

**THE POTENTIAL OF SOCIAL GRANTS  
EXPENDITURE TO PROMOTE LOCAL  
ECONOMIC DEVELOPMENT AND JOB  
CREATION**

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## Acronyms and abbreviations

AISP	Agricultural Input Subsidy Programme [Malawi]
BDS	Business Development Services [Umsobomvu Youth Fund]
BIG	Basic Income Grant
CASP	Comprehensive Agricultural Support Programme
CGE	computable general equilibrium [a form of economic modelling]
CSG	Child Support Grant
DBSA	Development Bank of Southern Africa
DPLG	Department of Provincial and Local Government [now the Department of Cooperative Government and Traditional Affairs]
EPRI	Economic Policy Research Institute
EPWP	Expanded Public Works Programme
GDP	Gross Domestic Product
HCV	Housing Choice Voucher [US]
HSRC	Human Sciences Research Council
ICT	information and communication technology
JTP	Job Training Program [US]
LED	local economic development
LRAD	Land Redistribution for Agricultural Development programme
MDGs	Millennium Development Goals
MIG	Municipal Infrastructure Grant
NREG	National Rural Employment Guarantee [India]
OECD	Organisation for Economic Co-operation and Development
SA&P	social assistance and protection
SETA	sector education and training authority
SLAG	Settlement and Land Acquisition Grant
SPS	SPS Starter Pack Scheme [Malawi]
TANF	Temporary Assistance to Needy Families [US]
TIP	Targeted Input Program [Malawi]
UYF	Umsobomvu Youth Fund
WIA	Workforce Investment Act [US]
WfW	Welfare to Work [US]

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## Executive summary

### Background, scope and purpose

1. South Africa's publicly funded social safety net consists of multiple conditional cash grants. This social protection network has expanded considerably since 2002, following the addition of a child support grant to the suite of social grants (predominantly the old age pensions and disability grants). Today, the largest numbers of social protection recipients are poor households with children. This growth has been achieved primarily through adjustments in the targeting criteria (means testing and raising the eligibility age for child grant recipients). At the end of 2009/10 fiscal period, there were 13.9 million recipients of grants, receiving more than R80bn from the national budget at an administrative cost in excess of R5bn. By 2013, it is projected that social security benefits will be delivered to 16 million people. Similarly, reforms to the public works and school nutrition programmes, among other forms of social assistance, resulted in expanded coverage and increased fiscal spending.

2. The Development Bank of Southern Africa (DBSA) commissioned the Human Sciences Research Council (HSRC) to assemble local and global evidence about the developmental potential of social grants. More specifically, the DBSA wanted information on the following: a rough typology of social grants – ranging from conditional cash grants to public works and other employment-generating assistance to municipal infrastructural grants; an assessment of the developmental impact of social policies and welfare transfers with an emphasis on local economic development (LED); and to explore evidence about the extent to which vouchers, as a method to transfer social assistance benefits, might deliver larger developmental spin-offs than cash grants and in-kind social assistance.

3. Two recent studies investigate the potential uses of vouchers as tools to transfer social welfare benefits to targeted beneficiaries in South Africa. Altman and Boyce (2008) proposed a range of options to use vouchers as a platform to transition able-bodied unemployed in grant-receiving households to sustainable decent jobs. It is possible, they argue, to design and handout training vouchers to enable eligible recipients to build their job search skills as well as undergo low-level technical training (at community colleges or on-the-job training). An added advantage of vouchers is that they cannot be used for any other purpose, potentially freeing up resources for other purposes, e.g. to improve the food and nutritional status of the household. It should be said that the focus of this study was on household-level impacts of vouchers, rather than wider positive developmental spin-offs.

4. Another study (Van Heerden 2008) uses CGE [computable general equilibrium] modelling to explore the likely fiscal and economic growth impacts of 'food vouchers' for low-income employed people. This proposal makes sense in the context of the working poor, a widespread phenomenon in

South Africa, and one of the sparks for an intense debate on the need for a universal basic income grant (BIG). However, Van Heerden (2008) argues that food vouchers are bound to negatively affect economic growth and distort market prices. If firms need to pay for vouchers, rising wage costs will act as a disincentive to expand output. Covering the cost of the voucher through higher fiscal spending is purported to also reduce macroeconomic growth.

### **Argument, approach and methods (data sources)**

5. This paper argues for developmental social policy and explores options to use social grants transfer instruments (cash, in-kind and vouchers) to achieve localized pro-poor developmental outcomes. Conceptually, this reports draws inspiration from the analytical contributions to redistributive social welfare literature by Amartya Sen, Jean Dreze and Thandika Mkandawire. Amartya Sen and his co-workers argue that the poor and vulnerable lack the capabilities to construct sustainable livelihoods. Peoples' *capabilities* are their freedoms to live a life that permits and enables them to be healthy, well-educated, well-nourished, adequately clothed and housed, etc. Dreze and Sen, writing extensively about the causes and ways to prevent hunger and famine, noted that spaces of vulnerability are created by changes in food entitlement and command over food systems. In this context, entitlement promotion and entitlement protection need to be introduced, respectively, to secure the long term access to food and the provision of a safety net against shocks. Making a broader and compelling case for 'developmental social policy', Mkandawire (1999) refers to the 'social wage' as an example of how to use social policy to reach longer-term developmental outcomes. The social wage (education, health and targets support for human capital accumulation) lowers the cost of employment and could enable people to be fully employment in decent jobs.

6. The big debate is whether and to what extent social transfers are limited to cash-based welfare supplements. In this regard, unresolved questions turn around if and how social grants could be harnessed to reach boarder pro-poor developmental goals. Altman and Boyce (2008), among others, addressed some of these questions. They argue and demonstrate that options exist to leverage social grants to transition healthy unemployed adults in grant receiving households to decent jobs. This paper contributes to this expanding research by constructing a conceptual framework which connects the developmental potential of cash, in-kind and voucher payment options with development interventions targeting smallholder farm production, employment and child development. It brings together evidence on relevant local and global case studies, using a typology derived from the conceptual framework.

7. This paper is basically a desktop review and analysis of information extracted from a variety of complementary sources: relevant published and unpublished literature; data from official surveys, such as the General Household Surveys; and electronic data of the South African Social Security Agency (SASSA).

### **Definition, history and theory**



8. To effectively tap the developmental potential of social grants in local contexts requires an understanding of the historical and theoretical contexts of social protection. Social protection involves a broad range of public actions that attempt to address risk, vulnerability and chronic poverty in a number of ways. These include social insurance actions aimed at reducing people's exposure to risks and vulnerabilities (such as health, life and asset insurance, which may include contributions from employers and/or beneficiaries); social assistance and welfare – public actions designed to transfer resources to groups deemed eligible for reasons of deprivation and inequality (mainly cash or food transfers, vouchers, or subsidies for services and staple foods); labour market programmes (such as micro-enterprise development and public works); and setting minimum standards for the workplace – often difficult to enforce, particularly in the informal sector.

9. Social grants are generally designed for social assistance and insurance of vulnerable people, but emerging evidence shows there might be unrecorded positive spill over and multiplier spin-offs on local economies. In some rural towns, for instance, vibrant agro-food markets proliferate around pension payout points. However, there is a lack of facts and figures on the level of sales and the second-round effects on small-farmer incomes. Research evidence also highlights that some pensioners invest portions of their grants in home food gardens and this might signal an opportunity for pooling food security assistance of various state agencies into flexible 'food garden vouchers'.

10. Social protection has long been important in industrialised countries and is now recognised as an essential instrument for poverty reduction in low- and middle-income nations too. Historically, three types of social protection or welfare systems have emerged: agrarian, corporatist and redistributive. Under agrarian social protection systems, the goal is to enable the agrarian economy to absorb labour; corporatist systems try to expand urban formal sector employment; and redistributive systems include a wide range of social assistance and welfare programmes. Increasing unemployment and de-agrarianisation in the latter part of the twentieth century pose major challenges to welfare regimes in the global South. In many low- or middle-income Southern countries, there are people who have never worked long enough in formal employment to be covered by contributory welfare schemes. Given this situation, new short- and medium-term poverty-mitigating programmes are required. The choice is between 'workfare' (guaranteed employment) and 'welfare' (minimum income schemes that include the unemployed poor), or perhaps a combination of the two.

11. Contrary to some economic arguments that social grants may undermine labour force participation by reducing the opportunity cost of not working, there is a body of evidence that South African social grants have a beneficial impact; that they in fact increase employability. However, from the perspective of LED, consideration must be given to the fact that if skilled jobs are not locally available then skilled job-seekers tend to migrate in search of work.

LED is centred on the decentralisation and devolution of power, authority and resources to sub-national (regional or local) levels of government. In principle, LED encourages bottom-up approaches as opposed to centralised, top-down approaches.

### **Social grant transfer instruments**

12. A range of forms or instruments exist through which social grants can be delivered to poor and vulnerable beneficiaries. Three of the most common forms of grant transfers are: cash, in-kind and vouchers. It is fairly common to combine these social transfer instruments. Policymakers need an instrument which is low-cost in terms of fiscal expenditure, places no additional costs on beneficiaries to access, and adds a high level of value to local development.

13. *Cash grants* probably offer beneficiaries the greatest level of discretionary spending, but might also expose beneficiaries to risks and misuse of the grant. On the positive side, they foster social cohesion; promote human capital development; mitigate risk by providing a cushion against livelihood shocks and stimulate local demand. But some systems are prone to corruption; people might, for example, use the funds to purchase socially undesirable substances; people might become dependent on them; or they could be fiscally unaffordable.

14. *In-kind transfers* are mainly in the form of food parcels to individuals, households or communities who experience, or might be vulnerable to, food insecurity. Such transfers are also very important during times of hyperinflation – when the currency is eroding rapidly in value and there is very little in the market to purchase.

15. A *voucher* is a coupon or certificate against which social grant benefits (a subsidy or tax rebate) are dispensed to *qualifying/eligible* people. Vouchers are often described as an ‘intermediate’ mechanism between direct public ownership and cash transfers in the provision of social assistance to the poor. Vouchers often work best when governments contract out the provision of services. Regulations attached to vouchers impose restrictions on their use: they have a capped monetary value; supplier restrictions are imposed; and vouchers are exchangeable for specified types of the goods and services. The administrative structures of voucher schemes vary considerably.

### **Social protection in LED in South Africa**

16. South Africa has a comprehensive publicly funded social protection programme that falls under the Department of Social Development. The programme takes the form of conditional cash transfers to more than 13 million individuals, costing the state more than R80bn in the 2009/10 fiscal year (excluding R5bn in administrative costs). At least 95% of social grant recipients are children, the disabled and old age pensioners who may or may not belong to the same households. Most South African households receive one (36%) or two (31%) types of grants. Three provinces (KwaZulu-Natal,

Eastern Cape and Limpopo) account for nearly 8 million (roughly 60%) of all social grant beneficiaries. These provinces are largely rural and incorporate a substantial share of the former homelands. Gauteng, which is the economic hub of the country, is the home of more than 1.5 million recipients of social grants. Households receiving state pensions spend more on food and education and less on alcohol, tobacco and entertainment than non-recipient households. This means social grants have a positive impact on developmental and human well-being indicators within households. Living in a household receiving social grants is correlated with a higher success rate in finding employment. Individuals in households receiving social grants have increased both their labour force participation and employment rates faster than those who live in households that do not receive social grants.

17. The Child Support Grant (CSG) has been, and continues to be, the main driver behind the rapid increase in beneficiaries and fiscal expenditure since its introduction in 2002. It is a conditional cash transfer to the primary caregiver of children living in extreme poverty and thus serves to supplement rather than replace household income from employment. As of April 2009, the CSG stood at R240. In 2007, 51% of households reportedly received at least one child support grant. Roughly 8.8 million children received grants in March 2009 – roughly 68% of all grant recipients. This figure is projected to dramatically increase (exceeding 11.5 million) following a Cabinet decision to extend the eligibility age to 18 years.

18. Since 1994, government has introduced or overhauled several other grant-like social expenditures, such as: the National Schools Nutrition Programme, the Expanded Public Works Programme (EPWP), the Municipal Infrastructure Grant (MIG), the Umsobomvu Youth Fund (UYF) and several land reform and agricultural support grants (covered in the next section). The UYF targets unemployed individuals in the 18–35 age cohort to assist them to acquire skills, access job opportunities as well as establish viable small businesses. In 2004 the National Youth Service and the School to Work Programme had 503 and 803 beneficiaries respectively, at a cost of R50 000 per beneficiary. However since 2006, the cost per participant in both programmes was pegged at R20 000 (UYF 2008). Within the Umsobomvu fund is the Business Development Services (BDS) voucher programme which is meant to support start up businesses/ entrepreneurs. The BDS voucher system targets enterprises that are within tourism, ICT [information and communication technology], manufacturing, construction and agro-processing. Until 2008 BDS issued 10 534 vouchers, created 11 958 jobs, created 4 443 new businesses and assisted 7 544 start-up businesses (UYF 2008).

19. Like public works programmes in other parts of the world, South Africa's Expanded Public Works Programme aims to create short term employment for the unskilled and at the same time create or improve existing infrastructure. When it was introduced in April 2004, the EPWP's work opportunity targets were set at: 750 000 for the infrastructure sector; 200 000 for the environment

and culture sector; 150 000 for the social sector; and at least 12 000 for the economic sector. As the programme expanded from 2004/5 to its final year 2008/9, the largest number of EPWP job opportunities had been created in Eastern Cape, Gauteng and KwaZulu-Natal. The second phase of the EPWP (EPWP2), introduced in 2009, has set a target of 4.5 million jobs aimed enabling participants to gain skills while in a short-term job. The second phase sees a shift in emphasis from the construction and maintenance sectors to the home-based care and community health sectors.

### **Contributions of social grants to local rural development**

20. The challenges currently hampering the development of rural areas and, by extension, agriculture, include a lack of adequate infrastructure, education and health facilities. The current study is focused on the role of the social wage (social grants) in mitigating these challenges, including a consideration of whether vouchers are a better approach than cash transfers.

21. Social grants can be designed to target rural areas and smallholders, especially resource-poor farmers. It is expected that such grants are likely to be invested in farming and benefit the local economy. Grants of this kind could take the form of cash grants, in-kind transfers, vouchers and combinations of these instruments.

22 It is expected that a significant proportion of the grants will be invested in agricultural activities and the non-farm 'local' economy, thus contributing to broader LED. The question is how to maximise this anticipated impact by streamlining the mechanisms and administration of the delivery of these grants.

23. South Africa can learn from experiences elsewhere in Africa about the efficacy of targeted and non-targeted grants on local rural economies. Malawi, for instance, has successfully used publicly-funded grants to smallholder farmers to achieve broader rural development. The main question under consideration here is how rural LED can be achieved or enhanced through social expenditure and/or social welfare grants. Social policy support can be levered to foster agricultural development, in turn helping to create a dynamic rural economy (farm and non-farm sectors).

24. Pro-poor social expenditure in South Africa is channelled mainly through infrastructure programmes, the social security system (child grants, old age pensions etc.) and job-creation measures aimed at people with few skills. Infrastructure programmes directly provide or subsidise local public goods and services to targeted households and individuals (water, sanitation, energy, housing, health and education). The Municipal Infrastructure Grant was established in order to facilitate the ability of municipalities to provide public goods and services to poor households and individuals. The grant is disbursed either as cash or as an asset transfer of infrastructure to the beneficiary municipality.

25. South Africa has a comprehensive social grant system which reaches deep into rural areas. The most common kind of grants are non-contributory and means-tested cash grants to vulnerable groups. These grants could be disbursed in the form of vouchers, in part or entirely (Altman & Boyce 2008). However, putting cash into the hands of people creates a much-needed local market for agricultural produce and can encourage downstream local production of goods and services. There is evidence that social grants are used to invest in rural livelihoods strategies, especially agriculture.

26. Some of the social expenditure targeting the agricultural sector, especially resource-poor farmers, include food security subsidies, starter packs, the Comprehensive Agricultural Support Programme (CASP), and various land reform financial support tools. None of these grants are provided in the form of vouchers, but there is some evidence from Malawi that support to smallholder farmers using vouchers (coupons) can have a significant impact on the local economy. That country's agricultural input support programme assisted farmers to access inputs (seeds and fertilisers) from the private market through a government subsidy of about 80% of the purchase price.

### **Social transfer programmes in other countries**

27. This paper distils lessons about the design, implementation and impact of a select number of social protection programmes in other countries to inform the development of South African social policy. The first part of this section revisits evidence from the predominantly conditional cash transfers in Brazil (Bolsa Familia) and India (National Rural Employment Guarantee). Three major trends emerge: expanded coverage of programmes; concerted investment to amalgamate and consolidate social welfare systems (horizontal and vertical unification); and decentralisation of programme implementation. The second part of this section brings together accessible evidence about voucher programmes, leaning heavily on examples from the voucher training and housing programmes in the United States.

28. India's National Rural Employment Guarantee (NREG) Act was adopted in 2005 and is currently in Phase 3 of implementation. The immediate and primary objective of this social safety net is to provide rural families with the right to work for 100 days per year. Compared to India's previous large-scale public works programmes, such as MEGS [Maharashtra Employment Guarantee Scheme] and NFFW [National Food for Work], the NREG has already created far more jobs over a limited number of the poorest districts. This scheme is firmly rooted in a rights-based framework and makes room for considerable decentralisation.

29. NREG further provides a platform to build rural livelihood sustainability. This is evidenced from its heavy focus on watershed development and land development – vital ingredients for raising the productivity of rain-fed agriculture. However, positive livelihood outcomes from initial expenditure on

public works might only show as a second- or higher-round spillover. Timing is a critical success factor, given the fixed seasonal nature of agriculture. If supplementary investments lag too far behind public works investment in improving the productivity of agriculture, positive livelihood effects may be delayed for an entire year.

30. To optimise the local uptake of NREG, key obstacles must be overcome by a dramatic investment in promoting awareness, and building the functionality, of local institutions. There is evidence of programme capture. High land inequality is positively correlated to NREG uptake, which means that households with relatively larger landholdings tend to participate more actively in NREG works.

31. The Brazilian government's Bolsa Familia is one of the world's largest social welfare programmes. It is a conditional cash transfer with an impressive track record of targeting – it reaches slightly more than the 11 million of the poorest families (or 46 million individuals). Bolsa Familia is an amalgamated social protection fund which provides social assistance in four areas: education scholarships for children (Bolsa Escola); food to eradicate hunger (Zero Hunger); energy and gas for cooking; and health and nutrition grants for pregnant women and young children.

32. Voucher programmes in other countries are mainly aimed at helping poor families to send their children to private schools. School voucher systems form a model for other types of vouchers in developed and developing countries. In the United States, a variety of vouchers are used as instruments to implement the Welfare-to-Work social policy reforms which came into effect from the mid-1990s. Training vouchers exist in the US and other parts of Latin America to assist able-bodied unemployed people to move from being welfare beneficiaries to working. The Housing Choice Voucher in the US is a rental subsidy which helps poor households to access rental housing in private rental markets.

### **Conclusion and recommendations: options to use social grant instruments to reaching developmental goals**

33. This report contributes to a rapidly growing body of social policy literature that seeks to go beyond the income-based welfare benefits derived from various types of social protection. Broadly, this literature advocates the need for 'developmental social policy', with an emphasis on developing human capabilities through the social provision of education and health. For example, Mkandawire (1999) has argued that the 'social wage' lowers the cost of labour and encourages active participation in labour markets. These in turn raise economic efficiency which exerts a positive impact on economic growth and it is worth drawing lessons from specific examples cited in this literature. Water and electricity subsidies to the poor in developing countries can be considered in-kind social transfers. In theory, what such public utility subsidies do is they free up income in the household for spending on other necessities.

34. Adapting the Altman and Boyce (2008) framework, we have illustrated several options to utilize the most common social grant transfer instruments to achieve developmental goals. No singular grant payment option works optimally to achieve all developmental outcomes. Whilst no one-size-fits-all and all-inclusive model of how to use the payment options of social grants exist, it is possible to illustrate several possibilities based on available evidence. Three possible areas with associated examples are highlighted, namely: Employment Generation (e.g. Early Childhood Development (ECD) Centres); Food and nutrition security (e.g. Food gardens or production inputs?); and Resource Poor Farmers (e.g. Production inputs).

35. *Employment Generation (e.g. Early Childhood Development (ECD) Centres)*: Where ECD Centres exist, working age adults receive a child care grant and a voucher per child. The ECD Centre would then submit these to the relevant local Departmental representative on a monthly basis and they would be reimbursed. This money would be used for salaries of staff and feeding of children. Each staff member at a centre would each receive an annual voucher that would enable them to undergo training at their closest training centre. Training would include ECD skills as well as management skills. Another option might be to implement this through EPWP II initiatives. This option could also be linked to any form of employment, especially if targeting the working poor – farm workers, construction workers, domestic workers, gardeners etc., especially where the wage is equivalent to or less than the basic wage.

36. *Food and nutrition security (e.g. Food gardens or production inputs?)*: People below a certain income threshold receive site specific agricultural training from an experienced NGO through means of a voucher. Also only those that are active in home food garden production would be eligible for voucher. No garden activity no voucher. Training would be low-external input low-cost using renewable technologies that are site specific (attending to biophysical and socioeconomic factors). NGO would then submit these vouchers to the relevant local Departmental representative upon completion of training and would be reimbursed. Two vouchers per year should cover two agricultural cropping seasons. Here vouchers could be exchanged for training and support as well as high-protein feed and limited veterinary services.

37. *Resource-poor small farmers (e.g. Production inputs)*: As in the Malawian AISP case, use vouchers to target poor smallholder farmers who have access to land beyond the household garden, by whatever means of tenure. Vouchers could be exchanged for specific inputs that are locally important (e.g. Maize, sorghum, etc). Local people could become sellers of smaller volumes of the inputs and could redeem the vouchers they receive for cash at a local post office or such like. Vouchers could be per volume rather than for a monetary value of the input so that high prices would not restrict the amounts received.

## **1. Introduction**

This report is the result of Development Bank of Southern Africa-commissioned research into ways of harnessing a broad suite of social grants for sustainable local economic development. Conceptually, the DBSA's Terms of Reference invite broad thinking about social welfare assistance. Social grant spending often targets individual recipients, for example cash pension grants and transfers through the expanded public works programme. Of specific interest to the DBSA is the impact of the transfer instrument and administration of the grant: comparing cash transfers with vouchers to contrast, where feasible, the multiplier effects on local job creation and food security.

South Africa, unlike many developing countries, has a comprehensive social security system that is comparable to those found in many developed countries (Van der Berg 2005). The system comprises several types of cash and non-cash transfers. The most common and frequently accessed cash transfers are the old age pension, the child support grant, the disability grant, the care dependency grant, and the foster care grant. Non-cash transfers include the food parcels and vouchers that are mostly accessed by families in temporary distress.

While these are important for poor and vulnerable households and individuals, there is a disturbing trend – the number of people (households and individuals) dependent on the social grants as major or only source of income is increasing. According to Van der Berg (2005), the number of beneficiaries increased between 1998 and 2003 from 2.8 to 5.8 million, which represented an annual growth of 15% or an increase from 67 to 125 grants per 1 000 of the South African population. The increase in 2003 could be attributed mainly to the introduction of the CSG and the increase in public awareness of eligibility for grants (Agüero, Carter and Woolard 2006). Nonetheless, the most recent estimates show that approximately 13 million recipients (~22% of the SA population) benefit from social grants. As the number of eligible beneficiaries increases, partly as a result of the economic downturn, government is rightly concerned about the fiscal sustainability of the relatively high dependence on social grants. The social grant system transferred about R80 billion in cash grants in the 2009/10 fiscal year (National Treasury, 2010). If this expenditure continues to grow it will bring to bear enormous pressure on limited fiscal resources.

In order to reduce pressure on South Africa's social security system, efforts are being put in place to develop local labour-absorbing industries to create employment and general (local) economic growth. However, social expenditure and economic development are generally viewed as binary opposites that require policy choices and trade-offs. In other words, "resources allocated to social expenditure effectively deprive resources available for economic development programmes" (DBSA 2009:2). It is thus important to investigate the possible links between social expenditure, economic development and employment creation, both at the local and national level. This would require exploring various interventions and/or initiatives that could maximise the



developmental impact of social grants by, among other things, looking at ways in which social grants expenditure can be channelled towards supporting local job-creating production. The welfare system in the United States, for instance, has a built-in flexibility to assist the working poor even if it is oriented towards Welfare-to-Work. Blank (2002), for instance, reviews the Temporary Assistance for Needy Families (TANF) block grant available at state-level with positive effects on labour market participation. TANF grants seem to be an effective instrument for ‘short-term public employment’ creation during an economic downturn. Beneficiaries with multiple or severe barriers to employment are thus offered work. These grants were seen to have positive effects as the number of people dependent on welfare support reduced in some states. It would be worth exploring lessons from targeted social programmes in other developing country contexts as well, for example the Progresa grant which provided cash payments to families in exchange for regular school attendance, health clinic visits, and nutritional support, the “Zero Hunger” social policy in Brazil, and India’s National Rural Employment Guarantee scheme. It is possible that South Africa’s social security system could be improved by incorporating the best features of vouchers into its social security system, based on lessons from international experience. Since the poor, and, given the target group, the majority of the social grant recipients, spend a large proportion of their income on food (Altman and Boyce 2008), a good place to start would be considering whether and how vouchers might be used to boost local food production. If such a system were successful, it would free up money that recipients would otherwise have to spend on food. Maximising the impact of such an intervention would need to engage with the current institutional realities of food production and supply, and be supported by system-wide efforts to promote the development of an efficient local food production and supply chain that would create employment and contribute to economic growth.

## **1.1 Data sources and methods**

This paper is basically a desktop review and analysis of information extracted from a variety of complementary sources: relevant published and unpublished literature; data from official surveys, such as the General Household Surveys; and electronic data of the South African Social Security Agency (SASSA). SASSA administers social grant transfers and is therefore the chief information source to establish participation in social safety net programmes. It regularly publishes updated administrative data from its own records on its website, but the information is aggregated to the provincial level and this limits analysis of local economic development impacts *per se*. The Generalized Household Survey (GHS) is an official dataset which collects information from a representative sample of households. It enables identification of primary sources of household incomes and recipients of specific social grants flowing into beneficiary households. GHS enables one to profile grant receiving households up to the level of municipal districts (StatsSA 2009). Other key

official and supplementary data sources to the above are departmental level Estimates of National Expenditure and relevant Budget Votes published by National Treasury. Whilst ENE data offer accurate figures about the fiscal costs of social grant expenditure, its main limitation is aggregation to a national level and consequently it is not possible to quantify the full injection of social spending into local economies. It is possible, using ENE data, to at least get a sense of the flows of publicly funded grants to various provinces and thus construct a richer picture of the magnitude of grants flowing to various provinces.

At a presentation of the first draft of this report to a roundtable convened by the DBSA, participants (senior research staff at the DBSA) offered the research team constructive and insightful comments aimed at refining the scope and analytical content of this report. Feedback from this panel of senior research staff at the DBSA encouraged the research team to engage more substantively with three sets of issues and explicitly reflect these improvements in the final report. Firstly, a fairly widespread conceptual view that social grants are wasteful handouts that discourage active economic participation must be more forcefully challenged. It was suggested that Amartya Sen's conception of development as expanding the capabilities and entitlements of the poor offers a meaningful framework to rethink social grants. Secondly, notions that equate vouchers with privatization ought to be engaged and critiqued. Finally, there is a need to clearly state the main arguments and illustrate its contribution to debates about policy options to boost the developmental impacts of grants. In this regard, the paper must outline a set of feasible options of how social transfer instruments (cash grants, in-kind grants and voucher) could be used to achieve developmental goals.

## **2. Definitions and history of social protection**

### **2.1 Defining social protection**

Generally, social protection involves a broad range of public actions that attempt to address risk, vulnerability and chronic poverty (Farrington & Slater 2006). National governments are obliged to ensure social protection to all citizens, especially those who are most vulnerable to poverty and are socially excluded. The United Nations (2001) defines social protection as:

*The set of public and private policies and programmes undertaken by societies in response to various contingencies to offset the absence or substantial reduction of income from work; to provide assistance for families with children as well as provide people with health care and housing.*

The Asian Development Bank has a similar, but more specific definition of social protection (Ortiz 2001:41):

*The set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and the interruption/ loss of income.*

Social protection has several functions (Taylor 2008; UN 2001), namely:

- It is protective – invoking measures designed to save lives and reduce levels of deprivation;
- It is preventive – attempting to reduce people's exposure to risks through social insurance programmes, including health insurance and pensions;
- It is promotive – improving the capability of the vulnerable and socially excluded to generate assets and thereby protect themselves against stressors and loss of income; and
- It invokes social justice – to reduce inequities and improve social integration through changes in laws, budgetary allocations and redistributive measures.

Recent literature (ILO 2000; UN 2001; Farrington & Slater 2006; Seekings 2006; OECD 2009) defines four major operational sub-categories of social protection instruments. These include social insurance actions aimed at reducing people's exposure to risks and vulnerabilities (such as health, life, and asset insurance, which may involve contributions from employers and/or beneficiaries); social assistance and welfare – public actions designed to

transfer resources to groups deemed eligible due to deprivation and inequality (mainly cash or food transfers, vouchers, or subsidies for services and staple foods); labour market programmes (such as micro-enterprise development and public works); and setting minimum standards in the workplace – often difficult to enforce in the informal sector. Table 1 presents an overview of the different social protection strategies and associated instruments.

**Table 1: Overview of the different instruments used for social protection**

Operational sub-categories	Instruments
1. Social insurance programmes – Financed by contributions and based on insurance principles	<ul style="list-style-type: none"> <li>• Pension</li> <li>• Health insurance</li> <li>• Other social insurance</li> </ul>
2. Social assistance and welfare programmes: Non-contributory, tax-financed benefits in cash or kind	
2.(a). <i>Social assistance to the vulnerable – protection and mitigation</i>	<ul style="list-style-type: none"> <li>• Cash transfers</li> <li>• Food transfers</li> <li>• Social services</li> <li>• Old age grant</li> </ul> <p>(These are generally aimed at specific groups: disabled people, the elderly, children, orphans and those affected by HIV/AIDS.)</p>
2.(b). <i>Promotive and transformational – aimed at building capabilities</i>	<ul style="list-style-type: none"> <li>• Health assistance – reduced fees, provision of free health services</li> <li>• Free primary and secondary education</li> <li>• School feeding schemes</li> <li>• Scholarships and fee waivers</li> <li>• Child Support Grant</li> <li>• Water and sanitation</li> <li>• Access to basic housing</li> </ul>
3. Labour market programmes	<ul style="list-style-type: none"> <li>• Public works programmes and employment guarantees</li> <li>• Small business/enterprise development</li> <li>• Micro-finance</li> <li>• Skills training</li> </ul>
4. Minimum labour standards	<ul style="list-style-type: none"> <li>• Setting and enforcing minimum standards to protect citizens within the workplace</li> </ul>

*Source: Based on Mutangadura (2009);, OECD (2009) and Farrington & Slater (2006)*

In summary, social protection refers to policies and actions which enhance the capacity of poor and vulnerable groups to escape from poverty, and better manage risks and shocks. It encompasses a range of instruments that tackle chronic and transitory poverty and vulnerability (Sabates-Wheeler & Haddad 2005). Social protection can help promote empowerment and security by improving risk management, thereby facilitating higher return investments by

poor people. It supports human capital development, expanding the capabilities of poor and vulnerable individuals and helping to break the inter-generational transmission of poverty. This is ensured by means of the different, but mutually reinforcing dimensions to social protection. These include the promotion of basic rights, human and social development, economic growth, accountable governance and security.

## **2.2 A brief history of social protection**

In many developing, low- or middle-income countries of the global South, poverty alleviation still depends on the informal networks of kin or community. According to Seekings (2005), in those countries where the national state is actively involved, three kinds of social protection or welfare systems have emerged, namely:

- *agrarian* systems, in which the state actively attempts to protect or rebuild an agrarian society; one in which small-scale agriculture and kin relationships are, for many rural households, a buffer against extreme poverty;
- *corporatist* systems, which involve access to formal welfare arrangements, which depends on access to employment, and can therefore be described as employment-related social or private insurance; and
- *redistributive* systems, in which poverty is tackled by the state through cash transfers and other means (i.e. social assistance and welfare programmes).

Corporatist systems emerged in the early twentieth century when formal sector employees began to secure social insurance, primarily against the risks of unemployment and poor health, but also in preparation for retirement. However, these systems were typically highly inegalitarian, in that the costs were often passed onto the poor and the unemployed. Faced with the burden of increasing poverty during the mid-twentieth century, numerous African and Asian countries moved towards agrarian systems, which were underpinned by land reform and pro-peasant policies. Only in exceptional cases was social assistance introduced in a few countries in the global South, namely South Africa, Mauritius, Hong Kong and parts of the British Caribbean (Seekings 2006).

Esping-Andersen (1990) and Castles and Mitchell (1993) report that the various social protection systems in the northern countries required special labour market policies to maintain full (or nearly full) employment. In southern countries, a similar situation prevailed (Seekings 2006). Agrarian social protection systems depended on the ability of the agrarian economy to absorb

labour. Corporatist systems depended on a large and growing urban formal sector employment. Seekings has noted that both these southern systems were linked to clear developmental projects, and depended on the success of 'development'. Furthermore redistributive systems were based on the premise of full employment:

*social assistance was provided to adults who were unable to work because of poor health or disability or who were too old to work, and to poor adults with children, but no such assistance was provided to unemployed adults in good health (Seekings 2006:2).*

Increasing unemployment and deagrarianisation (see Bryceson & Jamal 1997) in the latter part of the twentieth century poses major challenges to welfare regimes in southern countries. Previously, redistributive welfare systems were designed in a low unemployment setting; the prevailing concern was with labour shortages. Given the current situation in developing, low- or middle-income southern countries, especially rising unemployment, new short- and medium-term poverty-mitigating programmes are required. In many of these countries there are people who have never worked long enough in formal employment to be covered by contributory welfare schemes. Seekings (2006) argues that under these conditions governments have two choices:

- generate employment, through public works programmes (parts of Africa) or an employment guarantee (such as India); and
- expand social assistance to cover the unemployed poor.

The choice is between 'workfare' (guaranteed employment) and 'welfare' (minimum income scheme), or perhaps a combination of the two.

The first wave of social assistance programmes, in response to poverty crises, was top-down and introduced during the mid-twentieth century. Most of these reforms were implemented in open economies. As they were unable to pass on the costs of higher wages and social insurance to consumers, employers supported tax-financed social assistance programmes. Labour shortages in many of these countries, rendered public works programmes inappropriate. Low wages, rather than unemployment, was the problem. Since the 1980s, the second wave has been driven by population growth and increased deagrarianisation. Both processes resulted in rapid increases in the numbers of the urban poor and landless. Seekings (2006) notes that globalisation has probably heightened the vulnerability of many people to poverty, while trade liberalisation has undermined the ability of employers to pass on the costs of their social security contributions to the consumer. Increasing fiscal pressures compelled national governments to review their subsidisation of social insurance schemes, particularly in Latin America (Seekings 2006). Moreover, democratisation has effectively politicised welfare provision, thereby strengthening the non-unionised poor. In democracies political parties use promises of pro-poor welfare reform to increase electoral support. According to Seekings (2006), the collapse of protectionist models of development along

with a shift to more open economies might, be making it easier to consider tax-funded welfare reforms, rather than contributory ones.

The increased attention and importance given to social protection in Africa during this century is a result of the presence and effects of multiple stressors. Stressors include the toll of the HIV/AIDS epidemic; volatile food prices; climate change – including periodic droughts and floods; war and conflict in some regions; the current global economic crisis; and the erosion of the support-base provided by the extended family system – traditionally the main social security system in Africa (Mutangadura 2009).

### **3. Theoretical overview of social grants and economic development**

Sustained economic growth, in which the poor participate directly, as both actors and agents, is essential for reducing poverty. A recent Organisation for Economic Co-operation and Development (OECD) report (2009) emphasises that social protection and employment, both of which are two critical avenues for achieving pro-poor growth and reaching the Millennium Development Goals (MDGs), warrant much greater attention from policy-makers:

- The various social protection instruments directly reduce poverty and help make growth more pro-poor. They stimulate the involvement of the poor in economic growth, protect the poorest and most vulnerable in a downturn, and contribute to social cohesion and stability. Furthermore, social protection contributes to building human capital, improved risk management, investment promotion, entrepreneurship and improved labour market participation. Social protection programmes can be affordable, even the poorest countries, and represent good value for money if they are effectively targeted and implemented (Hagemejer & Behrendt 2009; ILO 2008b; Samson 2009).
- Productive employment and decent work are the main routes out of poverty. Well-functioning labour markets and an enabling environment for local entrepreneurship are essential to increase employment opportunities for the poor. Policies that recognise and improve conditions in the informal economy, where most of the poor practise their livelihood strategies and earn their income, are crucial to poverty reduction. Increasing the employability of poor people, especially improved opportunities for women and youth, unlocks their potential to contribute to growth.

The same report (OECD 2009) emphasises that actions in these two areas are mutually reinforcing and promote pro-poor growth. Firstly, social protection

improves the productivity and employability of poor people, while stabilising and increasing their incomes and linking short-term coping strategies with long-term growth intensification and poverty reduction strategies. Secondly, improved and more productive employment raises incomes, permits social spending by poor workers, and ultimately helps to finance social protection.

### **3.1 Meeting the challenge of implementation**

Social protection interventions offer promising avenues for operationalising the Paris Declaration on Aid Effectiveness (OECD 2005) in ways that promote pro-poor growth and country-led national and regional development strategies. Multiple stakeholders, including government, donors and civil society organisations, have the potential to play vital complementary roles in delivering social protection to the poorest people. In fragile states and situations where humanitarian aid is required, social protection can enable people to deal more effectively with risk, thereby making them less vulnerable and more resilient. It can contribute to social cohesion by strengthening the contract between citizens and their government, and promote social inclusion, integration and greater accountability. By contributing to nation-building and social solidarity, it can provide a foundation for political and social stability necessary for economic growth. Social protection is an investment in pro-poor growth that can be affordable, even for low-income countries.

Government has the primary role of providing the framework for the delivery of social protection systems. These systems require robust and durable political commitment in order to deliver effective and long-lasting benefits. As such they must be integrated into national social policy frameworks. Investment in implementation systems, monitoring and evaluation systems, fiduciary risk management and accountability mechanisms is vital for effectiveness and efficiency, and to ensure sustained and effective delivery of social protection (OECD 2009).

The cost of social protection measures can be kept relatively low and manageable by beginning small and expanding over time. Context-specific targeting and delivery are critical design and capacity issues. They impact on costs and the ability to reach the poor and achieve desirable outcomes. Recent evidence shows that even small programmes bring benefits (see Hagemejer & Behrendt 2009; ILO 2008b; Samson 2009).

### **3.2 The contribution of social protection to reducing vulnerability**

A key function of social protection services is to reduce poverty and inequality and build social cohesion. This helps to legitimise and strengthen the role of the state which is extremely important in fragile contexts. Support for the state will of course be linked to the extent to which state resources are being



expended for the benefit of the citizens, especially vulnerable citizens, and control of corruption and patronage.

Effective social protection services make poor and vulnerable households more resilient by mitigating key livelihood risks. This helps to protect their livelihood assets (because these are less likely to have to be used to cope with a livelihood shock like a household member becoming ill), improves the likelihood of employment, and enables these households to put such assets and income they have into more potentially productive livelihood strategies. More productive livelihood strategies are likely to lead to a virtuous circle in which vulnerable households steadily become more secure, accumulate more assets, which enables them to engage in more productive livelihood strategies; strategies which may be more risky, but potentially yield greater returns. permit the poor and vulnerable households to safeguard their assets and adopt effective coping strategies to meet challenges arising from multiple stressors. This mitigation of risk permits household investment in more productive, but often riskier livelihood strategies.

### **3.3 Contributions to employment and labour market participation**

Employment is recognised as an important component of any poverty reduction strategy. One of the targets of Millennium Development Goal One (MDG 1) is *productive employment and decent work for all*. While the vast majority of poor people are engaged in some type of work, employment conditions are often poor, productivity is low, and incomes are inadequate. This phenomenon has given rise to the term ‘working poor’. Although in regular employment, this group’s income from employment is too low for its members to transcend a state of relative poverty. The package of social protection instruments works to strengthen employability of the poor and enables them to seek and obtain better and more remunerative work. It also provides a safety net in the event of a livelihood shock, e.g. loss of a job, illness or the death of a breadwinner. Social benefits encourage meaningful participation in the labour force, building self-reliance and reducing dependency.

Employment contributes to stability and economic recovery in weakened situations. Short-term employment creation is widely considered to be an essential support strategy alongside longer-term investments in an enabling environment for the private sector (OECD 2009).

### **3.4 Contribution to poverty reduction and pro-poor development**

Evidence from Southern countries continues to illustrate the importance of social protection in tackling poverty, supporting economic growth and improving the effectiveness of pro-poor growth strategies. Social protection services directly reduce poverty by improving health outcomes, increasing school attendance, reducing hunger, improving dietary diversity and promoting livelihoods and asset accumulation.

In countries where the main recipients of interventions are women, social protection measures can promote empowerment and more equitable gender relations. Social protection programmes are increasingly targeted at those affected by HIV and AIDS, including orphans and vulnerable children.

In the current economic climate, it is increasingly recognised that social protection can offer a powerful tool for governments and donors to strengthen their responses to emerging global challenges and aggregate shocks, including recent food, fuel and economic crises. Such stressors and crises impact most severely on those least able to cope with them, the chronically poor. Social protection not only helps poor and vulnerable groups cope better, but also facilitates adjustments to mitigate risks to their livelihoods. Other threats are HIV and AIDS and climate change. In many developing countries HIV and AIDS is eroding customary social protection mechanisms while increasing the burden of care, prompting governments to implement and expand social protection responses that strengthen traditional networks. Climate change increases livelihood risks, particularly in agriculture, and threatens health security through changing disease patterns. Increasingly governments and donors are responding to these trends by scaling up cash transfers that can restore livelihoods and food security while safeguarding developmental outcomes.

### **3.5 Local economic development**

Local economic development (LED) is centred on the decentralisation and devolution of power, authority and resources to sub-national (regional or local) levels of government (Rogerson 2008; Rogerson & Nel 2005). This is expected to or should 'open up new spaces for the local development activities of local stakeholders rather those of central government' (Rogerson 2008:307). In other words LED creates an environment for the engagement of local stakeholders in implementing development strategies and programmes. The importance of 'locality in the global economy and the emphasis on local and community decision-making in democratic states' (Triegaardt 2007:1) has been important in ushering the development of LED. In principle, LED encourages bottom-up approaches as opposed to centralised, top-down approaches. According to Turok (2005, cited in Rogerson 2008:307), 'the decentralized bottom-up approach to economic development is aimed to strengthen the building blocks of growth, including productive investment, skills, and

innovative technology, through developing the inherent strengths of each locality’.

Binns and Nel (1999:389), are of the view that LED arose mainly from the massive failures of the development narratives post World War II thus creating ‘an opportunity for more situationally relevant and people-centred development’. Thus LED is seen as a partial response that encourages individual, communities and localities to be in charge of their own ‘economic’ destiny mainly as a response to the prevailing, commonly difficult, economic realities. This is further necessitated by the inability of national governments of poor nations to intervene effectively due to the collapse of social services and infrastructure, high inflation, huge debt burdens and the effects of structural adjustment. Therefore many communities have resorted to looking at their own resources and skills to determine or contribute towards a viable economic development future for themselves and their children.

Based on the above, LED can be defined as a process whereby local governments and/or community-based groups engage in order to stimulate or maintain business activity and/or employment through the management/utilisation of existing human, natural and institutional resources (Binns & Nel 1999; Zaaijer & Sara 1993; Triegaardt 2007; Blakely 1994). LED is about local stakeholders working together for sustainable economic growth that brings economic benefits and improvements in the quality of life for all in the community (Triegaardt 2007).

### **3.5 Principles for the delivery of social protection**

Much of the information presented in this section can be summarised into ten key principles to ensure that social protection is effective and sustainable (OECD 2009):

- The state has the primary role in providing a framework for delivering social protection. This reinforces a social contract that legitimizes and strengthens the state;
- Social protection can be affordable, even for low-income countries, and efficiently tackles poverty;
- Social protection should be rights-based and focus on empowerment and addressing social inequalities across the lifecycle;
- Effective social protection systems require long-term planning, strategy and political commitment entrenched in the legislative and/or constitutional frameworks of the country;

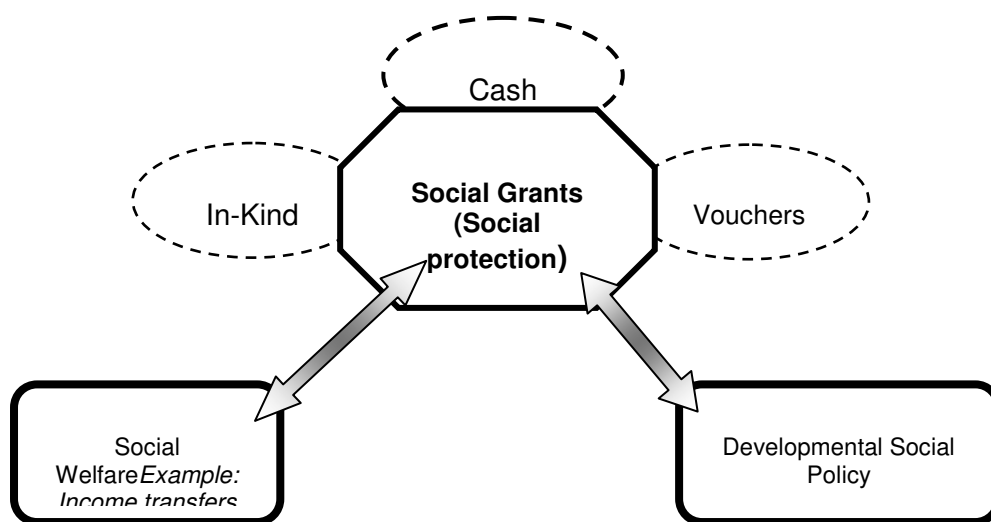
- Design and implementation must reflect the social and policy context of the country;
- Effective social protection requires a comprehensive mix of instruments that appropriately addresses coverage and targeting;
- Institutional capacity and co-ordination are important for effective delivery of social protection;
- Investments in monitoring and evaluation systems and evidence generation are critical;
- Governments and donors must pay particular attention to fiduciary risks in order to protect programme success and ensure sustainability; and
- Donors' support and co-ordination plays an essential role in supporting national social protection initiatives.

### **3.6 Conceptual approach**

In an effort to make our conceptual argument for developmental social policy explicit, we offer a schematic picture of where this approach fits into the broad debates about social grants. To support the second element of our argument, that no single transfer instrument is adequate on its own to achieve all developmental outcomes, we outline a few options of how to reach a broad range of goals in section 8.

Alongside the conceptual debates about whether social grants ought to be primarily concerned with the recipients' welfare or be developmental, there is also no agreement as to the best form in which social benefits ought to be delivered. A range of forms or instruments exist through which social grants can be delivered to poor and vulnerable beneficiaries. As depicted in figure 1 below, three of the most common forms of grant transfers are: cash, in-kind and vouchers. Alternatively, a share of the benefits might be delivered in cash, whilst another portion could be, for example, in-kind food handouts. Social grant instruments differ in terms of how efficiently they help to bring about greater equity. Decisions about the form in which the grant is to be delivered to beneficiaries depend upon the opportunity cost of its implementation. After all, policymakers need an instrument which is low-cost in terms of fiscal expenditure, places no additional costs on beneficiaries to access, and has high value-added component for local development.

One comparative overview of cash, in-kind food and voucher grant instruments considers in-kind transfers to be clearly distinguishable from cash and voucher programmes (Gentilini 2009). It suggests that social transfers using either cash or vouchers appear to be easily interchangeable, which might imply that the theoretical and policy distinctions between cash grants and vouchers are artificial. Interestingly, Gentilini (2009) stresses that factors such as the development of local infrastructure and markets are critical determinants of how effectively each instrument is likely to work in practice. However, an unanswered question is to what extent different transfer instruments contribute towards the development of local infrastructure.



**Figure 1: Schematic overview of social grants**

## 4. Social grants transfer instruments

In this section we briefly reflect on the conceptual debates as well as the advantages and disadvantages of the most widely used social grant transfer mechanisms. In this section we delve deeper into the three main forms of the social welfare transfers to evaluate the which one constitutes the best option

### 4.1 Cash grants

A cash grant transfers money into the hands of the beneficiary, often done through automatic teller machine bank cards and mobile payout points. Cash grants probably offer beneficiaries the greatest level of discretionary spending, but it might also expose beneficiaries to the risk of being robbed and misuse of the grant. Many developing countries including South Africa have adopted social cash transfers as a leading social protection initiative. In theory social cash transfers seem like an appropriate state intervention as they can support or promote pro-poor growth and increase access to the labour market (Mkandawire 2001, Altman and Boyce 2008). According to Samson, there are eight ways in which cash transfers can improve pro-poor growth.

*Assisting in creating an effective and secure state:* If accepted by society, social cash transfers can go far in fostering social cohesion – for example, the social pension in Mauritius contributed to social cohesion by encouraging/supporting the economic transition from the mono-crop economy with high poverty rates into high-growth country with one of the lowest poverty rates in Africa (Roy & Subramanian 2001).

*Improving worker health and education and raising labour productivity:* South Africa's social cash transfers as well as the Latin American programmes have shown positive health and education outcomes (Agüero, Carter and Woolard (2006). In the Bolsa Escola and Programa de Erradicacao do Trabalho Infantil in Brazil, Progresia and the Pilot for the Red de Proteccion Social (RPS) in Nicaragua, cash transfers had a dramatic positive effect on school enrolment and attendance, reduced repetition rates and improved school performance. (Lund, Noble, Barnes & Wright 2008)

*Enabling poor households to protect their productive assets against shocks:* According to Alderman & Haque (2006), this enables the poor to defend their long-term income-generating potential. For example, the drought in Ethiopia significantly reduced household earnings, but cash transfers assisted households to recover without taking desperate measures, thereby reducing future vulnerability.

*Mitigating risks and encouraging investment:* Farmers in Maharashtra, India who were protected by the Maharashtra Employment Guarantee Scheme were able to invest in higher-yielding varieties than farmers in neighbouring states where there was no such scheme (DFID 2005).

*Combating discrimination and unlocking economic potential:* South Africa, Brazil and Bangladesh put programmes in place which improved women’s economic participation and increased the number of girls attending school (Skoufias, Lindert & Shapiro, 2009).

*Improving labour market participation:* In South Africa a study commissioned by the Economic Policy Research Institute (EPRI) showed that households receiving the CSG and other social grants were more likely to participate in the labour market (Samson & Williams, 2007).

*Stimulating local demand:* In Malawi, using the Social Accounting Matrix, economists found that the multiplier effects of the payments of the Dowa Emergency Cash Transfer (DECT) benefited the entire community. In Namibia, social pensions had a similar impact as they supported the development of local markets and promoted local economic development. (Cichon & Knop 2003)

*Creating gains for those who have been sidelined by economic reforms:* According to Samson (2009) the political economy of reform requires a combination of policies to broaden the number of those who benefit from new economic strategies. For example, in Mexico and Indonesia, cash transfers have compensated the poor for the reduced price subsidies. Bolivia, on the other hand, instituted a social pension scheme with the proceeds from the privatisation of public enterprises.

Although these eight potential pathways are backed with some form of practical experience, it is necessary to remain cognisant of the fact that cash transfers do not have the same effect in different situations. Some systems are prone to corruption; people might use the funds for anti-social reasons; people might become dependent on them; or they could be fiscally unaffordable. All of these issues need to be taken into consideration before any conclusion can be reached that a cash transfer is the way to alleviate poverty and promote pro-poor growth.

**Table 2: Summary of advantages and disadvantages of social cash grants**

<b>Possible advantages of cash transfers</b>	<b>Possible disadvantages of cash transfer</b>
<i>Cost efficient</i> – cash transfers tend to be cheaper in comparison to the voucher system or any commodity based options because transport and logistics are lower	<i>Inflationary risks</i> – in cases where cash causes prices to rise (more money chasing a limited number of goods), then the recipients will get less for their money, and non-recipients might be worse off

Possible advantages of cash transfers	Possible disadvantages of cash transfer
<i>Choice</i> – cash allows the recipients to decide what they should spend the money on – needs vary from person to person	<i>Anti-social behaviour</i> – cash can be used for anything other than its intended purpose
<i>Multiplier effect</i> – Cash transfers can have knock on economic benefits for the local market as well as trade – particularly if the money is spent locally	<i>More difficult to target</i> – because cash is attractive, even the wealthy might want to access it
<i>Avoids disincentive effects</i> – unlike commodities, cash is unlikely to discourage local trade or production	<i>Security risks</i> – dispensing cash might place implementing staff at risk
<i>Fewer costs for recipients</i> – especially if there are other efficient and effective cash transfer systems. With other systems, e.g. vouchers, recipients might incur significant transportation costs from the distribution site to their homes	<i>Disadvantages women</i> – women may be less able to keep control of cash than the alternatives such as food/ commodities – although experience of programmes such as Progresa (Mexico) and Bolsa Familia (Brazil) suggest this is not the case
<i>Dignity</i> – It has also been argued that cash can be good in preserving the dignity of recipients as it may possibly negate the the possibility of standing in long degrading queues	

Sources: Harvey 2005; Samson 2009

## 4.2 In-kind transfers

Are cash transfers or in-kind transfers better? It is very hard to ascertain whether the cash transfer is better than the in-kind transfer as both have advantages and disadvantages. The objective of the transfer and the economic environment of the country in question is an important consideration. If the objective is to boost local economic development, then cash transfer seems like the better alternative because making cash available is more likely to stimulate local economies and generate a multiplier effect with broader benefits. In-kind transfers might put local agricultural markets at risk particularly if these are in the form of food donations. In environments where food is not available locally, in-kind transfers of food would be appropriate. According Komives et al (2007), in-kind transfers are very important during times of hyperinflation – when the currency is eroding rapidly in value and there is very little in the market to purchase. However, many authors agree that this is only feasible in the short run; cash transfers as long-term instrument are more productive and cost-effective.

**Table 3: Summary of advantages and disadvantages of in-kind social grants**



<b>Advantages of in-kind grants</b>	<b>Disadvantages of in-kind grants</b>
<i>No risk of anti-social behaviour</i> – because it is a direct transfer of food	<i>Difficult to control</i> – physical control over food is expensive and more difficult to audit
<i>Easier to target</i> – because food is delivered only to those who need it	<i>High potential for corruption</i> – because of the administrative burden associated with dispensing in-kind assistance, corruption is more likely
<i>Advantages women</i> – According to Harvey (2005) In-kind food transfers provide women with more control over the intra-household allocation of food transfers	<i>Potential for destabilisation</i> – If not properly organised, the supply of free food might lead to market failure and the destabilisation of local agricultural markets

*Sources: Harvey 2005; Samson 2009, Komives et al 2007*

### 4.3 Vouchers

Although many developing countries have adopted the cash transfer system as a mechanism for alleviating poverty and promoting pro-poor growth, there has been a long-standing debate about the efficiency and effectiveness of cash transfers compared to vouchers .

**Table 4: Summary of advantages and disadvantages of vouchers**

<b>Advantages of vouchers</b>	<b>Disadvantages of vouchers</b>
<i>Can be linked to other, supplementary goals</i> – vouchers for a particular commodity, e.g. food, may be linked to specific supplementary goals, for example, only be redeemable against nutritious food	<i>Cost</i> – vouchers can be costly in terms of printing, distribution and redemption
<i>Advantages women</i> – women may have more control over the use of vouchers in household expenditure than would be the case with cash	<i>Lack of choice</i> – vouchers may not meet the specific needs of particular households
<i>Less potential for anti-social behaviour</i> – vouchers are only redeemable for specific commodities	<i>Corruption</i> – if people prefer cash to vouchers a black market might develop
<i>Better targeting</i> –if asking for vouchers is seen as demeaning, only the needy will apply	<i>Potential lack of trader participation</i> – traders may not want to accept vouchers

*Sources: Harvey 2005; Samson 2009; Steuerle 2000*

Vouchers may be denominated for an amount of money or for a specific physical quantity of specific goods. There are few examples of functioning voucher systems. Harvey (2005) cites one example of the successful implementation of a voucher system –International Committee of the Red Cross food vouchers in the Palestinian territories. A voucher system was put in place by the UK government after a major volcanic eruption on the island of Montserrat. However most writers on the subject agree that the voucher system is only more effective than a cash transfer if the objective is not just to transfer income to the household, but to meet a bigger objective such as improving nutrition or boosting agricultural production. . Vouchers might be appropriate to, for example, to give women more power over the way that household resources are expended. If the objective is to minimise administrative costs, then cash transfers may be a more appropriate mechanism.

## **5. Social protection and LED in South Africa**

### **5.1 Introduction**

Although South Africa ranks as an upper-middle income country (based on average income), some of its social indicators are comparable to those of the poorest countries of the world (Samson et al. 2006). Having an official unemployment rate of 26%, a poverty rate of approximately 50%, high levels of de-agrarianisation and one of the highest Gini coefficients in the world, the country faces substantial challenges in addressing poverty, inequality and unemployment (Samson et al. 2006; Seekings 2006). In the twenty-first century, southern countries, including South Africa, face a real choice between public works programmes and radical reform of the welfare system, to address unemployment-linked poverty.

South Africa's existing social assistance programme is relatively comprehensive by Southern country standards; identified beneficiaries are covered by a wide range of instruments. It has two main objectives. The first objective is to immediately reduce poverty among groups who are not expected to participate completely in the labour market, and therefore be vulnerable to low income: the elderly, those with disabilities, and children. The second objective is to increase investment in health, education and nutrition, in order to increase overall economic growth and development. These two objectives are evident in the 1997 White Paper on Social Development (DoW 1997):

*...a social security system is essential for healthy economic development, particularly in a rapidly changing economy, and will contribute actively to the development process. It is important for immediate alleviation of poverty and is a mechanism for active redistribution.*

The first objective is generally met by a number of direct cash transfers, which focus on individual beneficiaries and are conditional.

In-kind and 'social wage'/service transfers focus on certain vulnerable groups. Instruments include the following:

- Food transfers to poor and those in ill-health;
- Health assistance – reduced fees, provision of free health services for some;
- Free primary and secondary education for some;
- School feeding schemes at many schools in poor areas;

- Social services, including family and child welfare and counselling;
- Water and sanitation; and
- Access to basic housing.

The five major social security grants in South Africa: the State Old Age Pension, the Disability Grant, the Child Support Grant, the Foster Child Grant and the Care Dependency Grant. Eligibility for each grant is dependent on an income-based means test. The grants are financed through general tax revenues, collected on a national basis, but are implemented and administered by the South African Social Security Agency (SASSA). This system appears to be very efficient; as administrative costs are low and most expenditure is well targeted on the poor.

*Access to pensions alone serves to raise many households out of extreme poverty – the bottom two deciles – and into mild poverty or even above the poverty line. (Seekings 2006:11)*

The amounts paid have increased significantly in real terms since 2001. The coverage of the Child Support Grant was expanded in 2009 to include all children below 18 years. In 2004/2005 total spending on these various grants represented 10.2% of total government spending, and 3.1% of Gross Domestic Product (GDP) (Seekings 2006).

Altman and Boyce (2008) illustrate the increase in the reach of the various grants from 1997 to 2007 in Table 4. In June 2007 there were 7.9 million CSG beneficiaries. Old age pensioners were the next largest group with 2.2 million beneficiaries. There were 1.4 million beneficiaries of the Disability Grant with approximately 19% of disability grant beneficiaries being in receipt of a temporary disability grant and 81% on a permanent disability grant.

**Table 5: Type and number of grants in South Africa: 2001 to 2007**

<b>Grant type</b>	<b>Aug 1997</b>	<b>Apr 2001</b>	<b>Apr 2005</b>	<b>Jan 2006</b>	<b>Jun 2007</b>	<b>Value of grant per month June 2007</b>
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

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<b>Grant type</b>	<b>Aug 1997</b>	<b>Apr 2001</b>	<b>Apr 2005</b>	<b>Jan 2006</b>	<b>Jun 2007</b>	<b>Value of grant per month June 2007</b>
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
<b>TOTAL individual recipients</b>	<b>2 965 629</b>	<b>3 610 214</b>	<b>9 402 795</b>	<b>10 749 599</b>	<b>12 057 595</b>	

*Source: Altman & Boyce (2008:11)*

The information reported in table 5 gives a sense of recent increases in the monetary values of social grants- which usually take effect at the start of the new fiscal year. The increment allocated to beneficiaries at the time of the Medium Term Budget Statement in October 2008 was to cushion grant recipients against the combined impact of the economic recession and the food price crisis. Assessing the impacts of these extra amounts on grant households is important but falls outside the scope of the present study. From the start of the 2009/10 financial period, pensioners and the disabled received a monthly grant of R1010 whereas the value of the child grant moved to R240. Focusing on the yearly percentage increase in the monetary value of the grant shows that the increase in the child support grant is almost double that any of the other grants, albeit from the lowest base.

**Table 6: Increases and percentage change in monetary value of grant types, April 2008-2009**

<b>Grant Type</b>	<b>Amount Payable Per Grant Per Month</b>			<b>% Change 2008-2009</b>
	<b>01-Apr-08</b>	<b>01-Oct-08</b>	<b>01-Apr-09</b>	
Old Age grant	R 940.00	R 960.00	R 1,010.00	7.45

Disability grant	R 940.00	R 960.00	R 1,010.00	7.45
War veterans' grant	R 960.00	R 980.00	R 1,030.00	7.29
Grant-in-aid	R 210.00	R 230.00	R 240.00	14.29
Child support grant	R 210.00	R 230.00	R 240.00	14.29
Foster care grant	R 650.00	R 650.00	R 680.00	4.62
Care-dependency grant	R 940.00	R 960.00	R 1,010.00	7.45

*Source: SASSA (2009) online database*

A single household can receive more than one grant (grant type or number of the same grant). Therefore fewer households than the total number of beneficiaries reported above actual benefit from a grant. Altman and Boyce (2008) note that most South African households are in receipt of either one (36%) or two (31%) types of grants, with the CSG being the most common. In 2007, 51% of households reportedly received at least one CSG. The various uptake figures indicate the far-reaching impact of cash transfers in South Africa's social assistance system.

A recent comparative analysis by StatsSA, based on 2003 and 2007 GHS datasets, offers informative profiles of grant receiving households and the uptake of social grants among the poor. It shows that roughly 60% of grant recipients are in households classified as low-income and that grant-receiving households constitute approximately 40% of all low-income households. Furthermore, by 2007, at least 42% of households had at least one grant recipient, whilst the average grant receiving family included at least 2 beneficiaries. (StatsSA 2009)

The in-kind and social wage transfers must also contribute to improved living standards of most recipients, especially where the services are of a high standard. However, while important for development, the mandate of this study requires that the focus of this section is on the contribution of the cash transfers and their potential to contribute to local economic development.

Next we present an overview of social grant flows to the provinces based on administrative data from SASSA. This enables us to get a picture of the distribution of different types of grants across all provinces and establish the provincial concentration of social grants. As of March 2009, most of the child support grant recipients are in KwaZulu-Natal, 2 282 246. The provinces with the largest number of recipients of the old age pension grant are Eastern Cape, KwaZulu-Natal and Limpopo.

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**Table 7: Social grants recipients by gender and grant type per province, 2009**

<b>Region</b>	<b>Gender</b>	<b>OAG</b>	<b>WVG</b>	<b>DG</b>	<b>GIA</b>	<b>FCG</b>	<b>CDG</b>	<b>CSG</b>	<b>TOTAL</b>
<b>ECP</b>	Male	150661	147	100109	2218	24777	5644	808287	1091843
	Female	311518	29	108495	4611	25600	4316	802097	1256666
	Unknown	0	0	0	0	40967	9259	1	50227
<b>FST</b>	Male	46182	32	41699	295	11145	1451	249510	350314
	Female	103542	2	56608	471	11409	1109	248271	421412
	Unknown	0	0	0	0	27424	1781	3	29208
<b>GAU</b>	Male	98934	291	62436	382	15692	3714	538862	720311
	Female	216323	96	72135	388	16607	2666	540171	848386
	Unknown	0	0	0	0	32677	6598	1	39276
<b>KZN</b>	Male	137644	134	139987	5666	34518	9946	1167810	1495705
	Female	377479	54	223914	15149	35471	7635	1187593	1847295
	Unknown	0	0	0	0	70859	15198	16	86073
<b>LIM</b>	Male	106929	126	51444	1534	15727	4242	697136	877138
	Female	275986	5	53505	4696	16286	3134	698461	1052073
	Unknown	0	0	0	0	25173	5050	1	30224
<b>MPU</b>	Male	54163	42	35238	433	8642	1950	358993	459461
	Female	118527	13	48145	660	8688	1509	360907	538449
	Unknown	18	0	0	0	12458	2278	0	14754
<b>NCP</b>	Male	23723	58	21921	1251	4320	1273	106928	159474
	Female	41656	1	25221	2136	4422	1049	104970	179455
	Unknown	0	0	0	0	7874	1535	0	9409
<b>NWP</b>	Male	73543	36	45075	656	12197	3139	344817	479463

	Female	139638	1	54387	1545	12501	2300	344300	554672
	Unknown	0	0	0	0	19862	3514	0	23376
<b>WCP</b>	Male	69514	280	68041	3508	4954	2128	284724	433149
	Female	133797	65	78281	4035	5586	1674	283502	506940
	Unknown	5	0	0	0	19511	4604	2	24122
<b>TOTAL</b>		<b>2479782</b>	<b>1412</b>	<b>1286641</b>	<b>49634</b>	<b>525347</b>	<b>108696</b>	<b>9127363</b>	<b>13578875</b>
	Male	761293	1146	565950	15943	131972	33487	4557067	6066858
	Female	1718466	266	720691	33691	136570	25392	4570272	7205348
	Unknown	23	0	0	0	256805	49817	24	306669

*Source: SASSA (2009) online database*

## 5.2 The impacts of social grants

Research reported in Agüero, Carter and Woolard (2006), prior to the large scale roll-out of social grants this century, finds that those South African households eligible for a State Old Age Pension reported significantly better weight-for-height indicators for girls, although no significant difference for boys was found. Maitra and Ray (2003) provide evidence that the households receiving state pensions spend more on food and education and less on alcohol, tobacco and entertainment than non-recipient households. Various studies undertaken by EPRI corroborate and extend these results, documenting the extent to which South Africa's social grants reinforce developmental impacts within households in terms of nutrition, education, health, and vital services (see Samson et. al. (2006) for a review of studies). The Regional Hunger and Vulnerability Programme (RHVP) (2007) notes that in the short-term the impact of providing the poor and vulnerable with cash transfers, rather than with say vouchers, food or agricultural subsidies may not appear startling at first. However, over the long-term, cash transfers may have a much more far-reaching impact. Initially they benefit the recipient, spreading to the household, the local community and the local economy (see also Aliber et al. 2007). Eventually the benefits are expected to spread to the country as a whole (RHVP 2007). Cash transfers stimulate economic activity and growth, thereby increasing the tax base that finances these and other social protection measures (Samson et al. 2005).



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The range of social grants available in South Africa appears to have a positive impact on poverty reduction. They contribute directly and indirectly to beneficiary households' well-being and also to the ability of their members to participate in the country's development. Contrary to economic theory, which suggests that social grants may undermine labour force participation by reducing the opportunity cost of not working, Samson et al. (2006) provide evidence that South African social grants demonstrate otherwise and in fact increase employability. Du Toit and Neves (2009) report similar evidence with regard to the multiplier effect of social grants for recipient households and local communities. The body of evidence demonstrates that living in a household receiving social grants is correlated with a higher success rate in finding employment, and that individuals in households receiving social grants have increased both their labour force participation and employment rates faster than those who live in households that do not receive social grants (Samson et al. 2006; Du Toit & Neves 2009). Samson & Williams (2007) attribute this to the fact that social grants provide potential labour market participants with the resources and economic security necessary to invest in high-risk/high-reward job search, while also improving the likelihood of finding employment. However, from the perspective of LED, consideration must be given to the fact that if skilled jobs are not locally available, then skilled job-seekers will go elsewhere. Thus the initial benefit of indirectly receiving a grant may be lost if there are no local job opportunities.

In their study of the contribution of social grants to LED in the rural Zululand District in KwaZulu-Natal, Aliber et al. (2007) found that cash grants enhanced the spending power of poor households and that much of the income from these grants was circulated within the same communities. This had the effect of supporting local small and micro entrepreneurs. In that study, grant recipients accounted for more than eight times of local expenditure in comparison to non-recipients. Recipients contributed to more than 90% of local expenditure. While these cash transfers modestly assisted poor households to engage in agricultural production, there was little evidence, at least in the three study sites, that social grants provided serious capital investment for starting or maintaining non-agricultural enterprises. This is because the majority of recipients use grant income to purchase basic necessities, including food, leaving little for investment in micro enterprises. Local expenditure on locally available goods and services was the main contribution of social grants to LED. However, this was disproportionate across sites and surprisingly those who received grants via mobile pay-points tended to spend less of their income locally, in comparison to those who had to go to the nearest town to access their grants through bank accounts.

South Africa's very early experience of deagrarianisation, coupled with apartheid policies, resulted in the undermining of agricultural livelihoods and agrarian society as a whole (Bundy 1988; Beinart 2004). Starting with the white populace in the 1920s, by the 1940s the state had introduced a broad range of social assistance programmes for all races, although racially unequal. In the

later part of the twentieth century government policies resulted in extremely high unemployment levels, exposing the flaws inherent in the social welfare systems (Seekings & Nattrass 2006). Following the 1994 elections, there have been calls for both public works programmes and the expansion of welfare through some kind of universal basic income grant (and the Taylor Commission investigated and reported back to government on this suggestion in 2002). However, as Seekings (2006:3) points out, there has been very little research:

*...on the relative merits, constraints and sustainability of these alternatives, nor does it seem that the comparative literature on employment guarantee or public works programmes has informed thinking about the choice facing South Africa.*

### 5.3 Child crants

South Africa has three grants that are targeted towards children. These are the Child Support Grant, the Care Dependency Grant as well as the Foster Care Grant.

*Care Dependency Grant:* This is a means-tested grant which is payable to children under the age of 18 in permanent homecare or suffering from severe mental or physical disorders. The child may not be in the care of any state institution. The number of beneficiaries increased from 2 707 in 1997 to 107 065 in 2009. The monthly value of the grant is currently R1 010 ([www.sassa.gov.za](http://www.sassa.gov.za)).

*Foster Care Grant:* This type of grant is not means-tested as foster care is not considered a poverty issue. The child is placed under the custody of a suitable parent under the supervision of a social worker. The foster care parent receives a monthly grant of R680 ([www.sassa.gov.za](http://www.sassa.gov.za)).

*Child Support Grant:* The CSG was introduced in 1998 and has since become the state's largest social assistance programme in terms of the number of beneficiaries reached (8.8 million children in 2008), and is currently the key poverty alleviation strategy targeting children (Agüero, Carter & Woolard 2006). The main objective of the grant is to ensure that the children living in extreme poverty are able to access financial assistance in the form of a cash transfer to supplement rather than replace household income. As of April 2009, the grant is R240. The criteria<sup>1</sup> for the CSG are:

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<sup>1</sup> <http://www.sassa.gov.za/content.asp?id=1000000519>, accessed on 25 November 201.

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- The child and primary caregiver must be a South African citizen or permanent resident and must be resident in South Africa;
- The applicant must be the primary caregiver of the child/children concerned;
- The child/children must be under the age of 14 years (this will increase to 18 years in 2010);
- The applicant and spouse must meet the requirements of the means test;
- The applicant must be able to produce his or her 13-digit bar coded identity document and the 13-digit birth certificate of the child; and
- The applicant may not apply for more than six children who are not biological descendants.

Since it is a means-tested grant, beneficiaries must have an income of less than R1 100 per month if they are residing in a rural area or an informal dwelling in an urban area, or an income of less than R800 a month if residing in a formal dwelling in an urban area.

According to Agüero, Carter & Woolard (2006) the means test was intended to ensure that the grant targeted those most in need. It differentiated between formal urban areas and rural or informal areas on the basis that those living in the latter should have a higher threshold to compensate for the disadvantages they faced in terms of access to education, health and employment opportunities.

#### **5.4 Social grants and labour market participation**

The initial studies on the potential impact of social transfers in South Africa focused on income and incentive effects of the social grants. Bertrand, Miller and Mullainathans (2000) concluded that social grants had a negative effect on labour market participation. The results were attributed to the theoretical rationale, which postulates that as household income increases, the additional benefit to the household falls and thus work incentives are dampened (Samson 2009). However, Samson & Williams's (2007) work using the Labour Force Survey disputed these findings and concluded that there is a positive and significant impact on labour market participation and the probability of finding employment.

It was only in 2005 that the research took a more sociological approach – examining household formation dynamics and the poor household's response to risk and vulnerability. Initially Keller and Woolard (2005) argued that the social grant would deter employment participation as the unemployed would stay in the rural areas with pension fund recipients in order to get support from them. However a study by Bertrand et al (2004) suggested that the social grant

had a positive impact, at least for women's labour market participation as it 'financed woman's migration for job searches and assisted the older women to look after the children when their mothers were away' (cited in Samson 2009:50).

Samson (2009:5) concluded that social grants do the following:

- Enable workers to invest in more productive job searches – that is they allow people to search for decent work instead of settling for the worst forms of employment out of desperation;
- Reduce the impact of shocks on livelihoods and they protect households by reducing the impact of shocks on productive assets – for example, during economic shocks as a family might sell their livestock in order to help them cope;
- Allow parents to send their children to school instead of making them work to get income; and
- Assist in purchasing uniforms, paying fees, feeding the family and other school expenses.

#### ***5.4.1 Impact of the Child Support Grant on labour market participation***

A study conducted by EPRI in 2004 demonstrated that social grants had a positive effect on labour force participation. The study which was conducted from September 2000 to February 2001 also indicated that the households that were receiving social transfers saw a drop in unemployment levels.

A more recent study conducted by Samson (2009), used the September 2004 and March 2005 Labour Force Survey to find out how labour force participation changes for households that are receiving child support grants compare with those that are not receiving the grant. Table 6 reports the findings of on how labour force participation is correlated with receiving a child support grant.

### **Table 8: Impact of the Child Support Grant on labour force participation, 2005 (corrected data)<sup>2</sup>**

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<sup>2</sup> Sample includes working age adults (older than 16) in households in the lowest income quintile but with no working individuals in September 2004.

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	<b>Household receives CSG</b>	<b>Household does not receive CSG</b>	<b>Improvement associated with CSG</b>
Probability that a poor working adult will:			
Find employment in 2005	15%	13%	2%
Be actively looking for work in 2005	20%	17%	3%
Not participate in the labour force in 2005	65%	70%	5%

*Source: Samson (2009) – EPRI Micro Simulation model and Statistics SA*

In the households that were receiving the grant, 15% of adults were employed in March 2005 and another 20% were actively looking for work. In households that did not receive the grant, only 13% were employed and another 17% were actively looking for work. Samson concluded that the recipients of the CSG were associated with a 2% increase in finding employment, a 3% increase in labour market participation and 5% lower probability of not participating in the labour force.

Similar findings emanated from the study in terms of the effect of grants on women. In the households that received the child support grant, 15% of adults were employed in March 2005 and another 20% were actively looking for work – which is the same as other adults. In households that did not receive the CSG, only 12% were employed and another 14% were actively looking for work. The receipt of the grant was associated with a 9% lower probability of not participating in the labour force (Samson 2009).

**Table 9: Impact of the CSG on female labour force participation, 2005 (corrected data)<sup>3</sup>**

<sup>3</sup> Sample includes working age woman (older than 16) in households in the lowest income quintile but with no working individuals in September 2004.

	<b>Household receives CSG</b>	<b>Household does not receive CSG</b>	<b>Improvement associated with CSG</b>
Probability that a poor working age woman will:			
Find employment in 2005	15%	12%	3%
Be actively looking for work in 2005	20%	14%	6%
Not participate in the labour force in 2005	65%	74%	9%

*Source: Samson 2009 – EPRI Micro Simulation model and Statistics SA*

Although the effect of the CSG seems small, the mere fact that the recipients of the grant are more likely to participate in the labour force than non-recipients is promising as it somewhat dispels the earlier reservations about the potential impacts of social grants on labour force participation, namely that social grants create dependency. The study also supports the view that social protection services, if used for their intended purposes, can contribute to the reduction of gender inequalities – in this case the CSG assisted women to access the labour market. This could be attributed to the possibility that the grant financed women’s migration to look for a job and assisted older women to look after the children while their mothers were away.

A number of studies have considered the uses and impact of the CSG. A recent study (November 2008) that was conducted by the Community Agency for Social Enquiry (CASE) and UNICEF [United Nations Children’s Fund] indicated that CSG beneficiaries pool their grant together with other incomes to meet broad family requirements. The study was conducted nationally and had 2 675 respondents, 1 862 of whom were CSG recipients. Out of the 1 862, 51% indicated that at least a portion of the CSG was pooled with other income to cover household expenditure, although half of the recipients said that they spend the money exclusively on the child.<sup>4</sup>

Focus group discussions during the course of this study also revealed that CSG recipients used the money solely for the child and used money from other sources, e.g. pensions and other household income to support themselves.

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<sup>4</sup> It is possible that these respondents gave the answer they thought the interviewer wanted to hear – namely that the grant was used only for its intended purpose.

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Where the CSG was used solely for the child, the respondents said they used it for 'education related costs; buying clothes or shoes for the child and in some instances the money was saved to finance larger items such as beds' (Delany et al. 2008:9). Other respondents said that they applied for the grant to help out at home.

The study also found that the CSG recipients increased their spending on food by 79%, school fees by 26%, school uniforms by 25% as well as electricity by 22%. This finding was reported to be in line with the 'growing body of evidence that suggests that CSG is being used for essentials such as food, basic services and education related costs' (Delany et al. 2008:36) instead of anti-social uses.

### **5.5 Umsobomvu Youth Fund<sup>5</sup>**

According to the United Nations Population Fund, the current youth population (defined as being 15–24 years old) is the biggest in human history. It is estimated that the number of young people is just over 1.3 billion – one out of every five people (UNFPA 1998:1). Furthermore, 84% of the youth are found in the developing countries, where economic growth is low and poverty rates are high (ILO 2002). The International Labour Organization (ILO) has estimated that between 2002 and 2010, 700 million young people will be entering the workforce (ILO 2002). More than one billion jobs will have to be created during this period to accommodate young workers who will be entering the labour force, and to reduce unemployment (ILO 2002).

In many countries youth unemployment is as high as 70%. Between 1995 and 2005 the number of unemployed young people increased from 74 million to 85 million – an increase of 14.8%. ILO statistics show that youth unemployment globally is 13.5%, approximately three times the adult unemployment rate. Youth unemployment is possibly one of the biggest challenges that any country has to face because it has demographic, social, economic, health and environmental ramifications.

In South Africa the scenario is just as frightening. According to official statistics, the strict unemployment rate (which excludes people who have given up work or searching for work) for people aged 15–24 years is 48.1% which is almost double that of the general unemployment rate 23.5%. The broad unemployment rate, which includes those who are not actively seeking a job, is 65.2%, significantly higher than the general unemployment rate of about 38%.

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<sup>5</sup> UYF and the National Youth Commission have recently been merged into a new entity – the National Youth Development Agency. Little information is available on the achievements and shortcomings of the new organisation.

South Africa's high unemployment rate has been attributed to structural factors – changes in the basic structure of the economy.<sup>6</sup>

According to Altman (2007), the main reason behind the focus on youth relates to 'wanting to contain the creation of a new generation of long term unemployed' (Altman 2007:xx). The longer a person is unemployed the harder it is to reverse the negative effects on self-esteem, reducing the person's ability and motivation to find a job later in life. Unemployed young people have no income and are not catered for in the formal social safety net. . In addition, the Expanded Public Works Programme does not have a specific focus on youth (or other marginalised groups such as women and people with disabilities).

The Umsobomvu Youth Fund was established in 2001 to address high youth unemployment levels in South Africa. The fund is targeted at young people who fall between 18 and 35 years old. It invests in young people to help them acquire skills, access job opportunities as well as to help them create viable small businesses. According to the 2008 UYF annual report, the number of jobs created and/or sustained increased from 19 309 in 2007 to 42 002 in 2008, a small number considering the large numbers of unemployed youths.

The Umsobomvu Youth Fund funds activities that are spread over three programmes.

#### *Contact, information and counselling*

To disseminate information regarding UYF products and activities, the programme uses a number of platforms such as the SA youth card, which encourages young people to utilise Umsobomvu's products by enticing them with retail discounts. The Youth internet portal programme is a website that provides access to information about the fund – in 2007/8 the portal was estimated to have had 6.6 million hits. In terms of information and counselling regarding career development, employment and entrepreneurship, the 2008 UYF annual report said that the programme had reached well over 800, 000 young people. The UYF launched a Youth Advisory Centre in every province to provide young people with access to UYF products, and has established Youth Call Centres for young people to access advice and information about UYF activities.

#### *Skills development*

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<sup>6</sup> These changes simultaneously open new positions for trained workers. An example of structural unemployment is the technological revolution. Computers may have eliminated jobs, but they also opened up new positions for those who have the skills to operate the computers.



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The skills development programme focuses on the identification of skills shortages and programmes that focus on job training. This includes School to Work, which transfers high level technical skills and facilitates access to work experience for unemployed matric (Grade 12) and tertiary education graduates, and Youth Service, which focuses on unemployed youth with no tertiary education; work that is normally done through relevant sector education and training authorities (SETAs). In 2004 the National Youth Service and the School to Work programme had 503 and 803 beneficiaries respectively, at a cost of R50 000 per beneficiary. However since 2006, the cost per participant in both programmes was pegged at R20 000 (UYF 2008).

### *Youth entrepreneurship*

Within the youth entrepreneurship pillar of UYF's activities, there are three major projects, namely, enterprise funding (a First National Bank-Momentum and UYF initiative), microfinance (which is focused on entry level investments) and Business Development Services, also referred to as the business consultancy services (a voucher programme that helps young entrepreneurs access quality business support). Some of the objectives of this voucher are:

- To create a conducive environment for youth entrepreneurs (18–35 years old) to access relevant technical assistance and managerial support for their businesses.
- To empower youth entrepreneurs by providing them with means to purchase the technical assistance and managerial support that they need.
- To support the creation of sustainable and competitive youth-owned enterprises that are active in growth-oriented sectors of the South African economy.
- To support service providers to continuously develop innovative and demand-driven products through capacity-building (ECIAfrica 2007).

The services made available under BDS are provided on a one-to-one mentorship basis and range in value from R1 500-R18 000 with clients contributing a mandatory flat rate of R200. The client can access up to four vouchers. At this stage the BDS voucher system targets enterprises that are within tourism, ICT, manufacturing, construction and agro-processing sectors. In 2008 BDS issued 10 534 vouchers, created 11 958 jobs, facilitated the creation of 4 443 new businesses and assisted 7 544 start-up business (UYF 2008)

The services that most businesses accessed via the vouchers were for business plans, branding, business registration and web-based marketing. An evaluation that was conducted by ECIAfrica (2007) found that close to 90% of the voucher applications were from the urban areas, with 26.1% coming from Gauteng, 19.1% from KwaZulu-Natal and 14.1% from the Eastern Cape. The

study also found that there more men acquired the vouchers than women, suggesting that there is a need to focus on enhancing female participation.

The shortcomings of the UYF voucher system could be summarised as follows:

- Sense of entitlement: people applying primarily because they want the money, not to enhance the effectiveness of their businesses.
- Urban bias: Most of offices are located in urban areas, and visits to rural areas take place on a limited number of days.
- A lack of applications from people with disabilities and women (for reasons that are not clear to UYF).
- Limited resources and associated limitations, e.g. a limited number of locations of support.
- Operational limitations, e.g. difficulties with recruiting suitably qualified and experienced people.
- Bureaucratic stumbling blocks, e.g. detailed forms that are difficult for beneficiaries to complete.
- An inefficient service provider payment system, leading to some service providers withdrawing for reasons of late payment.

## **5.6 Expanded Public Works Programme (EPWP)**

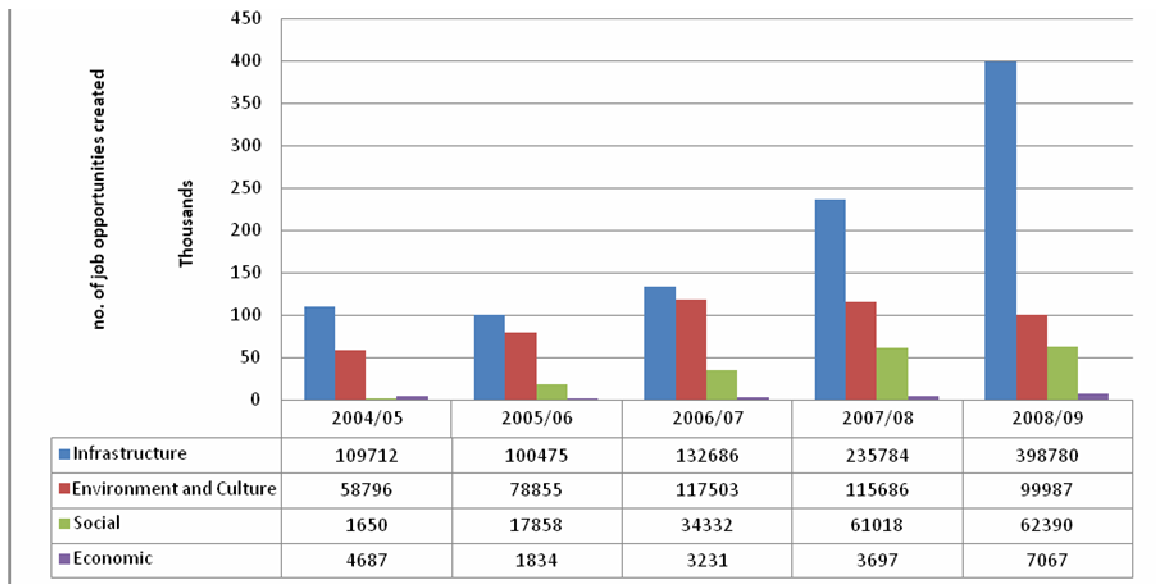
Public works programmes are another form of social protection, generally designed to perform two tasks: to create short term employment for the unskilled, and to build or improve existing infrastructure. The programme includes road construction and maintenance, maintenance of buildings, reforestation etc. Examples of public works include the public works and employment creation project in Burundi. (Grosh, del Ninno & Tesliuc 2008). South Africa's Expanded Public Works Programme is also geared towards employment creation. According to Anna McCord, EPWP operates in two dimensions simultaneously –it increases aggregate employment through labour intensification and small scale direct government employment, while improving the future employability of participants. (McCord 2007).

When the EPWP was introduced in April 2004, the net work opportunity targets for each sector were: 750 000 for the infrastructure sector, 200 000 for the Environment and Culture, the social sector target was 150 000 and the economic sector had the least target of 12 000. It has been five years since its inception and the EPWP has met and exceeded its target of creating 1 million job opportunities. The targets indicate that the infrastructure sector was viewed to have the potential to create the most number of job opportunities. The economic sector was projected to generate the least number of jobs.

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According to the Department of Public Works 2008/09 annual report, the infrastructure sector created the most job opportunities (977 437 job opportunities). Environment and culture achieved 470 826, significantly more than double its target of 200 000. The social sector created 177 248 job opportunities, and the economic sector exceeded its target of 12 000 to create 20 516 job opportunities. Over five years the EPWP generated over 1.6 million job opportunities – significantly more than the initial target of 1 million.

The different sectors seem to have performed very well. It is possible that the targets underestimated the job-creating potential of certain sectors, particularly environment and culture sector and the economic sector. These sectors may deserve greater attention in future budgets.



**Figure 2: EPWP – total jobs created per sector**

EPWP was implemented in all the nine provinces. In 2004 most of the EPWP activity took place in KwaZulu-Natal (which is the most populous province), and the Northern Cape (the least populous province) being the least active. As the programme expanded from 2004/5 to its final year 2008/9, the largest number of EPWP job opportunities were created in Eastern Cape and Gauteng, with KwaZulu-Natal still accounting for a large share of the jobs.

*A technical note on the data- the data is very limited, it would have been very helpful had the job opportunities that were created were disaggregated by age, gender, number of jobs created in each sector for each province.*

**Table 10: EPWP – net work opportunities per province, 2004-2009**

<b>Province</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>Total</b>
Eastern Cape	10118	15701	47327	79173	93741	246060
Free State	3390	26305	15570	23679	22264	91208
Gauteng Province	46445	7902	25905	62900	116861	260013
KwaZulu Natal	53755	71625	104777	100563	157600	488319
Limpopo	15933	10584	18276	36515	46686	127993
Mpumalanga	15453	18297	14746	24796	30061	103352
North West	5286	11455	12523	24603	20856	74723
Northern Cape	5916	11468	8262	16138	19800	61584
Western Cape	18549	25687	40367	47818	60355	108173
<b>Total</b>	<b>174845</b>	<b>199024</b>	<b>287753</b>	<b>416185</b>	<b>568224</b>	<b>1561425</b>

*Source: SASSA online database (2009)*

According to Altman (2007), public works programmes can become a major source of job opportunities for young people particularly in the community-based social services such as early childhood development. A 2008 evaluation of the EPWP in South Africa conducted by Hemson found the following positive outcomes:

- The target of 1 million work opportunities was achieved;
- The target proportion of work opportunities for both women (40%) and the youth (30%) were met – a total of 300 000 jobs, but the target for people with disabilities was not;
- The initiative was also in getting the other departments to take the EPWP seriously by allocating funding to the Programme.

However, it is worth highlighting ongoing and new challenges confronting the EPWP:

- The minimum standards for the length of the job were not reached.
- Only 19% of the training target was met. This is an enormous failure, given the dual objectives of the EPWP – – job creation and skills

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training to enhance employability.

- Actual Spending: Only 59% had been allocated in 3 years since its inception in 2004
- Wages remained static whilst overheads and other costs increased.
- Earnings per job declined.

Although the EPWP reached its target goal of 1 million jobs, several intrinsic limitations in its design prevented the programme to deliver to its full potential. Nationally, the majority of job opportunities were created in the infrastructure sector (about 60%). However, in some provinces such as the North West, the social sector accounted for almost half the job opportunities and around 75% of full time equivalent jobs (Altman & Boyce 2008). Perhaps this the fact that the EPWP targeted the infrastructure sector and downplayed the potential impact of investment in the social sectors may have been a mistake.

So will the next phase of the EPWP achieve greater impact than the first? The EPWP plays an integral part in boosting job creation and skills development, which is why there was a need to increase its capacity. Phase Two of the EPWP has set a target of 4.5 million full-time equivalent jobs over five years as a contribution to achieve the target of halving unemployment by 2014. The second phase sees a shift in emphasis from the construction and maintenance sectors to the home-based care and community health sectors. This not only expands the job creation potential, but promises to enhance service delivery – another aim of public works programmes. The second phase of the EPWP ensures that provinces and municipalities receive incentives to meet targets of labour-intensive job creation. A new feature of the EPWP is that civil society is now eligible to apply for contracts to manage EPWP projects. Provinces and municipalities are required to meet the agreed minimum participation targets for women, youth and people with disabilities, employment creation targets using their conditional infrastructure grants, as well as report on their contribution to the EPWP to the national Department of Public Works. A public works programme is necessary if South Africa is to have any hope of lowering the high youth unemployment rates and alleviate poverty. Thus far it has been able to create 300 000 jobs for young people between the ages of 18-35. Hopefully the second phase of the EPWP will see a higher number of youth employment levels and also increase its training capacity to, at the very least enhance, the employment prospects of the young.

There appear to be political obstacles to the introduction of significant non-cyclical public works programmes or employment guarantees in countries where labour market policies underpin high wages (Seekings 2006, but see also McCord 2004). In such circumstances, the expansion of social assistance might be more viable, even if benefits are set at a very low level and there is a general preference in principle for job creation. Seekings (2006) argues that the cost of financing public works programmes, especially long-term programmes, may well place an increased burden on the poor, while the cost of cash transfers

would largely be borne by the wealthy. He argues that such a redistributive process would reduce prevailing inequalities.

In societies where there is a pressing need for public works or cash transfers, there is often a tension between the preference for job creation and the political environment, which constrains the implementation of a sustainable and effective job creation programme. This stems from the co-existence of high wages and high unemployment in economies like that of South Africa. In such cases high unemployment is partially a consequence of high wages resulting in the limited demand for unskilled labour. When wages on public works programmes are linked to existing market wages (even established minimum wages), these programmes become unsustainable. Unsustainability arises because markets are socially constructed. Consequently, the practices and policies underpinning high wages are strongly defended by vested interests (Seekings 2006).

As noted above, these recent social assistance initiatives are predominantly focused on particular categories of the deserving poor. Social assistance programmes are not aimed at unemployed, able-bodied adults of working age. However, many of the unemployed may benefit indirectly from the grants given to other, more 'deserving' members of their households.

## **5.7 Local economic development in South Africa**

South Africa's LED framework is laid out in the Department of Local and Provincial Government (DPLG) document of 2006 entitled Stimulating and Developing Sustainable Local Economies.<sup>7</sup> One of the most recent reviews of LED strategy in South Africa was undertaken by Rogerson (2009). It should be said that this author does not specifically focus on the contribution of social grants to LED. Rogerson (2009) emphasises that LED should offer an integrated approach to development, rather than a 'one size fits all' approach, as local context is important. The core purpose of LED is:

*to mobilise the local economic potential by bringing innovation to all its growth dimensions which range from infrastructure, to local SMEs and their skills, to attracting foreign direct investment, fostering territorial competitiveness, strengthening local institutions, better management of the development process and internalising local resources (Rodríguez-Pose 2008:23).*

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<sup>7</sup> DPLG is now the Department of Cooperative Governance and Traditional Affairs.

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According to the International Labour Organisation bringing together local governments, the private sector and civil society in a search for the right LED formula is vital to LED as it ‘allows the community to build from the “inside-out”, capitalizing on local assets rather than from the “outside-in” relying on external interventions’ (ILO 2008a:2).

In contrast to broader development approaches, LED’s focus is on a specific geographical area or location and context. Salazar-Xirinachs (2008:v) proposes that the different development approaches are linked by:

*the common concern for making local economies robust and creating productive jobs and incomes for local populations and also the recognition that local or regional competitive advantage rests on local interactions, knowledge spillovers and institutional synergies (cited in Rogerson 2009:14).*

Although LED has a clear economic focus, it is not simply about economic growth. It should be geared ultimately towards attaining ‘a sustainable development pattern which accommodates and reconciles economic, social and ecological issues and objectives’ (Ruecker & Trah 2007:15), relevant to a particular geographical area. However, this might be easier said than done as recent studies in South Africa highlight the lack of LED achievements in certain contexts.

Nel and Rogerson (2007) argue that South Africa seems to be moving towards a more regional development context and not an LED one. Notably the current policy document (DPLG 2006) refers to broad LED concepts, but provides very little strategic guidance at the local level. Concern has also been raised about uneven development and operationalisation of LED in South Africa (Nel & Rogerson 2007). South Africa’s recent growth phase has primarily benefitted the large urban economies, rather than the poorer and smaller hinterland towns. For the latter group there are some exceptions; notably tourist and retirement towns. If social and other grants are to be harnessed to promote local development in a meaningful way, then LED policy needs to take on a specific focus and strategy that includes the needs of the smaller towns (Nel & Rogerson 2007).

Rogerson (2009) supports the DPLG’s current campaign for expanding local multipliers to assist the informal economy. He lists a number of interventions that could support the second economy in various localities:

- initiatives linked to the extension of social grants;
- the development of the Expanded Public Works Programme; and
- initiatives that establish value chains in poorer localities in order to keep money circulating longer in these areas before it moves to the formal economy.

However, he cautions that South African LED policy-makers and practitioners must ensure that the issue of the informal economy, and support for survivalist informal enterprises, does not ‘fall off the policy agenda’ as a result of re-balancing LED towards a focus on local competitiveness, instead of on direct poverty alleviation. OECD (2009) highlights similar concerns for developing states in the South and advocates pro-poor growth.

Rogerson (2009:7) has proposed that the current process of financing LED in South Africa undergoes a critical review in which due attention is given to the restrictions attached to existing grants.<sup>8</sup> Such a review should determine whether current funding frameworks are aligned to national spatial development objectives and to achieving economic revitalisation of geographical areas.

While Rogerson’s study does not provide evidence of the contributions and multiplier effects of social grants, others have done so in recent years (OECD 2009; RHVP 2007; Samson et al. 2006; Seekings 2006). Probably the most important theme arising from Rogerson’s report is that development and economic growth can no longer avoid being pro-poor.

## **6. Contributions of social grants to local rural development**

### **6.1 Introduction**

It is expected that in rural areas, social grants are likely to be invested in both farming and non-farm economic activities, thus contributing to local economic development. As highlighted in previous sections, our goal is to investigate the South African situation and also to see what we can learn from evidence elsewhere on the African continent. Through this overview we hope to shed light on how targeted and non-targeted grants, more specifically social security grants, can be used to enhance or drive local rural development. This section presents evidence for in respect of rural areas and smallholder farmers, to show:

- Which social grants are targeted at the rural areas and small scale farmers;
- Evidence of the investment of social grants in farming activities and the local economy; and

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<sup>8</sup> Rogerson seems to be referring to grants given to municipalities to foster local economic growth, rather than social and other grants given to individuals.



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- The forms (cash, vouchers, etc.) and the administration of grants flowing into the rural areas.

### **6.2 Social expenditure and the poor and/or rural dwellers in South Africa**

According to Roberts (2005), since 1994, public expenditure in South Africa for the poor has been mainly through two forms: social expenditures and specialised poverty relief programmes. The social expenditure interventions take on three forms of social development programmes:

- Infrastructure programmes;
- Social security systems; and
- Job-creation measures.

#### **6.2.1 *Infrastructure programmes***

Infrastructure programmes are aimed mainly at providing basic household and individual need which incorporates the provision of local public goods and services (water, sanitation, energy, housing, health and education) (Roberts 2005). To facilitate the provision of these services to households and individuals, the national government established a consolidated grant mechanism, the Municipal Infrastructure Grant, the specific aim of which is to deal with the backlog in access to basic municipal services over 10 years from 2003 (DPLG 2004). Therefore the vision of the MIG is to provide all South Africans with at least a basic level of service by 2013 by providing grant finance to cover the capital costs of basic infrastructure. These funds may be used to upgrade and build new infrastructure or rehabilitate existing one, as long as it is for basic services for the poor. The grant has different categories of infrastructure that can be financed are (DPLG 2004):

- Households (electricity, water supply, sanitation, storm water management, municipal roads, refuse removal and street lighting);
- Public municipal facilities (public transport, emergency services and community services);
- Institutions other than public municipal facilities (schools, clinics and police stations).

The basic conditions for all these categories is that the infrastructure is intended to benefit the poor or is extensively utilised by the poor. The stated objectives of the MIG are as follows: access to basic services, decentralised service delivery, poverty alleviation, local economic development, empowerment of municipalities, employment creation, and consolidated funding arrangements (DPLG 2004).

The MIG was necessitated primarily by the need to deal with the challenges associated with the previous system wherein infrastructure grants were managed by different departments, and therefore fragmented and uncoordinated. In most cases, municipalities were not in control of infrastructure programmes within their area of jurisdiction. The funding mechanism for the MIG includes cash and asset transfers or both and comprises different funds which make up the MIG. In the 2005/2006 financial year the allocated funds for the different projects amounted to R4 996 million, up from R4 588 million the previous year (DPLG 2004).

The objectives of the grant resonates well with the development of dynamic rural economies as it provides basic infrastructure for the poor and/or rural dwellers and, in the process, contributes to the development of the local economy, making local markets more attractive, potentially reducing migration to the urban centres as well as reducing transaction costs. Nonetheless, most of the rural areas are still experiencing high levels of out-migration as people search for better opportunities further afield.

### **6.2.2 Social security system**

As pointed out by several authors (Roberts 2005; Booysen & Van der Berg 2005; Woolard 2003), South Africa has a well developed and comprehensive social security system. This is made up of cash and non-cash transfers, the most common being non-contributory and means-tested grants to vulnerable groups that are unable to meet their basic needs. These include the Child Support Grant, Old Age Pension and the Disability Grant and other kinds of grants which make up a small share of the grants. The CSG makes up the bulk of the recipients of these cash-based social grants.

Social grants are an important source of cash income for households with eligible members. While these are important for poor and vulnerable households and individuals, there is a disturbing trend – the number of people (households and individuals) dependent on social grants as major or only source of income is increasing. According to Booysen and Van der Berg (2005), the number of beneficiaries increased between 1998 and 2003 from 2.8 to 5.8 million, which represented an annual growth of 15% or an increase from 67 to 125 grants per 1 000 of the South African population. However, the increase in 2003 could be attributed mainly to the introduction of the CSG and the increase in public awareness of eligibility for grants (Woolard 2003). Nonetheless by 2009, the number of beneficiaries is estimated to be 13 million (~22% of the population) and, rightly so, the government is starting to get concerned about this high dependence on social grants. The social grant system transferred about R78 billion in cash grants (DBSA 2009) and if, this continues to grow, it will put an enormous pressure on the fiscus.

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One concern that these cash grants are not being sufficiently being ploughed back into local economies, i.e. that there is a high level of economic leakage. Grants provide much-needed cash and the flexibility for the recipients to decide what, when and where to purchase, but the absence of local outlets, high prices and a lack of choice motivates people to travel and spend their cash elsewhere. Nonetheless, there is evidence that the social grants are used to invest in rural livelihoods strategies, especially agriculture (Aliber & Hart 2009; Baiphethi et al. 2009). Putting cash into the hands of people creates a much-needed local market for agricultural produce and can be used to encourage downstream local production of goods and services.

### **6.2.3 *Job-creation measures***

In addition to infrastructure and social security, social expenditure also focuses on job creation. This includes skills training, the promotion of small, medium and micro-enterprises, job summit programmes, and land redistribution. This last set of social expenditure focus areas directly speaks to most of the challenges that apply to most rural areas. There is a dire need for job creation in most rural localities and support to agriculture, including land reform, supplemented by effective interventions for the rural poor to develop the necessary human capital and accumulate the necessary assets to chart a way out of poverty. This path may include the possibility of getting into higher paid and more skilled jobs in the farm and non-farm sector

## **6.3 Smallholder farming and social expenditure**

In South Africa, approximately 3-4 million households engage in small-scale farming, mainly to supplement their food supply (Aliber 2009; Jacobs et al. 2008). While a large array of measures and policies have been developed to promote the smallholder sector, there have been few significant successes. This does not augur well for rural development as the sector is important to kick-start the development of the rural areas (Jacobs et al. 2008). The lack of success can mainly be attributed to a top-down approach to agricultural development, introduction of 'imported' inappropriate and poorly-tested technologies, poor marketing and information services, and a lack of understanding of the political, social, economic, cultural and gender relations that affect the functioning of households.

Some of the social expenditure programmes for the smallholder sector include food security input packages in which farmers, especially home garden producers, are provided with basic farm implements and inputs. The support is given in the form of the actual implements (garden tools) or inputs (seeds, fertilizers, etc.) and people are expected to be able to replenish supplies from the marketing of the surplus from their first harvest. The major challenge here is the targeting of the recipients most in need of such support; frequently this assistance ends up in the hands of the more successful, relatively well-

resourced farmers in communities. In addition, since the implements and inputs are sourced in bulk, the business benefits normally accrue to large suppliers outside the community. Shortcomings notwithstanding, this support is important for agricultural development as it has the potential to drastically improve the productivity of smallholder farmers. A key constraint is the lack of support for producers to market their surplus produce. Support could be provided in the form of input vouchers which targeted recipients can redeem at local suppliers, thereby providing support for the development of local business, but the lack of existing private local business may make such an approach difficult.

Another important support programme for agricultural development is the Comprehensive Agricultural Support Programme, through which government provides agricultural support to a range of poorer farmers, from subsistence at the one end to emerging farmers on the other (Jacobs et al. 2008). CASP is premised on the notion that agricultural development support for small farmers is important for rural development and, by extension, rural local economic development. The programme is aimed at delivering a wide range of economic, social and environmental benefits. On the economic front, CASP is supposed to increase productivity of the smallholder agricultural sector, create both on-and off-farm jobs, thus increasing incomes and wealth in the rural economy. The envisaged socio-economic benefits of CASP include the reversal of inequities on access to land, a contribution to poverty reduction through increased household food security, and the improvement of rural living standards.

The support from CASP is centred on six niche areas (pillars) and four beneficiary groups (Jacobs et al 2008). The pillars are: information and technology management; technical and advisory assistance, and regulatory services; marketing and business development; training and capacity building; on/off-farm infrastructure and production inputs; and financial support. According to Jacobs et al. (2008:33), marketing development, on/off-farm infrastructure and production inputs have since been identified as basic support services. The implementation of CASP prioritises the provision of basic farm infrastructure because this key support had not been adequately provided to Land Redistribution for Agricultural Development (LRAD) beneficiaries.

According to a report on the progress of CASP (DoA 2004:20): ‘CASP is designed to address two main budget pressure points related to the provision of agricultural services; that is the availability of credit and the financing of agricultural services’. This recognises that beneficiaries are the rural poor with few assets apart from their own labour most of whom already experience severe cash-flow problems. Eligible beneficiaries must be from previously disadvantaged groups arranged into the following categories: the hungry and

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vulnerable, subsistence and household food producers and emerging farmers. Agricultural macro-systems within the consumer environment.

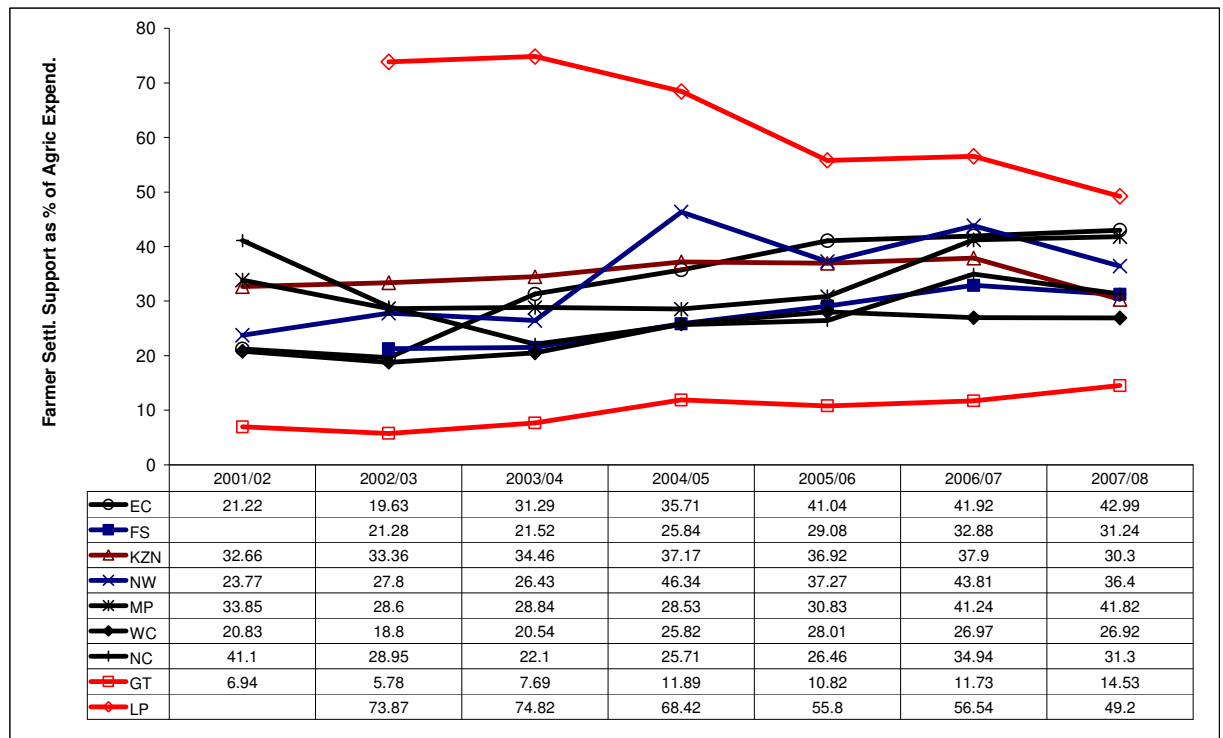
### **6.3.1 Mechanisms for disbursing the CASP grants**

According to the Department of Agriculture (DoA 2004:20), CASP is mainly aimed at addressing the constraints that resource-poor farmers face in respect of accessing credit, and the financing of government agricultural services.

The assistance packages within CASP are divided into the “sunrise” subsidy and the “sunset” package (DoA, 2004). The “sunrise” package forms part of the comprehensive farmer support programme and is intended to assist savings and lending groups, member-based financial self-help groups, village banks or financial service cooperatives, project funding (business plan development), etc. The “sunrise” subsidy provides for a credit support scheme, acting as an agricultural wholesale financial intermediary, and acting as an agricultural credit retail financial intermediary.

Figure 3 brings together the information on ‘farmer support’ expenditure as a percentage of total provincial expenditure on agriculture. It gives some insights into the extent to which provinces prioritize this ‘commitment to expenditure on support for agricultural development’. Provinces might be spending more on farmer support, settlement and development, but the share of this spending in the overall provincial agricultural spending basket might actually be shrinking for reasons not investigated here. This sheds some light on the shifting priorities over time and where provinces might actually diverge from the emphasis at national level.

In all but two provinces, this percentage is concentrated within a narrow band: between 25% and 45% of total agricultural expenditure. The majority of provinces maintained relatively flat shares of expenditure during this period. Limpopo allocates the largest share (49%) whilst Gauteng allocates the smallest share (14%) to farmer support. In three provinces this percentage of provincial state spending in agriculture on farmer settlement support and development has been falling, especially from 2004 to 2008. It might be necessary to investigate more carefully the reasons behind this apparent shift in spending priorities. A related concern is that the adoption of CASP appears to have exerted no visible surge in provincial government expenditure on farmer support. This is in sharp contrast to what was observed in national fiscal allocations after 2004 following the adoption of the CASP. More importantly, comparing the provincial distribution of grants earmarked for agricultural development with allocations to other forms of social protection evidently confirms that the poorest provinces absorb the largest amount and shares of state social transfer expenditure.



**Figure 3: Farmer settlement support and development as a percentage of total agricultural expenditure by province, 2001-2008**

Source: National Treasury (various) *Estimates of Provincial Expenditure: Agriculture*

### 6.3.2 Land reform<sup>9</sup>

The land reform programme consists of three components: restitution, land redistribution and tenure reform. Land reform is seen as an engine of rural development and will contribute towards job creation and decongestion of the former homelands (ANC 1994; 2007). Land restitution deals with the restoration of land or compensation to people dispossessed under apartheid. Land redistribution deals with acquiring land for people wanting to use the land for farming, but who have no restitution claim. Finally, tenure reform aims to improve the clarity and robustness of tenure rights, especially in former homelands and coloured reserves (Jacobs et al. 2008). Land redistribution and tenure reform seek to achieve economic benefits, while restitution seeks

<sup>9</sup> This section is heavily based Jacobs et al. 2008.

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restorative justice. The two are held up as having and creating potential to reduce poverty and economic advancement, mainly through agriculture.

From 1995 to 2000, the acquisition/finance vehicle for land redistribution was the R15 000 Settlement and Land Acquisition Grant (SLAG) was awarded to qualifying households. This was replaced in 2001 by the Land Redistribution for Agricultural Development programme grant which was awarded to adults in a household in amounts ranging from R20 000 to R100 000 per adult, which rose in proportion to the amount of recipients' "own contribution" (from R5 000 to R400 000). The LRAD grants allowed adult members from the same household to pool their grants thus resulting in projects consisting of a single household or an extended family, something which was not possible under SLAG. Under LRAD, the grant paid for the acquisition of the land and CASP grants supported the financing of on-farm infrastructure. The grant mechanisms used in SLAG, LRAD and CASP could be seen to function like vouchers since the cash was transferred to the suppliers of land and inputs, rather than to recipients. Grant recipients were required to identify land, establish whether that land was available for redistribution, and then apply for the relevant grants. Therefore land redistribution is demand-driven. In 2006, the Proactive Land Acquisition Strategy (PLAS) was introduced. Here government officials identify and acquire land that is suitable and strategically located for redistribution, effectively warehousing it for beneficiaries identified at a later stage (Jacobs et al. 2008).

Land reform, especially redistribution, seems to be achieving some desired outcomes, albeit not satisfactory. Some projects have been able to generate profits for their beneficiaries as well as achieving increased food security for the households. This implies that, with the relevant and sufficient support, the projects have an important potential impact on local economic development and rural development in particular. Successful land redistribution projects can provide much-needed low skill job opportunities and increased incomes as well as stimulate demand for non-farm products, providing an opportunity for local entrepreneurs.

### **6.4 Lessons from Malawi's agricultural development grants**

Agriculture is an important sector of Malawi's economy. The sector contributes 39% of the GDP, accounts for the 80% of the foreign exchange, and accounts for 80% of the total workforce (MoAFS –(Ministry of Agriculture and Food Security 2008). The agricultural sector comprises two distinct sub-sectors: smallholders and large-scale commercial or estate farming enterprises. The smallholder farmers mainly produce for subsistence over 'small and fragmented land holdings' which are mainly held under customary land tenure and the yields are lower than their commercial counterparts. Furthermore, the smallholder agricultural sector comprises a large number of 'very poor families heavily dependent on low-input maize production' on small

plots which are mainly nitrogen-deficient (SOAS et al. 2008). Therefore production from these farmers is commonly inadequate to meet annual consumption needs as well as provide adequate annual growth. As a result, most of the farmers engage in casual labour and other income generation activities to meet the balance of their consumption needs. The problem of low output is further compounded by the low uptake of improved production technologies, thus smallholder agriculture remains unprofitable. In addition, 'the sector experiences weak links to the markets, high transport costs, few and weak farmer organizations, poor quality control and inadequate information on markets and prices' (MoAFS 2008:1).

Since 1998, government has introduced a number of interventions aimed at subsidising maize fertilizer seed access for poor farmers. Some of these include the Starter Pack Scheme (SPS) and Targeted Input Program (TIP) as well as some interventions into the maize market. In 2005, these broad-based initiatives were developed into the Agricultural Input Subsidy Programme (AISP). Recent reports indicate that the programme has contributed significantly to the macro-economic growth of the country (GDP average growth of 8%) and a good performance of the agricultural sector in the 2005/2006 and 2006/2007.

AISP's main objectives were to improve smallholder agricultural productivity, improve food and cash crop production, and reducing vulnerability to food insecurity and hunger. The programme was implemented through the use of coupons (input vouchers), in proportion to cropped maize and tobacco areas (allocations per hectare and per grower varied widely). These vouchers were redeemed at a reduced price for any of the four fertiliser types (maize – NPK (23:21:0)) and urea; tobacco – compound D and CAN). The vouchers were redeemed at a rate of 1 coupon and MK950 (~R70) for a 50kg bag of 23:21:0 or urea and 1 coupon and MK1 450 (~R105). This represented about 28% of the full cost, with the remainder being paid by government. In addition to fertilisers, coupons were also provided for the purchase of OPV maize seed. The coupons were allocated to targeted households (i.e. able farmers who would otherwise not be able to purchase the inputs) and distributed by traditional authorities through village development committees, so the eligibility for the vouchers was relatively means-tested.

The programme resulted in increased crop productivity during the two years of its existence, especially maize which is a staple food in Malawi. In addition, the country was able to realise surpluses in maize production, allowing exports to other countries in the region like Botswana, Zimbabwe, Lesotho and Namibia (FANRPAN 2008). For maize, the yields per hectare more than doubled in the first year of introduction (0.83 metric tonnes/hectare to 1.61) and continued to increase in the subsequent production seasons. In addition, the country was able to attain surpluses above the national requirements for maize and other crops.



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It is worth noting that the majority of the producers are rural smallholder farmers, some of whom were targeted by the input subsidy programme. The fertiliser subsidy reached 1.7 million vulnerable households producing maize and 250 000 tobacco and cotton producers, and 2 million households received OPV and more productive hybrid seeds. The households crop an average of 0.5–0.6 hectares on dry land. It can thus be concluded that the programme has contributed significantly to this increased productivity and production. As result, the country has been able to move from being food-insecure to becoming a surplus producer of staple foods. As one of the respondents noted, the impact of the 2007-2008 food price shocks was not felt by the majority of the households as they produce their own food. However, another stakeholder did mention that apart from the input subsidy programme, the country also had favourable planting seasons as there had been good rains over the seasons when the programme started.

Other achievements of the programme included the increase in the use of improved technologies (hybrid seeds, pesticides and inorganic fertilisers). In terms of the ploughing, an improved technology was introduced. This led to increased planting. Traditionally, the ridges on which seeds are planted were 90cm apart and this has now been reduced to 75cm, and the planting distance between planting stations has been reduced to 25cm.

According to SOAS et al. (2008), the programme also resulted in improved household food security – a key stated objective of the programme. Rural households subjectively ranked their economic well being to be higher (8%) in 2007 than in 2004 (SOAS et al. 2008). In addition, the proportion of households that reported major shocks due to high food prices decreased from 79% in 2004 to 20% in May/June 2007. This was mainly due to ‘increased household food production, higher rural wages and lower food prices benefiting the poorer households’ (SOAS et al. 2008).

In addition to the above achievements, the programme also led to an increase in the private sector participation. Of the 175 000 tonnes of fertiliser supplied, 100 000 tonnes was sourced from private concerns.

While the programme has had an enormous positive impact on the agricultural sector and rural development in Malawi, there are still several challenges that need to be addressed, including the sustainability of the programme. This is a concern raised by a number of the development partners and other stakeholders. Another major concern is the lack of clarity about the programme’s milestones, for how long and what the ultimate objectives are, apart from increased food security. It is widely suggested that government should be looking at phasing out the programme. However, the political principals are reluctant to do this. Related to this concern is the fact that the size of the subsidy is increasing, rather than decreasing over time, as was expected. This may lead to dependency among smallholder farmers.

Another challenge faced by the programme are leakages in the system, i.e. the benefits being accessed by farmers who fall outside the target group. One example was a benefiting household exchanging its coupons for cash to purchase food. As is often the case with large-scale government initiatives, inputs were delivered late in some cases. More importantly, the AISP is currently being implemented as a stand-alone initiative rather than one which is integrated into other government programmes of support. Malawi's government is currently developing the Agricultural Development Programme, which will serve as a prioritised and harmonised agricultural agenda over the period 2008 to 2012. At the time of the fieldwork, the framework had not yet been adopted by Cabinet (Zimalirani 2008).

## **7. Social transfer programmes in other countries**

### **7.1 Introduction**

Social protection policies exist in virtually all countries. Social policy, with an emphasis on conditional cash transfers, is a major policy-oriented research theme at the International Poverty Center in Brazil and UNRISD [the United Nations Research Institute for Social Development] in Switzerland. Several studies have been conducted to draw best practice results from the social welfare programmes in Latin America (Skoufias et al. 2009; Villatoro 2005; Farrington & Slater 2006; Lindert et al. 2007). In the developing world, some of the best documented cases of effective social policies are in Latin America (Brazil, Mexico, Columbia and Argentina) and Asia (India and South Korea).

Traditionally, state-funded social protection policies have been and continue to be concerned with two forms of welfare transfers: social assistance and insurance (Skoufias et al. 2009). Social grants form part of social assistance and protection (SA&P) programmes to poor and vulnerable groups in society.<sup>10</sup> SA&P programmes are mainly funded through state budgets and therefore constitute the main channel for the redistribution of fiscal resources to the poor. As such, they serve as much-needed welfare handouts of varied duration (Marcus 2007; Farrington & Slater 2006). In any efficient system of social

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<sup>10</sup> The meanings of social assistance and protection programmes vary. Social grants refer to government social assistance to qualifying beneficiaries, usually in the form of cash transfers. The current paper aims to reflect on the link between social grants, LED and employment and food security outcomes. Social welfare appears to be connected to a much broader range of services to the poor – including public schooling, health provision, housing etc. See the first section for an in-depth review of these conceptual distinctions. Farrington and Slater (2006) explain the meaning, benefits and drawbacks of SA&P programmes in developing countries. See also Marcus 2007.

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transfers, the benefits to the poor must exceed the programme's costs – typically measured in terms of direct fiscal costs and the extent to which redistributive transfers distort local labour markets, agro-food markets, etc. In other words, societal benefits must exceed societal costs. Furthermore, the immediate and longer-term returns must exceed whatever society needs to spend to provide social assistance to the needy. This means that even if the SA&P is in the form of a once-off or temporary cash transfer, it ought to lift its beneficiaries out of poverty traps and reduce the chances of them falling back into such traps in future. Limiting the duration of social welfare payouts receives extensive attention in policy debates. At the same time, there is an ongoing search for methods to prolong and localise the developmental impact of social welfare.

Mkandawire (2001) has argued for rethinking social policy in developing countries. Instead of conceptualising it as a mere residual issue in development, it should rather be conceived as a main instrument to facilitate human development. Social policy ought to be harnessed to foster more sustainable livelihoods. This implies viewing social expenditure as not merely social consumption, but rather a platform for growth and development. Interestingly, human development is a prominent outcome of social policy interventions. Large-scale state funded social protection in Latin America, for instance, such as the Bolsa Familia in Brazil and Oportunidades in Mexico, have been designed to better the key elements of human development: education and training, health care provision and food and nutrition security.

Mexico and Brazil are middle-income economies. Both economies have experienced growth in recent years, but economic growth has remained inadequate to dramatically shrink the gap between the rich and poor in these societies. Moreover, recent rapid food inflation and the global economic slowdown, according to Skoufias et al. (2009), have depressed the living standards of the poor. In this context, pressures to expand social safety nets with reduced fiscal resources and space will probably rise. India finds itself in a similar position as Hamishu (2007) observed in recent studies: robust economic growth gradually reduced poverty, yet inequality is higher.

The rest of this section is divided into two main parts: the first summarises lessons from social assistance and protection programmes implemented in countries that are at a stage of development comparable to South Africa. We specifically concentrate on the Bolsa Familia in Brazil and National Rural Employment Guarantee scheme in India. The next part distils lessons from experience with vouchers. It looks at two examples of government-funded social assistance with the aid of vouchers: training and housing. Here the focus is mainly on how these programmes work or operate. The examples have been constructed around readily accessible information from the training and housing vouchers in the United States. In this country the programmes have a long history.

**Table 11: Summary of evidence on key social protection programmes in Mexico, Brazil and India<sup>11</sup>**

<b>Social transfer programme</b>	<b>Details</b>	<b>Delivery method</b>	<b>Geographic targeting</b>	<b>Fiscal impact</b>	<b>Food security, poverty and employment impact</b>
Oportunidades (Mexico)	Multi-sectoral support to poor families in health, education and nutrition; Progresa started in 1997 and targeted poor rural women; in 2002 the safety-net was expanded to include urban poor families (Oportunidades); Procampo provided agricultural support from 1995	Cash transfers; in-kind components included; beneficiaries not allowed to benefit from other social transfers	Progresa targeted poor rural women; Oportunidades was self-targeted, including urban women	Spending on Progresa increased from 20% of social welfare budget to 76%	Mothers and primary caregivers; women empowerment issuechild beneficiaries; mothers?

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<sup>11</sup> Compiled by author.

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<b>Social transfer programme</b>	<b>Details</b>	<b>Delivery method</b>	<b>Geographic targeting</b>	<b>Fiscal impact</b>	<b>Food security, poverty and employment impact</b>
Bolsa Familia (Brazil)	Approximately 50 social protection programmes; Bolsa Escola 1995; Zero Hunger (2003); Unified Social Protection; Bolsa Familia 2004 (centralised administration)	Bolsa Escola – scholarship social assistance; Bolsa Familia – consolidated family fund;	Community Development Programme decentralizes implementation & aims to empower through participatory initiatives;  Bolsa Escola – from one Federal District in 1996 to 200 municipalities in the 7 states by 2001;  Bolsa Família accounts for less than 3% of direct government transfers, and only 0.5% to 0.8% of the country's GDP	Pre-Bolsa Familia social welfare programmes – 20% of total fiscal spending; 1990s, federal social budget 80% of total budget; Consolidated income transfers US\$1.5 billion for Bolsa Familia in 2004; in 2007, spending reached US\$4.1 billion	Pre-Bolsa Familia social welfare skewed towards contributory pensions for state bureaucrats;  Post-2004 Bolsa Familia – reaching 11 million families (45 million people)

<b>Social transfer programme</b>	<b>Details</b>	<b>Delivery method</b>	<b>Geographic targeting</b>	<b>Fiscal impact</b>	<b>Food security, poverty and employment impact</b>
National Rural Employment Guarantee Scheme (India)	National Rural Employment Guarantee (NREG) Act passed in 2005; Previous public works: National Food for Work (NFFW); Maharashtra Employment Guarantee Scheme (MEGS) in the 1970s (Maharashtra State)	NREG – conditional cash transfer NFFW – in-kind food transfers MEGS – conditional cash transfer	NREG – clear rural focus NFFW – variation in state-level implementation MEGS – state and different zones/nodes; Phase 1 in 200 most “backward” (labour-surplus) districts; phased in to 330 districts	A rights-based framework; accountability of public delivery system through social audits; central government funds 90 per cent of costs of generating employment; 4 % of programme costs allocated to administrative costs & professional support; expenditure of US\$4.5 billion in year 1 & target of 2 billion days of employment	NREG – higher average wages, especially for women; but gender wage differential persists; Broader rural development through watershed and land development

## 7.2 Social protection in select developing countries

### 7.2.1 *Bolsa Familia – Brazil*

Brazil is a vast country with 27 states, a federal district, and almost 6 000 municipalities. By the end of the 1980s, the country's large social protection system had been consuming 20% of its GDP – the combined federal, state and municipal spheres of the state.

The social protection policy of the 1980s inherited the defining hallmarks of previous regimes: limited coverage of social protection and a redistributive system biased towards the rich. As Faria (2002:9) points out, social policies had transferred 'uneven and fragmentary benefits linked to different occupational sectors and elite groups'. Benefits were concentrated in a limited range of social transfers, such as pay-as-you go retirement and pension systems. Although some benefits trickled down to workers in key import-substituting industrial sectors, officials linked to the state sector were the chief beneficiaries of social welfare. The limited support for education, for instance, had allocated benefits to privileged and middle class sectors. Thus this impressively large social protection system did not significantly redistribute incomes to the poor. Income inequality as measured by the Gini coefficient remained high, with 64 million people (in a population of 152 million) classified as poor and 30 million as indigent (Faria 2002).

With the introduction of macroeconomic reforms 1994, known as Plano Real, the state embarked on an overhaul of social policies and shifted to a pro-poor redistribution of social expenditures. It also institutionalised reforms to harmonise and co-ordinate more than 50 social policy measures. Several important principles underpinned the reforms to the social protection system: universal equity without compromising the fiscal efficiency; public participation to raise and diversify social control; decentralised implementation of the public social policy and social partnership involving civil society, the state and corporate sectors (Faria 2002). Direct income programmes were enhanced, such as the old age and disability grants as well as the Bolsa Escola, a school bursary programme that had reached 10 million children by 2000. Community solidarity programmes were established in the poorest communities to coordinate social interventions in conjunction with civil society (Faria 2002; Meade et al. 2004).

At the start of 2003, the newly elected administration of President Lula da Silva launched Brazil's Zero Hunger (Fome Zero) programme. Its stated goal was to eliminate hunger among an estimated 50 million food-insecure Brazilians within five years. In Brazil, the primary driver of food insecurity is perceived to be income poverty which impedes access to a nutritionally adequate food basket. The poor just cannot afford enough food to live healthy lives. Meade et al. (2004:26), offer the following description overview of the programme:

*The program comprises 60 different initiatives with a goal of providing food access to 11.4 million families (or roughly 50 million people) within 5 years.*

*The program is to be supported by agrarian reforms, producer incentives, and the enactment of minimum agricultural income policies. Other initiatives include a Food Coupon Program (inspired by the Food Stamp program in the U.S.), food vouchers to be exchanged at government-licensed food outlets, and food banks to redistribute surplus food from supermarkets and restaurants. Additional initiatives will target low-income workers, while nutrition programs will supply food to pregnant women, new mothers, and babies. The School Meals Program aims to increase the quality of school meals using regional foodstuffs. Existing school meals programs will be expanded to cover siblings of children attending school and potentially be extended over school vacation periods. Other initiatives include food and nutrition campaigns to educate the population about healthy eating to prevent obesity and malnutrition.<sup>12</sup>*

Zero Hunger, according to this overview, was conceived as more than a pure cash social assistance package. It highlights the multi-dimensional nature of food insecurity and the comprehensive set of interventions needed to overcome it. It further relies on a tight network of institutional co-ordination because many state agencies have a stake in contributing toward the success of the programme. During its first year, Zero Hunger was located in a special ministry directly linked to the office of the President, but weak administration resulted in it being transferred to the Social Development Ministry where it has grown and achieved considerable progress towards hunger eradication (Rocha 2009).

In October 2003, following extensive debates on the need to reform social policies<sup>13</sup>, the state decided to amalgamate Brazil's large social protection cash transfers into the Bolsa Familia (or Family Fund).<sup>14</sup> Its launch marked the

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<sup>12</sup> See Rocha (2009:54) for a detailed listing of the components of Zero Hunger.

<sup>13</sup> 'The objectives of these reforms included: (a) consolidating and rationalizing federal conditional cash transfer programs; (b) promoting efficiency in the use of public resources (administrative costs were indeed reduced as a result of this merger...); (c) improving the system for identifying the target population; (d) leveraging synergies from jointly promoting education and health incentives; (e) strengthening monitoring and evaluation; and (f) leveraging opportunities to systematize complementarities in the social safety net between federal and sub-national programs (promoting vertical integration).' (Lindert et al. 2007:14)

<sup>14</sup> The Bolsa Familia law was passed in 2003 and considered as the first step in the process to institutionalising a guaranteed minimum income for the poor – with progress conditional on the availability of the necessary fiscal resources. Bolsa Familia amalgamates the following four programmes: Federal Bolsa Escola Program: Under the BE program, poor families (with per capita incomes less than R\$90, or half the minimum wage at that time) received R\$15 (US\$7) per month per child up to a maximum of three children, conditional upon a minimum school attendance of 85%. *Bolsa Alimentação* (health and nutrition grants, BA) program, which sought to reduce nutritional deficiencies and infant mortality among the poorest households. 'Fome Zero' (zero hunger) program sought to promote food consumption, and beneficiaries were supposed to use the transfer for food purchases. *Auxílio Gás* (*Vale Gás*), is a compensatory measure for the phasing out of cooking gas subsidies (Lindert et al 2007).



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unification of four cash grants designed to assist the poor to access: education scholarships for their children (Bolsa Escola); food to eradicate hunger (Zero Hunger); energy and gas for cooking; and health and nutrition grants for pregnant women and young children. Institutionally, the Ministry of Social Development (MSD) is responsible for national oversight and implementation for Bolsa Familia. The MSD came into existence in after the Ministry of Social Assistance and the Ministry of Food Security were merged.

*Targeting:* Bolsa Familia targets Brazilians in poverty and extreme-poverty and uses the depth of the poverty to determine the level of the cash benefit for each household. but these are no longer defined in terms of income thresholds. In 2003 Bolsa Família reached 3.6 million families. By early 2007 it had reached 100% of Brazil's impoverished families, estimated to be in the order of 11.1 million families (about 45 million people or a quarter of the country's population) (Rocha 2009).

*Fiscal implications:* The Bolsa Familia budget was in the order of US\$4.1 billion in 2007, compared to overall expenditure of slightly more than US\$1.1 billion in 2003. The latest figures suggest that it accounted for less than 3% of direct government transfers, and only 0.5% to 0.8% of the country's GDP in 2007 (Rocha 2009).

### **7.3 National Rural Employment Guarantee (NREG) Scheme- India**

In mid-2005, the Parliament of India enacted into law the National Rural Employment Guarantee (NREG) Act. Implementation of Phase 3 of the NREG started in an expanded number of districts in April 2008. Evaluations of the first two phases show that the programme has delivering substantially more person-days worked than any of the previous large-scale public employment schemes in India. It deserves closer attention as a type of social transfer to the rural poor. The fundamental objective as stipulated in the Act is:

*to provide enhancement of livelihood security of the households in rural areas of the country by providing at least 100 days of guaranteed wage employment to every household in unskilled manual work (Ministry of Law and Justice, 2005 cited in Jha et al. 2009:3).*

The most immediate or direct objective is to grant unskilled persons the right to work on public works for a fixed number of days. This brings much-needed cash income into poor households and is expected to reduce income poverty. The complementary objective to enhance the livelihood security of rural households points to a more ambitious role and longer-term spin-off of the NREG. Building secure rural livelihoods is an arduous task and requires considerable time to show tangible outcomes (Mehrotra 2008). The NREG Act was subsequently adopted at state and district levels. This has sparked intense

policy debates ranging across controversial topics such as fiscal costs, beneficiary targeting and corruption. In the meanwhile, a rich body of empirical evidence of the impact of NREG scheme on employment and rural livelihoods is emerging (Murgai & Ravallion 2005).

Eighty percent of the works is concentrated around upgrading water infrastructure (water harvesting, irrigation, etc.) and land development. These investments are critical for raising agricultural productivity on rain-fed farmland.

India has a rich legacy of implementing various public employment schemes, operating at different scales across a diverse number of locations (Mehrotra 2008). *Refer to/mention some of the other programmes: MEGS and NFFW & key insights learned...* For instance:

*Rajasthan has a long tradition of labour-intensive public works programmes, and the required administrative arrangements have been improved over time in the light of experience. For instance, the separation of payment agencies from implementing agencies (a crucial safeguard against corruption) (Bhatia & Dreze 2006:).*

### **7.3.1 Employment, targeting and outcomes**

Phase 1 of NREG covered the period 2006-2007 (or the first year) and targeted 200 of the most needy districts across India. This quickly exposed widespread variation in how the rapidly the NREG is gaining traction in specific localities. Dysfunctional state structures and administrative disarray in provinces and districts continue to impede the expansion and uptake of the NREG Scheme. Administratively, the Central Employment Guarantee Council (CEGC) oversees the national implementation of the NREG Act. However, the CEGC has been weakened by capacity constraints- it remains without a secretariat, staff and functional framework (Mehrotra 2008; Bhatia & Dreze 2006).

Overall, the number of person workdays created is far above any previous programme funded by the national state administration. Drawing on administrative data and his own surveys, Mehrotra (2008) reported that during phase 1 (2006-2007), the NREG was implemented in 200 of poorest labour surplus districts and reached an average number of 43 person days worked. In Phase 2 (2007-2008), the average number of person-days came to 42 whilst the

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number of districts expanded to 330.<sup>15</sup> This slight decline is explained in terms of programme awareness.

Critics question whether a public works wage set above the minimum wage in a district might lead to ‘programme capture’ by the non-poor and justifiable in terms of the fiscal burden (Murgai & Ravallion 2005; Jha et al. 2009). Jha et al. (2009) conducted an early assessment of the impacts of NREG on poverty. This comparative study focused compared progress in the implementation of NREG in villages in two districts drawn from Rajasthan and Andhra Pradesh, a southern and northern state with low and high response rates of poverty to economic growth, respectively. This difference in the poverty elasticity of growth offers a summary description of initial conditions to help explain some of observed patterns.

Jha et al. (2009) asked how well the programme has been targeted and whether the ‘non-poor’ are capturing any benefits. To investigate this question, they examine the relationship, first, of NREG uptake and land holdings, followed by the relationship of NREG participation and the public distribution system. In the pooled sample, there is very little capture of the programme by the non-poor: the relationship of the NREG and landholding size is negative. However, in Andhra Pradesh this pattern breaks down. Land inequality measured by the land Gini coefficient is the much higher in the Andhra Pradesh than in Rajasthan. Furthermore, participation in the NREG is positively correlated to the PDS, which suggests that participants try to obtain welfare benefits from other programmes because NREG’s coverage is inadequate.

### Box 1: Social policies targeting rural development in Mexico<sup>16</sup>

Mexico has several safety nets targeted at the rural poor. Some social policy interventions enable rural participants to earn incomes, such as the PET public works schemes which started in rural areas in 1995. Other social programmes are block grants decentralised to municipalities for spending on infrastructure, such as the FISM or Fund for Municipal Social Infrastructure. But the bulk of the rural social transfers are channelled through human capital development programmes that focus on nutrition, health and education. Older nutrition and food security social assistance are the Tortibono (tortilla subsidy) and Liconsa (milk subsidy). Procampo and Progresa are the most popular rural social safety

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<sup>15</sup> The earlier programmes, which covered the whole country, generated 748 million person-days in 2002-03 and 856 million in 2003-04. Under the NREG, the figure was 905 million in 2006-07 for only 200 districts and 1.437 million in 2007-08, partly reflecting the expansion of coverage to 330 districts and also improved preparedness (Mehrotra 2008).

<sup>16</sup> There is no evidence that Mexico has any voucher-based transfer subsidy. However, some authors classify Progresa/Oportunidades as having features of a voucher.

nets and are both cash transfers. Procampo, introduced in 1994, is a cash grant paid to farmers/producers adversely affected by the introduction of the North American Free Trade Area.

Progresa was introduced by the Mexican government in 1997 to broaden its suite of rural poverty-alleviating social policies. Its primary objective is to simultaneously improve education, health and nutrition outcomes of targeted participants. The main mechanism through which it seeks to realise this outcome is conditional cash grants for poor children's education. It includes in-kind transfers in the form of health benefits and nutritional supplements for children up to age five and for pregnant and lactating women. Transfers are conditional on children's enrolment and regular school attendance, and clinic attendance. Social policy reforms introduced after 2000 resulted in the transformation of Progresa to include urban areas and Mexico's most significant social policy intervention being re-launched as Oportunidades in 2002.

Over time, rural areas have been allocated a greater percentage of social grant expenditure. For instance, in food and nutrition subsidies, whereas in 1994 rural areas received only 31.4% of spending, by the year 2000 rural areas were receiving 76.4% of all spending on these programmes. Overall spending on anti-poverty programmes shows similar trends. By the year 2000, 76% of all anti-poverty spending was dedicated to rural areas whereas in 1994 only 48% of all anti-poverty spending was spent in rural areas (Poder Ejecutivo Federal 2000, cited in Skoufias 2005).

It is worth highlighting two features of Mexico's social policy: geographic targeting and increasing decentralisation to devolve decision-making power and resources to local states and communities. Progresa was premised on a household-level targeting model, identified through an easy two-step procedure. Communities are first selected using a marginality index based on census data. Then, within the selected communities, households are chosen using socioeconomic data collected for all households in the community. This is also known as administrative proxy-means selection as opposed to self-selection, which is the targeting approach on which Oportunidades is based. This has evidently reduced the resource intensity of screening and targeting eligible beneficiaries without excluding considerable numbers of eligible people and capturing the non-poor.

*Sources: Skoufias (2005); Coady & Parker (2009); Winters and Davis (2009)*

## **7.4 Social transfers using vouchers**

### **7.4.1 Introduction**

When goods and services are supplied through markets, institutional arrangements or the ‘rules that govern exchange transactions’, must be clear to prevent markets from malfunctioning. Similar regulatory rules exist for social transfers – i.e., the supply of goods and services with the aid of the public sector. However, the intensity of the regulation tends to vary with the delivery modes of social goods and services. Two extreme routes to supply social services exist: direct provisioning by the state (nationalised firms) or cash transfers. Maximum or strict levels of regulation exist in cases where the public sector owns services and is the sole supplier of those services. This option is generally associated with limits on competition and thereby likely to eliminate the potential pricing and choice benefits consumers might be able to derive from cash transfers. On the other extreme, the state could transfer cash to people and in this way grant them the broadest possible discretionary power. Vouchers are often described as an ‘intermediate’ mechanism to transfer public support the poor.

In the context of this report and more commonly, a voucher is basically a coupon or certificate to transfer social grant benefits to qualifying/eligible people. It is perceived to be an extremely flexible instrument to transfer social welfare support to people in need. Whilst this widely accepted idea of a voucher describes some concrete features of a voucher, it clearly downplays what a voucher enables its beneficiaries to achieve. Steuerle (2000:2) defines a voucher more formally as: ‘a subsidy that grants limited purchasing power to an individual to choose among a restricted set of goods and services’.

Who finally benefits from the voucher or its ‘benefit incidence’, Steuerle elaborates, stands at the core of this definition. Consider the case of a food security voucher which obviously targets the food insecure. However, one option might be to hand the voucher to the beneficiary to exchange it for food. An alternative option could be to distribute it through discounted (subsidised) food prices through a specified food supplier. The effectiveness of food security voucher system depends upon how efficiently the food reaches the food-insecure. Vouchers sometimes work best when governments contract out the provision of services. For instance, a variety of housing vouchers involve contracts with private suppliers of rental housing (Steuerle 2000).

Regulations attached to vouchers impose restrictions on their use: these have a capped monetary value, supplier restrictions are imposed and vouchers are exchangeable for specified types of the goods and services. The administrative structures of voucher schemes vary considerably.

#### 7.4.2 Vouchers for training and human capacity building

*Vouchers give WIA [US Workforce Investment Act] participants the freedom to select the program they believe would best meet their needs, but the evidence on voucher effectiveness for disadvantaged populations is mixed, with some studies showing that this group frequently overreached in selecting programs (Barnow & King 2005:42).*

Voucher-based training programmes that target poor adults, especially the youth, are closely modelled on school voucher programmes. In fact, school voucher programmes have become typical means to redistribute the social benefits of schooling to children from poor families. School vouchers, according to its proponents, offer the parents wider choice over where to send their children. In the process they are more likely to select the top quality schools, or schools perceived to be of superior performance (based on academic and other criteria), rather than public schools. Chile is a developing country with a universal school voucher programme. Yet 10 years after the implementation of its school voucher, private schools attracted less than 50% of the total student population. What this experience suggests is that a universal school voucher might be inadequate on its own as it tends to subsidise parents who can afford to enrol their children in private schools without additional support (Ladd 2002).

Before 1998, the Job Training Programme (JTP) was the main federal social assistance package for skills development in the United States. The JTP had two main targeting criteria: low family income (means-test) and a family member already receiving an existing social welfare grant (for example, living in a family that receives Food Stamps). Its focus was on *substantive training* (on-the-job training and training centers) rather than merely *job search skills* as is the case with Workforce Investment Act (WIA).<sup>17</sup>

Heckman and Smith (2003) investigated the determinants of participation in the JTP. They found that barriers to information (education, language skills, age) were important determinants of programme participation. Awareness rates were very low and few participants realised that they qualify for participation in the programme. A final hurdle to overcome is actual participation in job training programmes- either in substantive training and job search skills training. Enrolment hinged crucially on the willingness of firms to accept

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<sup>17</sup> In the United States there are several social welfare programmes. Among these, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) is most widely known as it is associated with the transition from welfare to work. With this act, a new social welfare regime was born in the United States. It brought to the fore decentralisation as with the introduction of TANF – a block grant which gives greater discretion to the state in welfare provision (Blank 2002).

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participants. Moreover, participants also faced difficulties maintaining themselves during training because the JTP did not offer any stipend.

Box 2: Argentina's *Proempleo* workfare training experiment

### **Background**

The privatisation of Argentina's oil refinery in 1993 resulted in a rapid rise in job losses. In an effort to enable the unemployed to transition to sustainable jobs, the Ministry of Labour ran an experiment as part of its expanded *Trabajar* public works programme, with 80% of its participants coming from the families in the poorest income quintile. One experiment took place in the urban settlement of Confluencia which is in the northern province of Neuquén and stands out as an insightful example of the strengths and weaknesses of training vouchers in this context.

### **Skills training voucher system**

The *Proempleo* voucher entitled a hiring employer to a wage subsidy of \$150 per month for workers aged above 45 years and \$100 for younger workers. This subsidy was paid directly to the beneficiary as a part of his/her salary, and the employer had to discount the amount of the subsidy from the gross wages paid to the worker. The minimum wage rate in Argentina at this time was \$200 per month. The employer had to register the worker as part of government's social security system, which was 30% of the gross wage. The hiring firms would then receive a subsidy. The training had two components. The first was a three-day 'labour market orientation' workshop which included presentations on labour demand in the area, how to look for work, and how to become self-employed. This component was mandatory. Once this workshop was completed, training coupons were issued for the second component, which provided training in a specific skill and required 200–300 hours of attendance.

### **Uptake and labour market impacts**

Take-up of the wage subsidy by firms hiring a worker with a voucher was very low. There is a plausible explanation for low employer take-up of the subsidy. Registering a worker so as to receive the subsidy was not costless, since it also meant incurring the government's social charges and assuming administrative costs. Many potential employers were also outside the formal sector, and did not register any workers. The voucher may well have encouraged workers to make more effort to find work. By this interpretation, the voucher had an 'empowerment' effect, in making these workers — notably young and female workers — more confident in approaching employers. It should also be noted that the *Trabajar* workers in these company towns had a reputation locally as 'trouble-makers' due to their involvement in various protests about economic conditions in the towns and the perceived inaction by the government. This reputation may well have made them less employable as a group. Nonetheless,

this experiment is at least suggestive that wage-subsidy vouchers can provide cost effective assistance to low-wage workers for finding regular paid employment.

*Source: Galasso, Ravallion & Salvia (2001)*

In 2000, the Workforce Investment Act, the successor to the Job Training Partnership Act (JTPA), came into effect. It splits training into a hierarchy of three levels: core training to supply participants with elementary job search skills; intensive services that focus on as counselling services; and occupation or job-specific skills acquisition. In the initial design of WIA, the training voucher would be a training measure of last resort- after having exhausted core and intensive services (O’Leary et al. 2005), but this has evidently been altered. One-Stop Career Centers are at the heart of service delivery structure under WIA and function as integrated hubs to localise the entire network of ‘welfare to work’ assistance. A feature that stands out about the supply structure is the highly decentralised way in which training facilities operate. This is facilitated by lists of private and public training service providers disseminated by the One-Stop Career Centers, and access to information about training vouchers has expanded its uptake. Vouchers can then be used to enrol for training at public two-year technical and community colleges, nonprofits and community-based organisations, and private profit-making enterprises. On the regulatory front, the biggest challenge seems to be to craft a system to evaluate the performance of various training service providers (O’Leary et al. 2005).

In the United States, federal and local government funding of vouchers for substantive skills development remains significantly small compared to direct private sector investment in skills training. In 2001, for instance, the total federal fiscal expenditure on workforce investment amounted US\$6.4 billion. Despite movement towards decentralisation, the total spending for all states amounted to about a tenth of federal spending – i.e., a total of \$600 million. Private investment in training came to a total of US\$60 billion.

In 1995, Paraguay initiated a micro-entrepreneur training voucher.<sup>18</sup> It is estimated that roughly two-thirds of the economically active urban population operate as micro-entrepreneurs. Operators of micro-enterprises can use the vouchers as a top-up investment to upgrade their own skills training. Each person may apply for a maximum of six vouchers in a single year. Suppliers of the micro-entrepreneurial training programmes are certified private and public training providers. The implementation of the voucher is regulated through the

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<sup>18</sup> All the evidence on the Paraguay initiative draws on Lepenies (2001) research. This voucher initiative started in 1995, with the Inter-American Development Bank injecting capital to jump-start the voucher scheme.



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Ministry of Justice and Labour with legislative responsibility to: certify training institutes, approve courses and inspect and supervise approved training providers. The maximum number of participants per course is 25, but this appears to be inadequate because demand for available courses exceeds supply. Interestingly, no evidence could be found of labour substitution or of participants opting out of the labour market. On the contrary, participation in the micro-enterprise training leads instead to livelihood diversification.

### **7.4.3 Housing Choice Voucher as “Welfare to Work”**

Vouchers can be used as social policy tools to improve efficiency and equity (Steuerle 2000, Mkandawire 2001). Steuerle (2000) defines efficiency as lowering the cost for poor people to access goods and services. Certainly, if essential goods and services become more affordable and thus accessible to the poor, then it is likely to contribute towards equity. In the US there is a low-income housing voucher programme which offers low-income households a subsidy to rent housing in the private rental market. It is known as Section 8 of the Federal housing subsidy for poor households. The Housing Choice Voucher (HCV) forms part of a suite of Welfare to Work (WfW) vouchers. Participation in the voucher programme makes it possible for the family to purchase certain combinations of housing and other goods that are unattainable in the absence of housing assistance (Olsen et al. 2005).

‘Institutional failure’ seems to be a key rationale for vouchers as it forms one among several options to make goods and services more affordable. In this context, without vouchers, access is constrained because

*an existing institutional structure for transferring benefits is viewed as inadequate. Here the voucher is often viewed as potentially improving quality, rather than the quantity, of the good or service involved. Thus housing vouchers have been favored as a substitute for public housing for some time now by many liberals and conservatives and by Republican and Democrat presidents alike (Steuerle 2000:6).*

DiPasquale et al. (2003) offer a review of the shift from housing availability to affordability. Until 1988, the focus of the public housing programme was on increasing the stock of the housing. However, escalating housing production costs became a binding obstacle to pursue this route, hence the increasing shift towards vouchers. Of the 5.2 million housing units for which they could find data in 1999, they found 2.5 million to be active housing assistance programmes across the United States. Of the six active programmes, the HCV included the majority of participants in assisted household.<sup>19</sup>

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<sup>19</sup> Olsen (2003) considers the case of switching from housing choice vouchers to block grants.

The HCV is not prescriptive of the jurisdiction within which beneficiaries must use the voucher for rental housing. Atlanta is the exception to this general provision. The city's housing authority does not allow voucher recipients to rent housing outside the jurisdiction of the city's housing programme. It is a rental subsidy for a housing unit which meets the standards of the housing authority. The value of the subsidy is adjusted for monthly family income and payment of other utilities (water and electricity). At least 75% of new admissions in HCV must have an income of 30% below the median income within a defined zone. Beneficiary households could lose access to housing if they fail to participate in WtW employment and training programmes. Interagency partnering between the housing authority and TANF agency or the agency administering welfare-to-work employment and training grants is therefore critical. Scott (1999) found that the housing voucher programme was increasing the cost of housing to the poor.

Residential location affects labour market participation. If a person resides far from available job opportunities then measures that reduce the cost of employment might be useful. Carlson et al. (2009) studied the effects of housing voucher receipt on geographic movement and labour market outcomes for a large number of low-income individuals and families in Wisconsin that requested or received food stamps and/or TANF benefits. It is a longitudinal study, constructed from administrative records, which tracked households which entered the programme between 2001 and 2003 over the six-year observation period up to 2006.

Within the first year after receiving the housing choice voucher, a higher proportion of recipients moved compared to other households on social welfare but who did not get housing vouchers – 58% of the beneficiaries compared to 44% non-beneficiaries. The effect of voucher receipt on case head earnings is negative and statistically significant in the year of voucher receipt. The largest gap in earnings is in the older cohort, whilst in the younger cohort, earnings gaps dissipate substantially. There is also a negative effect on the quarter work of the voucher recipients relative to the non-recipient group, but this difference also dissipates over time. What these findings suggest is that housing voucher's positive impacts on labour market participation and earnings are likely to take time to be realised.

In another study commissioned by the US Department of Housing and Urban Development, housing choice vouchers were tracked for the period 1999–2004. This initial evaluation investigated whether voucher recipients experienced improvements in household wellbeing- which is measured with the aid of several indicators. Like other studies, this one also explored how these households fared relative to other recipients of TANF and food stamp benefits. Voucher recipients tend to relocate to what they perceive to be better neighbourhoods and thereafter tend to markedly reduce the frequency of relocation. In terms of the employment, they found that the:

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*voucher reduced employment rates and earnings amounts in the first year or two after random assignment. However, the small negative impact of vouchers disappeared over time, and vouchers had no significant impact overall over 3.5 years of follow-up (Abt Associates Inc. 2006:xx).*

In terms of material benefits, vouchers reduced homelessness (street living and overcrowding) and income poverty. The numbers of households with access to housing increased, yet the quality of the housing did not increase. Although improved levels of food consumption were reported, it did not significantly reduce food insecurity. Child well-being indicators also improved (Abt Associates Inc. 2006).

## **8. Social grant payment options for pro-poor development**

A rapidly growing body of social policy literature seeks to go beyond the income-based welfare benefits derived from various types of social protection—as outlined in section 3.6. Broadly, this literature is described as advocating the need for ‘developmental social policy’ and it is worth drawing lessons from specific examples cited in this literature. Mkandawire’s argument for developmental social policy places the emphasis on developing human capabilities through the social provision of education and health. This has been a major challenge for developing countries, yet mainstream growth models tend to neglect the contribution of social expenditure and investments to human capital development and sustainable growth. Social welfare expenditure, often classified as a component of the ‘*social wage*’, lowers the cost of labour and encourages active participation in labour markets. These in turn raise economic efficiency which exerts a positive impact on economic growth (Mkandawire 1999). Another example might be to use social transfers as a counter-cyclical measure to economic shocks, as argued in a contribution by Alderman and Haque (2006). Winters and Davis (2009), for instance, consider the case of PROCAMPO in Mexico, which is an agricultural support grant designed to compensate small-scale maize farmers for losses sustained as flowing from NAFTA.

Social protection might alternatively be viewed as a redistributive tool to reduce the cost of living to the poor. As an illustrative example of this underlying idea, consider the impact on disposable income of water and electricity subsidies. Komives et al (2007) consider the case of water and electricity subsidies to the poor in developing countries as *in-kind social transfers*. In theory, what a public utility subsidy does is it frees up income in the household for spending on other necessities. In-kind transfers vary and tend to be most effective in cases where the capacity to implement social policies through cash transfers is missing. Another pre-condition for its effectiveness is

the existence of functioning and efficient utility services for those who can afford and that coverage could be easily expanded to those unable to pay.

To coherently extend the conceptual framework outlined in an earlier section, this section explores a limited number of feasible grant payment options. The following figure, adapted from Altman and Boyce (2008), shows the connections of the most common social grant transfer instruments to several development outcomes. Whilst the figure encapsulates the main argument in this report, it is not meant to be a one-size-fits-all and all-inclusive model of how to use the payment options of social grants to achieve a range of local development objectives. Instead, it only illustrates several possibilities based on available evidence. The main idea we underscore is that there is no singular grant payment option which works optimally to achieve all developmental outcomes.

		Social Grant Payment Options			
		<i>Cash</i>	<i>In-kind</i>	<i>Vouchers</i>	
<b>Local Economic Development Goals</b>	Employment Generation	Public works programmes	X	X	X
		Job search information			X
		Education & training	X		X
		Employer subsidies			X
	Self-employment & small business development				X
	Housing & other socio-economic services				X
	Food & Nutrition Security	Food gardens		X	X
		School Feeding schemes		X	X
		Price subsidies (stamps?)			X
	Resource-poor small farmers	Land reform grants	X		X
		Production inputs	X		X
		Skills training			X
		Credit & insurance			X

**Figure 4: Illustration connecting Local Economic Development goals and social grants payment options**

*Source: authors derived from Altman & Boyce (2008)*

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International case studies illustrate that vouchers are generally used effectively when done so in conjunction with the receipt of other forms of social protection, rather than in lieu of other forms of social protection. It should be noted that voucher administration is often more expensive than the transfer of cash and perhaps the best way to administer vouchers is through or in conjunction with existing social protection instruments and programmes.

Some High level options for introducing Vouchers as supplementary to social grants or other forms of social protection with a view to stimulate local economic development. Three possible areas with associated examples are highlighted, namely:

1. Employment Generation (e.g. Early Childhood Development (ECD) Centres)
2. Food and nutrition security (e.g. Food gardens or production inputs?)
3. Resource Poor Farmers (e.g. Production inputs)

### ***1. Employment Generation (e.g. Early Childhood Development (ECD) Centres)***

Option 1 Universal or at least where ECD Centres exist: Working age adults who receive a child care grant also receives a voucher per child that enables the child to attend a local ECD Centre. The ECD Centre would then submit these to the relevant local Departmental representative on a monthly basis and they would be reimbursed. This money would be used for salaries of staff and feeding of children. Each staff member at a centre would each receive an annual voucher that would enable them to undergo training at their closest training centre. Training would include ECD skills as well as management skills.

Option 2 Linked to EPWP initiatives: EPWP employees receive a daily voucher for each child. This voucher is then given to the ECD Centre each day that the children attend the local ECD Centre. The ECD Centre would then submit these to the relevant local Departmental representative on a monthly basis and they would be reimbursed. This money would be used for salaries of staff and feeding of children. This option could also be linked to any form of employment, especially if targeting the working poor – farm workers, construction workers, domestic workers, gardeners etc., especially where the wage is equivalent to or less than the basic wage. Linkage could be similar to a compulsory type of UIF programme where all employers, at no cost to them, distribute a daily/weekly or monthly voucher that can be exchanged for childcare at local ECD Centres.

### ***2. Food and nutrition security (e.g. Food gardens or production inputs?)***

Here specifically targeted people below a certain income threshold receive site specific agricultural training from an experienced NGO through means of a voucher – voucher can be obtained through the local post office, Community

Development Worker, Extension Officer or suchlike, once the necessary forms are completed. Targeting is essential and there would be a need to focus on poor households using a means test or similar. Also only those that are active in home food garden production would be eligible for voucher. No garden activity no voucher. Training would be low-external input low-cost using renewable technologies that are site specific (attending to biophysical and socioeconomic factors). NGO would then submit these vouchers to the relevant local Departmental representative upon completion of training and would be reimbursed. Possibly two vouchers per year to cover the basic two agricultural cropping seasons. Training and support for a specific household could be restricted to a three year period so that new households facing similar circumstances could also be supported. Renewable inputs would be part of this programme. This approach could also be extended/adopted to include small livestock farming. Here vouchers could be exchanged for training and support as well as high-protein feed and limited veterinary services. Local people could become sellers of smaller volumes of the inputs and could redeem the vouchers they receive for cash at a local post office or such like. Vouchers could be per volume rather than for a monetary value of the input so that high prices would not restrict the amounts received.

### ***3. Poor smallholder farmers (e.g. Production inputs)***

Here we could follow the same strategy as the Malawian AISP and target poor smallholder farmers who have access to land beyond the household garden, by whatever means of tenure. Vouchers could be exchanged for specific inputs that are locally important (e.g. Maize, sorghum, etc). While these farmers would be farming for an income their incomes would be low and this programme would enable a boost in yields and income. Factors such as the availability of local input and output markets (in any form) need to be considered. Vouchers would be exchanged for a specific amount of seed and other inputs required. Or vouchers could be given to livestock owners whereby they can exchange these for veterinary services – especially inoculations – as well as for feed during dry spells (Winter or Summer months) depending on location in South Africa). Distribution mechanism could follow the Malawian approach unless there is a better mechanism here. Targeting the recipients will be crucial. Local people could become sellers of smaller volumes of the inputs and could redeem the vouchers they receive for cash at a local post office or such like. Vouchers could be per volume rather than for a monetary value of the input so that high prices would not restrict the amounts received.

## **9. Conclusions and recommendations**

This report has synthesised evidence about the potential role of social grants to stimulate local economic development. The DBSA wanted key insights to

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reflect on the following overarching questions:

- *What kinds or forms of social protection policies are in place in different countries?* This means compiling a typology of the broadest possible range of social grants: from traditional contributory pension grants to special infrastructural grants targeted at local authorities or communities. What trade-offs exist in terms of fiscal policy, targeting and the labour market participation?
- *What social grant transfer instruments are used in various contexts?* Three main grant instruments have been looked at: cash grants, in-kind transfers and vouchers. What trade-offs and complementarities could be identified between different social transfer instruments?
- *Are vouchers as instruments to redistribute social grant benefits to eligible beneficiaries relatively more effective in contributing towards local economic development?* Although this formed the core question of this synthesis, it was arguably the most complex question to answer for two main reasons. At the conceptual level, social policy research is primarily concerned with the direct benefits conferred upon grant recipients and those most immediately connected to them. Welfare in the forms social assistance and insurance is more important than developmental spin-offs. There is paucity of research and sufficient data on ‘developmental social policy’.

To address each of the above questions, the report relied heavily on available South African data- published and unpublished documents. But the South African evidence was not examined in isolation. To contextualise what is known about social policy locally and enrich the major policy recommendations, lessons from comparable global evidence has been brought together as well.

This paper contributes to the expanding body of research focusing on how social grant payment options might be used to enhance the developmental impact of social grants. It constructs a conceptual framework which connects the developmental potential of cash, in-kind and voucher payment options with development interventions targeting smallholder farm production, employment and child development. It brings together evidence on relevant local and global case studies, using a typology derived from the conceptual framework. This is then applied to a descriptive cohort analysis of recent General Household Surveys, specifically 2007-2008 data, to detect effects and coping strategies among grant receiving households in the context of the food and financial crises.

Adapting the Altman and Boyce (2008) framework, we have illustrated several options to utilize the most common social grant transfer instruments to achieve developmental goals. No singular grant payment option works optimally to achieve all developmental outcomes. Whilst no one-size-fits-all and all-inclusive model of how to use the payment options of social grants

exist, it is possible to illustrate several possibilities based on available evidence. Three possible areas with associated examples are highlighted, namely: Employment Generation (e.g. Early Childhood Development (ECD) Centres); Food and nutrition security (e.g. Food gardens or production inputs?); and Resource Poor Farmers (e.g. Production inputs).

*Employment Generation (e.g. Early Childhood Development (ECD) Centres):* Where ECD Centres exist, working age adults receive a child care grant and a voucher per child. The ECD Centre would then submit these to the relevant local Departmental representative on a monthly basis and they would be reimbursed. This money would be used for salaries of staff and feeding of children. Each staff member at a centre would each receive an annual voucher that would enable them to undergo training at their closest training centre. Training would include ECD skills as well as management skills. Another option might be to implement this through EPWP II initiatives. This option could also be linked to any form of employment, especially if targeting the working poor – farm workers, construction workers, domestic workers, gardeners etc., especially where the wage is equivalent to or less than the basic wage.

*Food and nutrition security (e.g. Food gardens or production inputs?):* People below a certain income threshold receive site specific agricultural training from an experienced NGO through means of a voucher. Also only those that are active in home food garden production would be eligible for voucher. No garden activity no voucher. Training would be low-external input low-cost using renewable technologies that are site specific (attending to biophysical and socioeconomic factors). NGO would then submit these vouchers to the relevant local Departmental representative upon completion of training and would be reimbursed. Two vouchers per year should cover two agricultural cropping seasons. Here vouchers could be exchanged for training and support as well as high-protein feed and limited veterinary services.

*Resource-poor small farmers (e.g. Production inputs):* As in the Malawian AISP case, use vouchers to target poor smallholder farmers who have access to land beyond the household garden, by whatever means of tenure. Vouchers could be exchanged for specific inputs that are locally important (e.g. Maize, sorghum, etc). Local people could become sellers of smaller volumes of the inputs and could redeem the vouchers they receive for cash at a local post office or such like. Vouchers could be per volume rather than for a monetary value of the input so that high prices would not restrict the amounts received.



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