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

Executive Summary

Prepared for the Dept of Social Development
Prepared by Dr. Miriam Altman
HSRC
Dec 07

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.

Even within this context, concerns have been raised about the rapidly expanding system of grants. These include the burden it places on the fiscus and the possibility that it creates welfare dependency (e.g. discouragement of work-seeking behaviour) and perverse incentives.

The Department of Social Development has commissioned the HSRC to identify creative options to link grant recipients to livelihoods and enhance economic sustainability.

In considering this question, it is essential to understand that the largest growth in grants accrues to people who not meant to be working themselves. In particular, the largest expansion in the system of grants (in terms of number of beneficiaries) accrues to poor children, where there were 450,000 poor children receiving grants in 1997, expanding to almost 7.3 million by 2006. Pensioners are the second largest group of beneficiaries, numbering about 2 million in 2006. The financial impact varies considerably, as pensioners receive about R 870 pm, while the CSG provides about R 200 pm. Disabled are the third largest group, with about 1.3 million beneficiaries in 2006.

Therefore a strategy to expand employability would not target the beneficiary. Instead, this strategy needs to focus on able bodied working age people in the same household as the grant recipient. The HSRC project outlines the structure of these households and the link to current and potential work opportunity. It is worth noting that approximately 18% of the care givers of CSG recipients do already work. A large proportion of working people would qualify for the CSG. In

September 2006, approximately 1.4 m workers earned less than R 500 pm and 2.1 million people earned less than R 1,000 pm. It cannot be assumed that these people worked for the full year, so large portion of them could qualify for the CSG. So, the DoSD strategy may need to recognize that enhancing livelihoods will be implemented in the presence of the grant. In other words, it is possible that the livelihood package will require both the grant, plus support to enhance access to economic opportunity.

To this end, the system of grants offers a powerful instrument that can be leveraged for these interventions. The state reaches 11 million individuals once per month through a trusted source that reliably gives them money. This may enhance the efficacy of any intervention. It will also enable monitoring and evaluation of any intervention, since beneficiaries have a strong incentive to stay in the system.

The proposals to be put forward by the HSRC consider the policy instruments that might be accessed, and the policy options. The aim is to identify how the system of grants might be leveraged to enhance economic participation.

Five instruments for intervention are identified including:

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

These instruments could be applied to the following four general policy options:

1. Direct job creation
2. Enhanced job search and employability
3. Support for self-employment
4. Support to stabilise income from employment or self-employment

The applications of instruments to policy options include:

1. **Direct employment creation**

- 1a. ***Improving access to social sector EPWP***

- *Rationale:* Social sector EPWP expansion has been slow, partly because CBOs don't have information about how to apply or how programmes are meant to work. The HSRC estimates that these programmes could ultimately generate about 500,000 work opportunities. There is substantial overlap in EPWP target population and grant recipient households. Link into these households might enable more rapid expansion of EPWP, plus improved access of grant recipient HHs to these opportunities.
- *Options:*
 - Regular information on how to access EPWP opportunities through cell phone link and/or through pay point.

- Vouchers as top up to beneficiary household for social sector services would stimulate this sector

1b. Employment subsidies for direct 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.

2. Enhancing employment search and employability

2a. Job search information:

- *Rationale:* many unemployed say they don't know where to look for jobs. There is also evidence to show the informal firms choose products poorly.
- *Options:*
 - Circulate information about location of labour centres, web sites with information, new employers in the area, where to register CV, etc. Circulate this information through: monthly grant payment, cell phone/sms, etc

2b. 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.

2c. Reducing 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 coupons as top up to beneficiary household if search for job
 - Transport subsidy as top up to beneficiary household if can prove that found a job

2d. Incentives to temporary disability grant beneficiaries to return to work

- **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.

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
- **Options (these could be provided to grant recipient households):**
 - Offer vouchers for purchase of inputs like seeds, fertilizer, water or implements. 2 million households are engaged in subsistence agriculture as a secondary activity. The yields from the activity could be increased.
 - Insurance against theft of these purchases
 - Offer vouchers for purchase of advice
 - Generate simple circulars with information on how to improve yields or profitability
 - Access to credit

4. Stabilising incomes

- Increasing chance of keeping business alive
 - **Rationale:** theft is an extremely important cause of informal sector business failure
 - **Option:** provide (or subsidise) insurance for productive assets in grant recipient households.
- Increasing chance of staying employed
 - **Rationale:** a large proportion of CSG care givers do work. 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.
 - **Options:**

- Target social and health services to support women in grant recipient households with HIV services to ensure they stay healthy.

These offer examples of the ideas emerging from the HSRC project. These will be assessed against a decision making framework that considers their costs and benefits. The approach is generally not one that requires coercion or conditionality in the core grant. This is informed by two considerations. First, the SASAS survey shows 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%). 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.

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.

In a January 2008 roundtable comprised of SASSA, DSD, Treasury, the Department of Labour, the Presidency and a number of experts, it was agreed that a Phase 2 should be pursued to focus on the provision of information and the provision of a subsidy or voucher.