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

Paper 2: Policy Instruments and Options

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HSRC

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1 Introduction

There is now strong evidence that the expanding system of social grants has played an important role in alleviating poverty in South Africa. Moreover, receipt of social grants has been found to produce positive externalities above and beyond the benefits that accrue to individual recipients. For instance, the presence of a grant recipient in a household has been found to bestow benefits on the remaining household members. These protective benefits include health, housing and educational benefits. In some cases, it has been shown that household members have been released to search or obtain work. Thus, social grants serve a broader role in protecting the remaining household members, especially children, from vulnerability.

Despite this success, poverty and inequality continue to blight the socio-economic landscape. Coupled with adverse labour market conditions, poor returns to unskilled labour and the high rate of unemployment, it appears as if the current adverse conditions being experienced by a large number of citizens are likely to persist, in the short-term at least.

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 or "welfare dependency". Finally, there is concern for the pressure the grants put on the fiscus.

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).

In this light, the Department of Social Development commissioned the HSRC 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 who are typically marginalised.

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. The objective is to identify scalable policy options that could be linked to the grant, insofar as they enhance the access to economic opportunity for labour market participants in beneficiary households. It is proposed that such a system be subject to the additional requirement that it be within the Department of Social Development's policy service delivery mandate.

The policy instruments include:

- Direct job placements and job creation
- Top-up subsidies or vouchers
- Credit for productive activities
- Information
- Insurance

Economic participation might be enhanced in the following ways:

- Direct job creation
- Enhanced employability
- Job search facilitated
- Support for self-employment
- Support to stabilise income from employment or self-employment

The paper is divided into 2 parts. The first part outlines generic policy instruments that could be aligned to the social grants system. The second part considers how these instruments might be applied to specific interventions that could address some delivery problem that constrains economic participation amongst the most marginalised. The paper concludes by recommending a way forward.

2 Policy Instruments

Five policy instruments are identified for consideration in this paper, including:

- Direct job placements and job creation
- Top-up subsidies or vouchers
- Credit for productive activities
- Information
- Insurance

2.1 Direct job creation

Government could provide jobs by directly engaging in employment creation programmes. Such support would be relevant for unemployed members of beneficiary households, whether searching or discouraged.

To ensure that this employment does not displace market based opportunities, the work opportunity could not be better than a market based job. Otherwise, recipients might be encouraged to leave their current opportunity to take one generated by government. This poses a challenge, since the quality of work opportunities currently available to grant recipients is quite poor, both in terms of length of opportunity and pay.

There are three main ways that Government could directly generate work opportunities:

- By generating work opportunities in the public service. The difficulty in expanding jobs for grant recipients through the public service is that the lowest rate of pay is currently set at approximately R 38,000, which is about four or four times what a grant recipient is likely to earn in the market. Given the large numbers of jobs required, such a programme could become financially unsustainable.
- By large public works type programmes or social sector projects (e.g. support of Early Child Development Centres). The EPWP generated about 317,000 work opportunities in 2006/7. This is the equivalent of 4% of broad unemployment. The opportunities tend to be very short term and low paid (see Altman and Hemson, 2007). The EPWP would need to become much larger, and offer more stable opportunities to have any real impact on beneficiary household incomes or recipient employability. It is worth noting that the social sector EPWP is meant to be delivered through CBOs who apply for funding. Enabling CBOs to access this funding and technical support could have an important impact on expanding the social sector EPWP.
- By offering subsidies to firms or CBOs to employ people, on special terms that ensure they do not displace existing workers. Such a programme might have the greatest chance of a

developmental impact, on both the employability of the recipient and also on expanding resources of non-profit organisations.

Direct job creation might be done by creating the job and offering a placement, or by subsidising a job that might not otherwise exist. In the latter case, a subsidy or voucher could enable a resource poor non-profit agency to employ workers. Alternatively, it might encourage firms to employ more low skill workers.

Job creation might also be stimulated if the eligibility age for the old age grant were lowered to age 60 for men. This could generate more opportunities from beneficiary households. The Child Support Grant could be extended up to the age of 18. Should this have the effect of keeping CSG children for longer and improving their attendance and grades (both plausible given the grant, see refs), the employability of grant beneficiaries is enhanced improving their chances of accessing economic opportunities in future.

There is a view that social grants might be made contingent on searching for or obtaining work. This arises from a concern about "welfare dependency" and for the overall cost of the social grants. This view may assume that helping people to obtain work would reduce the need for the grant. There are a number of considerations:

- There are about 7 million unemployed by the broad definition, and the economy is generating between 200,000 and 500,000 net new jobs each year. It is therefore unreasonable to *require* the most marginalised in society to find work in this context.
- The public employment schemes are not nearly large enough to enable any sort of grant contingency.
- The sort of work that might be obtained is unlikely to raise the beneficiary household out of poverty. The majority of jobs created for low skill workers are extremely low paid and precarious. At best, a work opportunity could reduce the overwhelming reliance on a grant

2.2 Top-up subsidies in cash, vouchers or in-kind support

There has been some debate about making the social grants conditional on some desired behaviour. Usually, the discussion focuses on behaviour of child carers who would be required to take their child for health check-ups and immunisation or ensure their children are in school, etc. There has also been some question as to whether the grants could be made contingent on behaviour related to work, whether searching for work or finding a job. However, simplicity in the aims and implementation has been an important strength of the social grants programme. Imposing requirements that may be difficult to monitor or even achieve could make the programme less successful. For example, there are approximately 7 million unemployed people (by the broad definition), but employment is only growing by 200,000 to 500,000 per annum. Therefore a programme to *enhance the chances* of working makes more sense than one that *requires* it.

An alternative approach could see conditionality attached to a top-up to the core grant. This might be given in the form of cash, a voucher or in-kind support.

At the simplest level, government could offer subsidies for the acquisition of productive assets or assets that could be used to leverage credit or be converted into cash in future. These could be used to pay for productive inputs, for market intermediation (eg job search, transport), to enhance employability (eg for training), or to make a job 'affordable' (eg transport).

This form of support could be abused in a number of ways. For example, cash might be used for purposes other than what it was intended for. Vouchers might become tradable and be used by unintended beneficiaries. The interventions might distort markets for inputs, transport or training in some way. In-kind support attached to particular goods (eg an account with specific stores to buy identified products) could distort demand: for example, Government might identify inputs that are not appropriate. On the other hand, this set of policies could generate demand for new products and services that are appropriate to low income producers and workers.

The DSD would need to consider whether such top-up support would only be available to grant recipients, their households, or even a wider community. For example, what if a neighbour used subsistence agricultural inputs such as seeds or fertiliser, expanded their yield, and shared the extra yield with the beneficiary in exchange for having been given the "top-up"? Is this an unintended or intended consequence?

A top-up implemented in alignment with the social grants programme might be less open to abuse than any other way of providing this support. Grant recipients must stay in touch on a monthly basis in order to pick up the grant. If a grant recipient took the top-up, they might have to show proof of how it was used, what its impact was, etc. This would make monitoring and evaluation viable, and could ensure compliance with the aims of the top-up.

2.3 Credit

Micro-credit for productive purposes is hardly available in South Africa. Most micro-credit schemes are aimed at consumption purposes. This poses serious constraints on the ability to establish or expand a micro-enterprise. Most informal businesses are established using credit from other family members and naturally this is less possible if the recipient is living in an impoverished community.

Potentially, the social grant might be used as "collateral" for a micro-loan, in combination with a solid business plan. The Social Security Agency could partner with financial institutions to offer special products aimed at micro-enterprise. The credit would have to be government guaranteed.

As with the top-up support, the recipient has a particular interest in compliance as they aim to continue receiving their monthly grant. Compliance does not refer to business success or failure, but rather that the recipient used the funding in the way intended. Such a programme could be monitored and evaluated, with the aim of testing the availability of micro-finance on economic participation.

2.4 Insurance

Economic participation would be enhanced if the impact of uncertainties and crisis were reduced. The marginal position of poor people means that they are exposed to a greater number of threats from the external environment and are thus more vulnerable. Due to poor access to savings, each crisis, whether ill health or theft of a productive asset, can destroy a livelihood. Uncertainty could be reduced with the creation and maintenance of insurance markets that protect the assets (physical or human) of the target population.

For example, in general the poor are more susceptible to crime and theft. There is evidence to show that this is an important explanation of business failure in the informal sector. It also constrains risk taking by potential entrepreneurs.

Undoubtedly, the most productive asset with which one can be endowed is one's health. Therefore, finding ways to offer health insurance to the target population may prove especially fruitful. Furthermore, as health shocks are frequently a cause of either pushing people into poverty, or deeper in if already there, health insurance is likely to provide a mechanism to protect the household from poverty. South Africa is in the process of considering the introduction of a social insurance scheme whose contributions for low income earners will be subsidized. Note that in most cases the beneficiaries themselves will not be eligible for health and life insurance. The targets here are those in beneficiary households who are economically active and whose illness and/or death would impose economic hardship on the household as a whole.

Reviews of the market for insurance amongst the poor generally indicate that such schemes are likely to be beset by shortfalls in cost recovery and high administrative costs relative to premium income as well as incomplete market and pricing data on the underlying assets (Dercon, Bold and Calvo, 2007).

The difficulties with the provision of micro-insurance has led many reviewers to propose a rule-of-thumb according to which, for low insured amounts and co-varying risks especially, savings schemes be used as a substitute of sorts for insurance markets. Schemes used in other parts of the world, (case studies amongst rural farmers in China) report much success with projects that are aimed at allowing the poor to build up their assets in the form of social insurance and giving them the opportunity to take out loans against this collateral. In this case, social insurance has allowed them greater access to financial markets, unlocking sources of credit. By and large, these have been used to acquire assets that can be used productively for income generation.

The essence of this argument is that special micro-insurance schemes or savings schemes might be made available to grant recipients or beneficiary households.

2.5 Information exchange

Limited access to information and networks amongst marginalised black households is an important explanation of low levels of economic participation. This is one of the central apartheid legacies. This affects the choice to finish high school, what to study, how to get resources to study, how to look for a job, how to apply to government employment creation schemes, the identification of profitable market niches and how to get credit, etc. This could help activate an unemployed person, and reduce the risk and uncertainty associated with job search or a business investment.

Addressing information gaps is perhaps the most obvious and least contentious approaches to deepening economic participation. Monthly information circulars could be provided to grant beneficiaries along with the grant payment, whether at the pay point or by cell text message.

3 Policy Options

From this list of instruments, the following options can be extracted. These are elaborated on in the sections that follow.

Economic participation might be enhanced in the following ways:

- Direct job creation
- Enhanced employability
- Job search facilitated
- Support for self-employment
- Support to stabilise income from employment or self-employment

3.1 Direct Employment

3.1.1 The Expanded Public Works Programme

Rationale:

The HSRC estimates that the social sector EPWP could ultimately generate about 500,000 work opportunities, particularly through Early Childhood Development for children under five and Home Community Based Care. It is the intention that these services mostly be delivered by community based organisations. There is substantial overlap in the social sector EPWP target population and grant recipient households. Many of the grant recipients could be delivering the type of services envisaged by the social sector EPWP: in fact, may already be doing so albeit in a precarious manner that presently characterises these services.

The social sector EPWP is currently running at a small scale, having created 37,000 opportunities in 2006/7 (Altman and Hemson, 2007). This is partly due to poor information about how to access the programme funding and support. The monthly link into beneficiary households could provide an excellent channel for funding and information that could be the key to expanding the social sector EPWP and simultaneously creating work opportunities for beneficiary households. This monthly link could also provide an excellent avenue to monitor and evaluate the roll-out of social sector EPWP.

Options:

- Provide monthly information on how to access EPWP opportunities through cell phone link and/or through pay point.
- Provide vouchers as top up to recipients for child care services. Currently, the national framework allows for a subsidy of R 8 per child per day. This can support the delivery agents in providing the service. It appears that this may not be enough to ensure quality needed. Moreover, this funding is generally not reaching care providers. A top-up provided to the recipient would stimulate this sector and ensure more rapid expansion. It could also ensure that the recipient is able to choose the service provider.

Target group:

- Information on access to beneficiary households of all grants
- Child care vouchers for recipients of CSG.

3.1.2 Employment subsidies for direction job creation

Rationale:

Obtaining a first employment experience is a challenge for young people anywhere, but particularly in South Africa. Approximately 50% of youth are unemployed. The children of marginalised grant beneficiary households are more likely to fall into the group of unemployed.

Options:

- An employment voucher could be provided to working age youth in beneficiary households to pay for all or part of a temporary work experience. This voucher might be redeemed by the employer in cash or through the tax system. The employer might be for-profit or not-for profit (eg CBOs or government). However, abuse of the vouchers (eg displacement of current workers) might be less likely if the vouchers have a time limit and if they are applied to resource constrained activities like CBOs.

Target group:

- Vouchers to youth in beneficiary households

3.2 Enhancing employment search & employability

3.2.1 Job search information

Rationale:

Many unemployed say they don't know where to look for jobs. They are either located far from economic centres, or they lack the networks that would help them find employment.

Options:

- Information could be circulated on a monthly basis to beneficiary households through cell text messages and pay points that would bolster approach to job search, such as on the location of labour centres, web sites with information, new employers in the area, where to register a CV, etc.
- Ideas could also be circulated in respect of the types of jobs that are becoming available for low skill workers. This information could be area specific or could also enable people to make more informed decisions about migrating to locations where they have a better chance of finding work.
- Information on training opportunities available by local centres, or employers could also be circulated.

Target group:

Beneficiary households and surrounding households

3.2.2 Education and Training vouchers

Rationale:

There is clear evidence that education raises the probability of being employed. However, there are a number of factors militating against higher levels of educational attainment, apart from the core difficulties within the education system. For example, because youth unemployment is so high, young people appear to get a message that it is not worth completing high school. Once in a tertiary opportunity, there is a high drop-out rate for black students. This is mostly explained by social and financial stress. The opportunities in the vocational training system are difficult to access, partly as a result of institutional complexity.

Poor working people may also find it difficult to access training opportunities, as so many are in marginalised and precarious work where these kinds of benefits are not available. Yet, such training could enable upgrading to higher paid opportunities.

Options:

Training vouchers could be provided to beneficiary households for further education and training in technical colleges, technikons or universities. Some minimum requirement might be established, such as the successful completion of Grade 11 or of Matric.

Training vouchers could be provided to beneficiary households to pay for tutors, especially in respect of high school mathematics.

Target group:

High school students and youth in beneficiary households.

A condition might be proof that youth is a biological child. However, access to such a benefit would most probably benefit the worker and the economy no matter who is awarded.

Working age grant recipients

3.2.3 Reduction in transport costs for job search or getting to work

Rationale:

A very large proportion of unemployed say it is too expensive to look for job, particularly because the probability of success seems low. It is also expensive to take a low paying job if far from home, as travel is expensive.

Options:

Transport vouchers could be offered to beneficiary households if can show that they searched for work, and/or if they can prove that they found employment.

Target group:

Beneficiary households

Such a benefit could be open to abuse, and careful design would be required to minimise this possibility. However, it is recognised that transport costs do pose a sufficiently large long term policy challenge to labour market efficiency. The link to grant recipients enables greater possibility for monitoring and evaluating the use of such a voucher.

3.2.4 Incentives to work: Temporary Disability Grant

Rationale:

Concerns have been raised about the rapid increase in costs associated with the temporary disability grant. Relaxing employment conditions associated therewith and providing incentives to encourage work-seeking behaviour amongst those who are temporarily disabled might encourage re-entry to the labour market.

Options:

Allow those who are temporarily disabled to choose between working or not working. If they elect to work, provide them with income support when doing so in order to encourage them to work. For example, offer a top-up fee related to earnings e.g. rand-for-rand matching of income up to 80% of current grant amount.

Target group:

Beneficiaries of disability grant

3.2.5 Attaching conditionality to work-seeking

Rationale:

It has been demonstrated that, even without the grant, beneficiary households would still need some form of income support. To entice recipients into actively seeking employment opportunities, incentives contingent upon having accessed an economic opportunity over the previous month could be offered to them.

Options:

Provide a top-up to the grant payable to recipients should they be able to demonstrate active involvement in some economic activity over some period (eg greater than 100 hours, 150 hours etc.) over the past month.

Before pursuing any of these options, recipients would need to be assured, and officials would need to be convinced, that the grant would not (should not) be cut in the event of recipients accessing an employment activity, at least initially. Consideration may also be given to the option of making the conditions on household socioeconomic status less stringent (e.g. if recipient earns

less than R1 100 per month rather than if household earns less than R1 100 per month) where recipients elect to work.

Target group:

Working age grant recipients

3.3 Support for self-employment

Rationale:

People linked to beneficiaries, and/or disabled, could be assisted to initiate or expand productive activities thereby bolstering their income; some activities have high probability of link to grant-recipient household. For example, two million households are engaged in some form of subsistence agriculture. Approximately two million people were involved in informal economic activity in 2006 (not including domestic work). It is possible that these activities might expand more rapidly, both in terms of scale and earnings, if entrepreneurs had better access to production inputs and to product knowledge. For example, informal firms in SA tend to choose their products poorly, often copying what others are doing rather than identifying higher earning niches. This partly explains why informal sector participants earn less than their formal sector counterparts.

Option:

There are three main ways to support self-employment amongst grant beneficiary households:

- By supplying monthly commercial information, such as that on how to identify market niches, where to get credit or inputs, or how to improve agricultural yields or business profitability
- By providing vouchers for production inputs. These could cover items such as seeds, fertiliser, water, or implements of subsistence agriculturalists. Vouchers might also be provided for business advisory services or agricultural extension services.
- By providing credit products tailored for this group of grant recipients.

Target group:

Beneficiary households

As with all such instruments, there exists the danger that they will be quickly converted into cash (at a discount) rather used for the purpose for which intended. By making vouchers out to the bearer and not the beneficiary alone one could increase the probability that somebody in the beneficiary household makes use of these instruments. The link to the grant raises the probability of compliance, as monitoring, evaluation and sanctions for misuse are more easily implemented.

3.4 Stabilising incomes for working poor

3.4.1 Insurance

Rationale:

Theft is an extremely important cause of informal business failure. This might be theft of stock or equipment. A very low income household is unlikely to have savings or access to credit to replenish or re-purchase so as to keep their business going. There is evidence that this threat has the impact of destabilizing informal businesses, but also of creating risk aversion amongst entrepreneurs. Poor persons' greater exposure to risk leads them to prefer more stable activities that are low risk but may be associated with lower returns. Opportunities for them to maximise the value of their assets are thus reduced. Arguably, providing insurance for this sector of the population will eliminate some of this uncertainty and enable them to maximise the use of their assets.

Options:

- Vouchers or other forms of financial support to access specially designed insurance schemes for micro-enterprise could be made for beneficiary households. This may require the development of new products should they not already be available. The provision of financial support to pay for insurance could in itself encourage the establishment of competing private schemes.
- Information could be provided in respect of reliable information on opportunities for short term micro-insurance. Under this scheme, information on organisations that offer micro-insurance on an individual and/or group basis could be gathered and shared with grant recipients.
- Information on low-cost schemes that provide health and life insurance and funeral cover could also be provided along with the grant. Plausibly, such information will be relayed on to other household economically active household members by grant recipients as they will usually not be eligible for such cover.

Target group:

- Financial support to grant recipients
- Information for beneficiary households and related communities

3.4.2 Service delivery in the area of HIV and AIDS

Rationale:

There is an extremely high HIV infection rate amongst young women – approximately ¼ to 1/3 of women under age 30. It will be important to ensure that these women stay active as mothers, care givers and earners. Almost one-fifth of CSG recipients do work. As the economy grows, more women will find work in an expanding services economy. Early support for HIV-infected mothers could lengthen their participation in the labour market.

HIV and AIDS are argued to have played an important role in driving the high uptake of grants. A key intervention would relate to preventing new HIV infections and arresting the progression of HIV to AIDS amongst those members of beneficiary households who are of economically active working age.

Responsibility for rolling out these interventions is the responsibility of the health department. However, access to the healthcare system and the dissemination of healthcare messages about early detection are not the sole determinants of service utilization. There may be a role for the DSD to increase uptake of these services through its system of social grants. In particular, grant recipients could be supported with information and top-up support that gives them special access to health enhancing services.

Options:

- Female grant recipients might receive special support to access HIV/AIDS services. This might arise through vouchers for ARVs, HIV services available at pay-points, regular communication on health and nutrition through pay-points or cell messages.
- Information on the availability of HIV and AIDS services offered in the surrounding area could be provided to grant recipients using the options described under the information sharing schemes. In the case of the CSG and the FCG, the department could explore linking the provision of testing for HIV with grant receipt. For example, an incentive or top-up to the grant could be offered to caregivers when they presented at a local clinic for testing etc. on a certain date. This would be redeemed when caregivers tested at a clinic and furnished proof of testing. To monitor compliance, and limit unnecessary repeat testing for the sake of increased income, incentives to test could be offered on a cyclical basis, for example, every six months. Admittedly, ethical considerations may preclude the use of this option and its acceptability would need to be explored.

Target group:

- Finance and special services for grant recipients
- Information for beneficiary households and related communities.

4 Options for Exploration

In a stakeholder workshop in January 2008, it was agreed that the basic ideas put forward in this document had merit. It was proposed that two generic instruments be investigated in the first instance:

- The provision of information
- The provision of a 'top-up', whether cash or in kind

It was recognised that these would need more detailed exploration in relation to pros and cons, specific intention and design, and appropriate channels for delivery alongside the grants. As this paper covers only the conceptual issues, the more detailed exploration will be undertaken in a follow-up project.

An important principle is that the opportunity to which access is being improved must already exist. Where it is operating at a small scale, there must be evidence that it would expand relatively easily. This intervention will specifically not set up a new service, except insofar as it is related to making access to matching services. This intervention only builds on an existing channel through which money is provided.

Some initial thoughts on what this will entail include:

4.1 Information

The stakeholder group was unified in supporting idea of circulating information. While this may seem to be the simplest approach, it poses its own complications. Some questions that need to be explored include:

4.1.1 Should the information offer general support, or should it be linked to a specific outcome? For example:

- Circulars could be provided on a range of topics from health and nutrition, to how to access to ARVs to how to access the social sector EPWP opportunities to job search support to small business development opportunities. This approach could be beneficial since it is sometimes difficult to second-guess what information will be useful nationally. However, this could impose the risk that some information will be incorrect or redundant. This could reduce confidence in the service, or worse, mislead beneficiary households.
- Alternatively, the service could offer focused support in relation to one or two specific activities that Government specifically wants to see scaled up. If this approach is taken the service might focus on one or more of the following:
 - Agricultural information support to small and subsistence farmers: how to access inputs, how to improve yields, etc
 - Job search information

- Information on how to participate in social sector EPWP; information on how to improve service delivery in social sector EPWP where already participating

4.1.2 How will information be identified? The complexity of assembling simple, effective, and correct information should not be underestimated.

- How much information at any one time? In what format?
- Should new information be provided, or is it repeated to ensure diffusion?
- How to determine if it is correct information?
- How to determine what is needed? For example, people may be aware of a service, but are not using it if it is ineffective.

A small pilot survey in the next phase of the project might help in answering some of these questions

4.1.3 Determining the channels

- How are the grants distributed currently? There are a range of channels, but a large proportion is distributed through private contractors.
- Should information provision be contracted out to the same providers or others? Would these contractors act as information brokers?

4.2 "Top up" in cash or in kind

4.2.1 General or Specific?

A "top – up" to the grant might be made for only one or two specific purposes. This could simplify the design and monitoring and evaluation of any intervention. However, considerable forethought would be required to be sure that the correct need was identified.

Alternatively, the project could offer a suite of options, and test what and grant recipients actually use this extra support.

Either way, the specific focus areas could include:

- Agricultural support to small and subsistence farmers – eg subsidized inputs, subsidised advisory or extension services
- Job search support – eg subsidised job search
- FET and HET opportunity voucher
- Employment subsidy, which could be tied to individual or to employer
- Subsidy to care giver to pay for community based social services such as ECD or HCBC. This could complement existing subsidy already channelled through the respective government departments to service providers (eg R 9/day/child to deliver ECD (0-4)).

4.2.2 Cash, vouchers or In-kind?

The provision of cash has the effect of generalising the support. That is, the households are sufficiently poor that the cash may simply be added to the pot of income used for general necessities. Perhaps the household might need to report on and show proof of how the cash was used, but this may introduce too much complexity.

Vouchers are sometimes the safest approach, although they in themselves cause distortions. For example, a tradable voucher can taken on a monetary value, with unintended consequences for the market for certain goods or services.

In-kind support, where a specific product is given to the recipient, is the most controversial as it assumes that the state can know perfectly what the recipient needs or wants. It can also cause market distortions, and raise prices for these products.

Generally, a top-up aimed at the purchase of certain goods and services could draw forth more of that activity, since there is now a "signal" to providers to produce more. On the other hand, a top-up that is too focused on specific goods and services may result in a secondary market, where people "buy" more of a product than they want or need, and resell at a below-market price. (This is an example of where a tradable voucher can take on a market value, usually at some value below the re-sale price).

An employment subsidy is particularly complex. There are two particular concerns here:

- Deadweight loss – where funds are spent, person is employed, but they would have been anyway, and/or they simply displace someone else (ie net employment is not increased).
- Substitution effect – workers who are already employed but do not qualify for the employment subsidy are replaced by those who do qualify.

4.2.3 To household or to service provider? To Work-seeker or to employer?

- A subsidy could be given to the household or to the provider: for example, a subsidy for agricultural inputs could be given to the household or the vendor or a cooperative. An education voucher could go directly to the household or to the college itself.
- A subsidy could go to the worker-seeker or the employer: for example, a work voucher could be given to individuals, who present themselves to firms. Alternatively, the firm or NGO can apply to hire against this subsidy and search for qualifying work-seekers.

These are just some examples of ways that information or a top-up might be designed, and only some of the pros and cons. There is no inherent correct or incorrect approach – the design must simply consider the objectives and the context. There will be deeper investigation in the next phase of the project.

4.3 Monitoring response and outcomes.

Supporting grant recipient households has a special benefit, in that they can be monitored much more easily than other households. Recipient households also have a specific interest in staying in the system and therefore in complying with the intention of any extra benefit received.

A pilot should be designed to determine:

- **Baseline** – expression of interest by communities about what they need, how they would like to get it, why don't they have it now, what have they tried to do historically to get it, what they already know, etc
- **Monitoring** – low cost approaches to monitoring large numbers of users on a regular basis would need to be developed.
- **Evaluation** – what did they do with the information or top-up? Did it raise their level of economic participation? If not, why not? Were the providers effective and appropriately identified?

5 Recommendations and Conclusions

This paper explored possible ways of leveraging the social grants to promote economic participation amongst beneficiary households. As noted at the outset, there is a special opportunity in the system of grants that has not been sufficiently mined. Government reaches 12 million beneficiaries on a monthly basis, through a trusted channel that gives them money on which they rely. This offers a special opportunity to reach the most marginalised households on a regular basis. Moreover, it may be easier to monitor and evaluate, and ensure resources are used for intended purposes, since recipients could be required to provide monthly feedback on how they used any additional benefit given to them.

It is recognised that simplicity has been a key to success in the social grants, both in terms of its aims and its administration. Any top-up support should have the same quality.

A number of recommendations have been made in respect of direct job creation, enhancing employability, the facilitation of job search, support for the self employed and support to stabilise existing livelihoods. These have been chosen for their relative simplicity, the potential alignment to the grants administration, their potential impact on economic participation and their scalability.

It is recommended that the next steps involve:

1. A review of proposed options, with the Dept of Social Development, the Social Security Agency, and other relevant Government departments, stakeholders and experts. This process could help to refine the specific ideas and narrow the options to a smaller set. It should be noted that a suite of options could be identified, since different types of support will suite different types of recipients.
2. The smaller set of options could be more comprehensively investigated and costed. These could be presented in a scenarios format, to support decision making. That is, this process would present cost/benefit of any intervention.
3. Once further honed in, it is recommended that a small set of options be piloted to test for how recipients respond to the added benefit.
4. Simple and low cost monitoring and evaluation systems should be implemented alongside these pilots.

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7 Appendix 1: Instruments and Associated Policy Options

Table 1: Instruments and associated Policy Options

Instruments	Options									
	Direct employment		Enhancing employment search & employability				Support for self-employment		Stabilising income	
	EPWP	subsidy to employer	job search information	education & training vouchers	cover transport costs	incentives to work for temp disability	conditionality to work-seeking			
Direct job creation		x								
Top-up cash, vouchers or in-kind support		x		x	x	x	x	x	x	x
Credit								x		
Insurance								x	x	x
Access to information			x					x	x	x
									Insurance	HIV service delivery

8 Appendix 2: Eligibility and Value of Social Grants

Grants in South Africa are awarded to members of different categories of the deserving poor i.e. the elderly, the disabled and children in low-income families and are meant to provide income support for those who are unable, or ought not, to support themselves financially. In addition:

- a) they are to reside in households where income falls below some threshold or
- b) their income from other sources should be below some threshold.

as the case may be.

An *Old Age Pension* of a maximum value of R870 per month is awarded to men above the age of 65 and women above age 60. Grant amounts (G) are determined according to the formula:

$$\begin{array}{ll} \text{and} & G = 1.15A - 0.5B \quad \text{for an unmarried person} \\ & G = 1.075A - 0.5B \quad \text{for a married person} \end{array}$$

where

A =	maximum value of the grant
B =	annual income of applicant or combined income of applicant and spouse if married.

The full grant, however, is usually awarded in practice.

A *Disability Grant* of R820 per month is awarded to working age adults (between 18 and 59) who, upon medical assessment, can demonstrate that they are unable to work due to the existence of a medical or physical condition. The condition can be of either a temporary or permanent nature. The grant is means-tested and similar restrictions as under the Old Age Pension apply.

A *Child Support Grant* of R200 per month is awarded to the primary caregiver of a child below the age of 14 years who resides in the home. It is not linked to the biological relationship between the child and the caregiver. The grant is means-tested. To qualify for the grant, a caregiver and her spouse have to earn below:

- a) R800 per month if living in formal housing in an urban area or
- b) R1 100 per month if living in a rural area or in informal housing in an urban area.

A *Foster Care Grant* of R620 per month is provided to the foster parent of a child under the age of 18 who has been placed in foster care by the state and is under the supervision of a government-appointed social worker. There is no means test applied to this grant.

A *Care Dependency Grant* of R870 per month is provided for the care of a child under the age of 18 who is suffering from some severe mental or physical illness or disability and is in need of permanent care at home. The grant is means tested.