given the opportunity. Second, unlike any other intervention, it should be possible to track top-up benefits given to grant recipients as they must stay in monthly contact with the grants administration.

As a further indication of the lengths to which work seekers are prepared to go to access employment opportunities, over three quarters of respondents indicated that they would be prepared to move to find a job. These responses appear to be validated by the reasons respondents reported moving for during the past five years. According to (Noble, Ntshongwana and Surrender, forthcoming), roughly 60% of respondents who had moved between provinces or municipalities reported that they did so in order to find work.

It is therefore plausible to assume that members of the target population will respond positively to measures that either provide employment opportunities or enhance their employability.

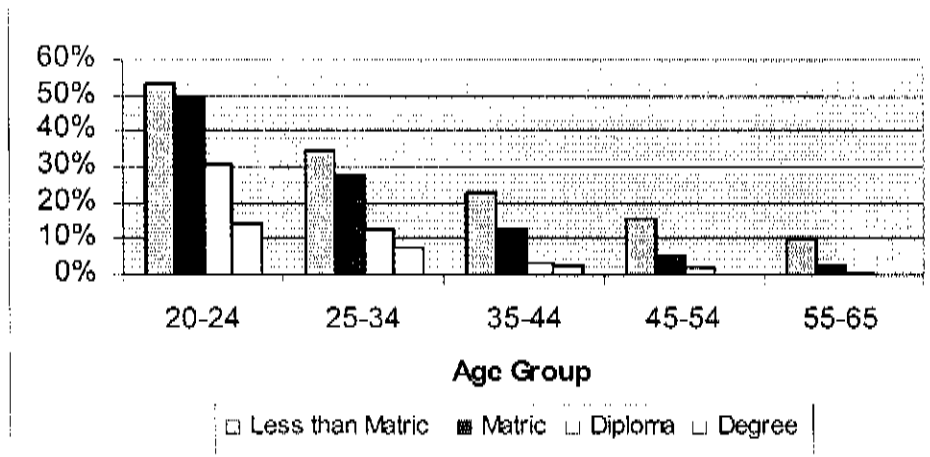
6. Education levels

Educational attainment is important for at least two reasons. First, it is a good predictor of labour market success. Figure 1 shows that this is particularly important for youth. About half of young people aged 20-24 year olds with matric or less were unemployed, as compared to about 30% of those with a diploma. Therefore some of the interventions might seek to influence educational attainment of beneficiary household members. Second, it will influence how a communications strategy might be formulated to reach this target population.

Conservatively, the finding that at least 83% of main caregivers of children in beneficiary households are female would suggest tailoring information packages around women's empowerment and strengthening their relative decision-making power with respect spending patterns in order to maximize the use made of resources.

Given this importance, educational levels of grant recipients for the two main child-oriented grants are reported on. Of the recipients of the Child Support Grant, 11% report no formal schooling, 19% between 1 and 6 years of formal schooling, 53% between 7 and 11 years of schooling and 17% report holding a matriculation certificate or higher. Amongst recipients of foster care grants, the comparative figures are 21%, 32%, 37% and 10%. These figures are not very different from population-wide estimates of educational attainment. The implications of this result for the structuring of information and messaging will be elaborated upon in later sections of this report.

Figure 1 – Unemployment by age and educational attainment



Source: Altman (2007a)

It is worth pointing out that literacy rates were not reported on, although the ability to navigate the application for a grant may point to at least some functional levels of literacy and navigational ability amongst recipients. This distinction needs to be borne in mind given the structural deficiencies in the schooling system, especially the systematic under-investments in certain racially-classified types of schools pre-1994.

7. Expenditure

In line with prior studies (Stats SA, 2002), food was identified as the single largest expenditure item amongst beneficiary households with beneficiary households indicating that well over half of the grant is spent on food. For the majority of beneficiary households (roughly 70%), food is acquired primarily through market transactions as only 30% of beneficiary households report some form of production of food for their own needs. This covered a variety of definitions e.g. keeping chickens, growing vegetables, raising livestock and the percentage of households engaged in this activity varied quite substantially between provinces (10% to 65%). An interesting observation made in de Koker, de Waal and Vorster (2006) is that the majority of beneficiary households would not have sufficient income to cover their food needs if not for the provision of a grant.

The patterns of household access to land does not differ much from that observed in general household surveys, which indicate that only 1.382 million or 10.5% of households have access to land for agricultural purposes (Stats SA, 2006). It should be noted, however, that this national estimate ignores provincial-level variations in access to land. This suggests that there exists the potential for local action to be initiated in this area. Gentilini (2007) offers an overview of some of the methods that are available to the state to enhance the food security of

the most vulnerable. A key conclusion reached, and shared by many other studies designed to determine the appropriate mix of policy responses to poverty alleviation (Pauw and Mncube, 2007), is that the choice of strategies is highly dependent upon governments' assessments of their ability to implement.

Payment methods for food, the finding that most households indicate that they do not possess livestock or have access to land and the urban bias of beneficiary location into account may act as a limiting factor on the extent to which they will be able to engage in subsistence agriculture for own food consumption. These results suggest that innovative ways in which to support food security of households are needed e.g. urban food gardens, etc.

Expenditure on accommodation and rents are quite low and, in line with prior work, payment for municipal services accounts for the second-largest grant expenditure item. In prior work on South African households in general, however, the term used was "housing expenditure." The research team will investigate whether these apply to the same concept in later sections of the report (i.e. only municipal services as in de Koker, de Waal and Vorster (2006) or inclusive of rentals and maintenance for example).

Analysis of the GHS 2006 dataset reveals that nearly 10% of South African households receive a government housing subsidy of some sort (Stats SA, 2007). Housing subsidies were not reported upon in the analysis of beneficiary households. This has several implications for the development of policy options that leverage the grant. For example, residential patterns reveals that roughly 2/3 of SA citizens live in formally constructed housing. This percentage, although roughly comparable, is slightly lower than that observed amongst beneficiary households (73%).

An analysis of ownership patterns amongst all households, however, reveals that roughly 71% of households report owning or at least paying off their dwellings. This figure was not reported on in the analysis of beneficiary households although it would seem unlikely (given the means testing attached to grant application) that the ownership percentage is that high amongst grant recipients. Therefore, they may not have the use of one of the principal assets that households use to leverage their wealth.

8. Debt

One of the most striking characteristics is the lack of indebtedness to all sources exhibited by grant beneficiary households at present. The most common creditors are schools (17%) and the local authority (13%). This stands in contrast to the general agreement of the necessity to borrow money to pay for essentials (40%). Discounting the biases inherent in self-reported data, one possible reason for this is that they're not able to access as much credit as they would like to.

Figures provided by the department indicate that, at minimum, approximately 20% of grant beneficiaries (across all types of grant) hold bank accounts and actually elect to receive funds that way. Unfortunately, it wasn't possible to disaggregate this data by urban versus rural location. Moreover, fully 40% of households agree that it is necessary to sometimes borrow money or buy on credit. Speculatively, this suggests that there is a discrepancy between bank services and bank availability with only 2% of households indicating that any household members held a loan at the bank. This discrepancy is noticeable especially in light of the stark economic choices that have to be made by poor persons (Banerjee and Duflo, 2006) and the opportunities for consumption smoothing that may be afforded through the ability to bank income for when needed.

9. Communications

Channels available for quick communication with beneficiaries were also investigated. Of all possible communication channels, radio coverage is widespread amongst this target group with 74% of respondents reporting the ownership of a hi-fi/ radio in the home. Ownership of cellular phones was reported by 51% of respondents. Means of communication at paypoints will be explored further with key informants.

10. Location

Urban beneficiaries are slightly over-represented amongst beneficiary households, 67% located in urban areas versus an estimated urbanization rate of 58% for South Africa as a whole. While this differential is small, it may prove to be a factor when developing and targeting interventions.

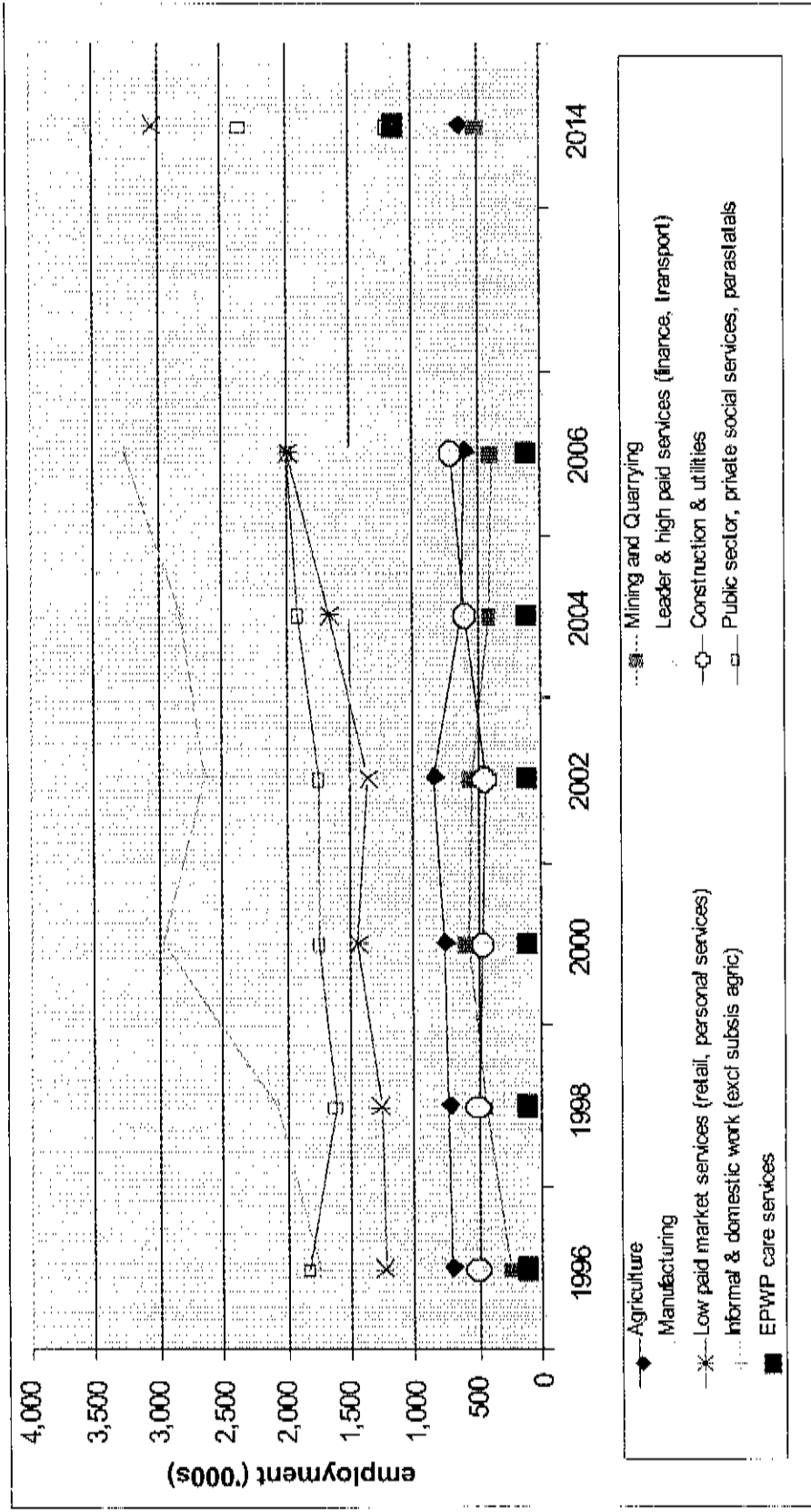
11. Likely sources of employment

It is probable that most new jobs sourced by low skill workers will be found in retail, restaurants, personal services (such as hairdressing, shoe shining) and some business services (such as repair, office cleaning, etc). Government spending should also ensure a large number of jobs being found in construction. Higher and mid-level skill jobs will be found in sectors like finance, business services (such as business process outsourcing, real estate, etc), and the public sector. To halve unemployment, the HSRC employment scenarios find that about one million EPWP care jobs would be needed by 2014. This is shown in figure 1 and table 1 below. Figure 1 shows how employment grew between 1996 and 2006. It compares this to the HSRC's mid-range employment scenario for 2014, where the economy grows by an average of 4.5% between 2004 and 2014 (see Altman 2007). Table 1 offers more detail on levels of sector employment in 2004, compared to the HSRC's three employment scenarios for 2014 where the economy grows by an annual average of 3%, 4.5% and 6% pa.

The implication is that a large portion of working people will be found in low paid precarious jobs. Some sectors, such as mining, manufacturing or the public sector, pay low skill workers better than others. Table 2 shows the distribution of wages by sector in 2004. More than half of formal sector retail workers earned less than R 1000 per month in that year, as compared to 38% in manufacturing and 10% in mining. Almost all informal sector workers earn less than R 2,500 per month, and the majority earn less than R 1,000.

This also has implications for the skills needed to find work. Increasingly, low skill workers will need improved communications skills to get jobs like waiters, sales, and so forth. People who work are likely to change jobs regularly and could need more support for job search and for getting to work.

Figure 1: Employment - 1996 - 2006 and scenarios to 2014



Employment Scenarios to 2014

Sectors	Employment in 2004	Employment in 2014		
		Scenario 1: Slow down	Scenario 2: high domestic orientation	Scenario 3: More employment from traded sectors
Agriculture	650,000	588,437	650,000	650,000
Mining	425,000	404,323	503,035	571,164
Manufacturing	1,500,000	1,576,710	1,656,933	1,891,288
Leader & high paid services (eg finance, transport)	1,563,000	1,905,288	2,145,841	2,545,962
Follower services (eg retail, personal services)	1,915,000	2,777,947	3,031,347	2,973,936
Construction & utilities	620,000	962,841	1,163,825	1,163,825
Informal sector & domestic work & subsis agric; less EPWP	2,815,000	3,315,524	3,563,213	3,568,436
Public sector, private social services & parastatals	1,800,000	2,164,429	2,348,027	2,560,826
EPWP-type jobs - construction	220,000	370,000	370,000	220,000
EPWP-type jobs - community care	120,000	2,522,653	1,155,931	442,713
Total	11,628,000	16,588,152	16,588,152	16,588,152
Unemployment rate	25.6%	13.0%	13.0%	13.0%
Unemployment rate, without EPWP	27.8%	28.2%	21.0%	16.5%

Source: Alrman 2007

Table 2: The distribution of formal sector earnings by sector, 2004

Sector	Wages earned per month		
	1-1000	1000 - 2500	2500 +
Agriculture, hunting, forestry and fishing	85.2%	4.7%	10.1%
Community, social and personal services	20.4%	10.7%	68.9%
Construction	58.0%	22.2%	19.8%
Financial intermediation, insurance, real estate and business	30.0%	15.5%	54.5%
Manufacturing	38.0%	23.6%	38.3%
Mining and quarrying	10.1%	32.6%	57.4%
Private households	95.7%	3.4%	0.9%
Transport, storage and communication	28.3%	16.7%	55.1%
Wholesale and retail trade	56.0%	17.3%	26.7%

Source: LFS, Sept 2004, as presented in Altman 2007.

12. Summary

This paper reviewed essential information on the link between grant beneficiaries and economic participation. It also considered characteristics to inform how the Department of Social Development might potentially offer assistance that could enhance the potential for economic participation. A backdrop is offered for the purpose of developing policy options, in paper #2. The main findings are the following:

- The majority of grant beneficiaries are young children and pensioners who are not meant to work. In addition, low skill jobs in both the formal and informal sectors are very low paid and precarious. A large proportion of working people do need assistance for their children. Therefore, a programme to intensify employability should focus only on assisting working age people in beneficiary households to improve their access to economic participation, and not to get them off grants per se.
- There is strong evidence that unemployed people in poor households have a very strong desire to work.
- Young people below the age of 30 have an equal probability of working or not working
- The economy is generating large numbers of low skill jobs, and is likely to do so in future.
- Education levels amongst grant recipient and other households is not that different. Nevertheless, education is a good predictor of success and improved access to education opportunity could expand economic participation.
- There are important barriers to accessing economic opportunities in SA, particularly related to access to information, money, education and production inputs.

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