

Policy Brief – January 2012

The role of social grants in supporting local economic development (LED)

In a country such as South Africa where inequality levels are high combined with low levels of labour market participation, social grants have played an important role in supporting households to attain some minimum standard of living. Grants have also assisted in achieving human developmental goals including improved education and health outcomes¹ while also reducing poverty levels in South Africa.

An analysis by Leibbrandt *et al* (2010)² suggests that the headcount poverty rate³ would have risen to 0.60 in the absence of grants from the current 0.54. Given the large expenditure by the South African government on these social transfers, in the region of 3.5% of GDP⁴, can one look to

establish a wider role for these grants beyond improving household welfare but also in supporting local economic development, with a particular focus on areas with high levels of poverty? This policy brief looks at one potential demand side intervention in which a top-up to existing social grants could serve as a local currency⁵. Such additional income could alleviate the budget constraints for the individual or household, while providing the additional income needed to buy locally produced goods and services which are often more expensive. Locally sold goods are often more expensive as they are often bought from the formal sector and sold at a mark-up at smaller quantities and areas often closer to consumers for example taxi ranks or the side of the road.

The outcome of a local currency intervention would be that social grant income remains within circulation within the community and spillovers occur to the local economy through the rise in demand including a decline in poverty and a rise in employment.

¹ Samson et al "The Social and Economic Impact of South Africa's Social Security System" EPRI Research paper number 37, September 2004. Commissioned by the Department of Social Development

² Leibbrandt, M et al "Trends in South African Income Distribution and Poverty since the Fall of Apartheid", OECD Social, Employment and Migration Working Papers, No 101, OECD Publishing, 2010.

³ The Headcount poverty rate refers to the number of people who lives below a certain poverty line, here it was R515 per capita.

⁴ Expenditure for 2009/10, National Treasury, Budget Review

⁵ Local currency also referred to a community currency is a form of paper issued at a town or community level to use at local participating businesses. The aim of such community currency is to encourage spending at local businesses as opposed to for example chain stores.

Why the focus on local economic development (LED)?

Many development policies suffer from a lack of a “bottom-up approach” which translates into a lack of focus on creating jobs where the poor live and within the markets in which they function.

Local Economic Development (LED) focuses on local development through the establishment of industries, factories and businesses, integrating of business and residential areas, as well as the development of local infrastructure. In South Africa spatial dimension is of particular importance when reducing poverty, given the specific location of the poor. In particular poverty rates are highest in the former homeland areas (tribal areas), as well as in informal urban areas, followed by urban formal areas.

Table 1: Distribution of poverty by location.

Income Poverty	Headcount ratio	Poverty shares
Rural Formal	39.0%	5.5%
Tribal	74.0%	52.8%
Urban Formal	27.1%	27.9%
Urban Informal	58.6%	13.8%

Source: NIDS 2008

This distribution of the poor also corresponds with the allocation of social grants. The largest number of grant recipients is located in urban formal areas and tribal authority areas. However it is concerning to note the low number of grant recipients in urban informal areas

given the high incidence of poverty in these locations. The findings regarding the low number of grant recipients in urban informal areas may be due to the geographic profile of those in these areas, mainly working age individuals’ which have moved from rural areas in search of employment. Hall (2009)⁶ finds that children are significantly less likely to live in urban areas than adults. Working age adults (18-60 years of age) in South Africa do not receive any social transfers from the state. While migration patterns may be changing, for mothers in search of work in urban centers, children often remain in the care of grandparents in rural areas which may account for the relatively low capture of grants in urban informal areas.

Table 2: Distribution of grant recipients by location

Type of grant	Rural Formal	Tribal Authority	Urban Formal	Urban Informal
Government pension	7%	28%	52%	13%
Disability	10%	22%	63%	6%
Child Support	7%	27%	57%	9%
Foster Care	4%	24%	61%	11%
Care Dependency	0%	67%	33%	0%

Source: NIDS 2008

Why focus on social grant recipients?

It is important that LED strategies effectively target the poor. Grants are means-tested based on income, as

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<http://childrencount.ci.org.za/indicator.php?id=3&indicator=13>

individual or married couple and assets, and target certain vulnerable groups such as children below the age of 18 years, children in foster care, children and adults with mental and physical disabilities, older persons, war veterans and adults requiring full-time care (grant –in aid. Grant recipients are located in the bottom 2 quintiles where 48% to 73% of income derives from government social transfers. Thus by focusing on grant recipients we do indeed capture the most marginalized in society. In addition, given that there are around 10 million⁷ recipients of social grants the reach of any complementary programmes is expected to be significant.

An analysis of grant recipients in South Africa

Female headed households in tribal areas have the highest percentage of at least one household member receiving a social grant at 74.6%, followed by female headed households in urban informal areas at 64.2% (NIDS 2008). This is driven by the fact that the Child Support Grant (CSG) makes up over 68% of all grants recipients, however the grant beneficiaries are split pretty evenly by gender, with 4,415,783 (51%) being males and 4,272,555 (49%) being females (Nids 2008)⁸

In South Africa according to the Living Conditions Survey 2008/09, 42.2% of households have at least one member who receives a social grant, and the highest number of households with at least one member receiving a grant at 59.2% is found in the Limpopo province.

Table 3: Distribution of Disability, OAP and CSG by income quintile

Quintile	% of hh reporting any income from Child Grants	% of hh reporting any income from Disability Grants	% of hh reporting any income from Old Age Pensions
1	55.8%	5.7%	9.8%
2	57.9%	10.9%	27.1%
3	45.4%	14.7%	23.5%
4	26.5%	9.9%	17.7%
5	9.0%	2.8%	5.0%
All	33.6%	8.2%	15.3%

Source: Leibbrandt et al 2010 (OECD)

Child support grant recipients (CSG)

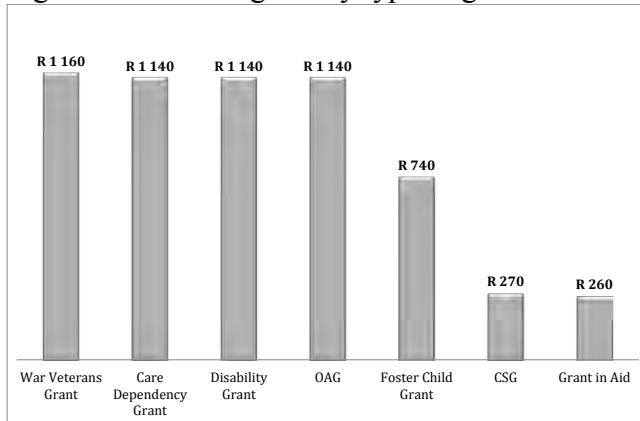
The social grants range in value; the Grant in Aid at R260 per month is the lowest while the War Veterans Grant at R1 160 is the highest in value.

At R1 140 per month, the Old Age Grant (OAG) and disability grant normally make up a larger share of household income than the Child Support Grant (CSG) at R270 per month.

⁷ SASSA: As at 30 April 2011 there are 10 175 388 recipients of grants.

⁸ Woorlard, I., Kannemeyer, C., McEwen, H. "Social Assistance Grants: Analysis of the NIDS Wave 1 dataset, discussion paper No 10", SALDRU, NIDS, July 2009.

Figure 1: Value of grant by type of grant



Source: Black Sash, "Social Grants" 2011/12

This would suggest that in order to increase the multiplier effect and benefit from additional income, a focus on the CSG recipients as the target group for a top-up would be most appropriate if spill over effects to the local economy are to be detected given the fact that the CSG reaches by far the largest proportion of households relative to other grants.

Caregivers are predominantly mothers, even if the mother is a non-resident (Aguero *et al*, 2009).⁹ In addition, the benefits to children have been shown to be more significant when transfers are provided to mothers. Only 17% of caregivers who receive the CSG are employed, suggesting the important role these transfers play in the survival of households. In terms of education levels of the caregivers who receive CSG, nearly 90% of these have

⁹Aguero, J. M., Carter, M. R. & Woolard, I. (2009), The Impact of Unconditional Cash Transfers on Nutrition: The South African Child Support Grant.

no higher education which also contributes to high levels of unemployment.

In 2010/11 there were 10.4 million children receiving child support grants (CSG).¹⁰ From an analysis of the number of children who receive the CSG by orphaned status, it is clear that children are less likely to receive a CSG when their mother is deceased.

Table 4: Distribution of children receiving the CSG by orphan status

	Both parents		Neither parent	
	dead	Mother deceased	Father deceased	deceased
CSG received	38.8%	36.7%	74.4%	58.3%

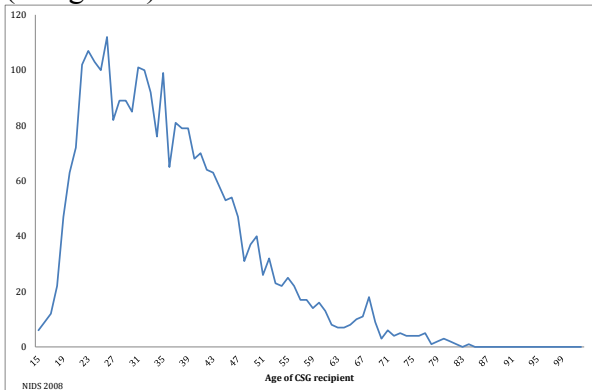
Source: Leibbrandt et al 2010 (OECD)

In addition, work by Leibbrandt *et al* (2010) for the OECD suggests there are some 2.5 million children who are eligible for the CSG, but aren't receiving it, of which 1.9 million have never applied. The reason identified for the lack of application according to the National Income Dynamics Study (NIDS 2008) related to the lack of required documentation, a problem in particular for younger children.

The CSG is paid out to the care giver of a child. The mean age of caregivers receiving a CSG is 35.7 years, placing them within the working age population

¹⁰ National Treasury, Budget Review 2011, Chapter 7, Social Security and Health Care Financing

Figure 2: Age distribution of CSG recipients (caregivers)



Source: NIDS 2008, own calculations.

The highest proportion of children receiving the Child Support Grant (CSG) are located in Limpopo (70.7%) followed by the Eastern Cape (66.9%) and KZN (64.6%), the lowest proportion of children receiving CSG is found in the WC at 29.2%, an observation which confirms the role of the grant in terms of poverty alleviation.

Table 5: Locational distribution of CSG recipients.

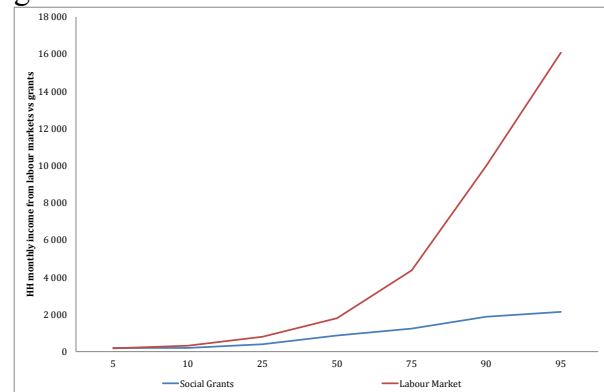
Location	Distribution
Rural Formal	7.1%
Tribal Authority Area	27.1%
Urban Formal	56.9%
Urban Informal	8.9%

Source: NIDS 2008, own calculations.

It is interesting to note that at the bottom of the income distribution, income for individuals who report income from the labour market and social grants are similar. However, the divergence as one moves up the

income distribution becomes much more pronounced, such that at the top of the income distribution labour market income is 8 times that of households receiving grants. While a more detailed analysis is required, this may suggest that low income earners are earning wages from the labour market similar to grants in value. This observation is supportive of the so called ‘working poor’ hypothesis.

Figure 3: Monthly household income from grants vs the labour market

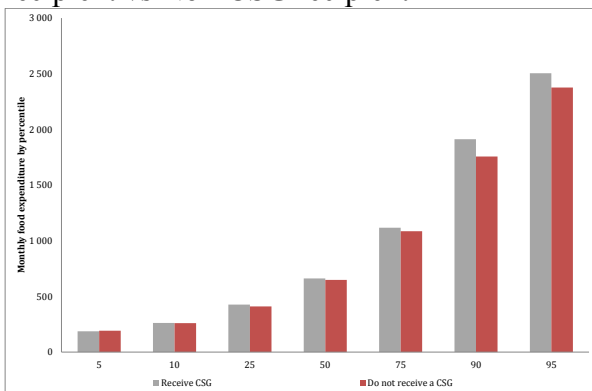


Source: NIDS 2008, own calculations

Monthly food expenditure of child grant recipient’s vs expenditure by those who do not receive a child support grant reflect a mean expenditure of R924 per month for child grant recipients and R883 for those who indicated they did not receive a CSG. Expenditure on food amounts to around 22% of average expenditure for those indicating receipt of a child support grant. The monthly distribution of food expenditure reflects at the median (50th percentile), CSG recipients spend R662 per month compared with non CSG recipients at R649 per month on food. In terms of the proposed intervention this raises

the question of the required value of a top-up in order to assist these CSG recipients to meet the needs of the household.

Figure 4: Monthly food expenditure, CSG recipient vs Non-CSG recipient⁷



Source: NIDS 2008, own calculations

Evidence of the effect of social transfers on the local economy.

Much of the research in the context of cash transfers has focused on the developmental impact for beneficiaries. For example, research in Latin America on the PROGRESA/OPORTUNIDADES programme finds positive impact on consumption, education, health and nutrition (Teruel, 2005, Davies 2001).

In addition to the positive impact from the transfer on beneficiaries of the programmes, positive spill-overs to the broader local economy also occur through the impact on non-beneficiaries. The spill-overs or multiplier effect occur due to the purchasing of goods and services by

beneficiaries which creates income for sellers while also increasing employment by the providers of goods and services in the community. Local producers benefit as they provide to traders who respond to the demand.

In Brazil, the mode of delivery, namely a card which provides access to the transfer via banks or a post office, also facilitated access to credit (Schwarzer 2000).¹¹ Research by Sadoulet *et al* (2001)¹² focuses on income multipliers of an agricultural programme, PROCAMPO in Mexico, which was aimed at stimulating production in the ejido sector. The intervention took the form of a cash subsidy to small scale farmers based on the land cultivated. The hypothesis tested was that a cash transfer would have a positive effect in rural Mexico where farmers lack cash to purchase seeds and equipment to produce.

Gertler *et al* (2005)¹³ - in turn - focused on how PROGRESA beneficiaries use the received transfers in income generating activities. The analysis finds that beneficiaries in the treatment group are significantly more likely to invest in

¹¹ Schwarzer H. "Impactos socioeconomicos do sistema de aposentadorias rurais no Brazil", Discussion Paper 729, IPEA, 2000.

¹² Sadoulet, E, DE Janvry, A, & Davis. "Cash transfer programmes with income multipliers, PROCAMPO in Mexico", World Development, Vol 29, number , pp 1043-1056.

¹³ Gertler, P, Martinez, S & Rubio-Codina, M. "Investing cash transfers to raise long term living standards", Mimeo, The World Bank 2005.

productive assets such as land or livestock, as well as engaging in income generating activities. The study concludes that the transfers resulted in increased entrepreneurial activity which assisted beneficiaries to become more self-reliant.

In terms of an analysis of the impact on the non-eligible PROGESA households, Barrientos (2006)¹⁴ investigated a hypothesis that local economy effects of social transfers were consistent with a rise in household consumption and an increase in asset holding by non-eligible households. The findings suggest that indeed the spill over effects of these transfers are in the form of higher levels of household consumption and asset holdings for non-eligible households and thus the transfers in poor areas of Mexico is interpreted to have significant local economy effects.

Angelucci (2006)¹⁵ compares food and non-food consumption in the PROGRESA programme of eligible and non-eligible households and finds higher food consumption in households which are eligible for the programme.

¹⁴ Barrientos A, Wheeler, R. "Local economy effects of social transfers", Institute of Development Studies, University of Sussex, 2006.

¹⁵ Angelucci, M et al. "Extended family Networks in Rural Mexico", Harris School of Public Policy, University of Chicago, 006.

Impact of social grants in South Africa.

Research suggests that cash transfer support investment in productive assets and activities (Lund, 2002)¹⁶. In addition, social grants in South Africa are used in a number of ways by recipients.

- The CSG increases the labour force participation rates (LFPR) amongst woman. (Eyal 2010)¹⁷.
- Old age pension is spent on education in poor households (Lund, 1993)¹⁸ and leads to higher school enrolment rates of girls.
- Old age pension leads to about a half years' growth for children age nought to 6 (Case, 2001)¹⁹.
- Improves access to nutrition.

However, given the conditions faced on the ground by the poor, social grants are often diverted into areas other than

¹⁶ Lund, F. "Crowding in care, security and micro-enterprise formation: revisiting the role of the state in poverty reduction, and in development", Journal of International Development, 14(6), p681-694, 2002.

¹⁷ Eyal, K, Woolard, I. "Female Labour Force Participation and South Africa's Child Support Grant" *SALDRU*, 2011.

¹⁸ Lund, F. "State Social Benefits in South Africa", International Social Security Review 46(1): 5-25, 1993.

¹⁹ Case, A. "Does money protect health status? Evidence from South African Pensions", NBER, Working Paper No 849, 2001

their intended purpose and are so diluted in value:

- A large proportion of social grant income is often diverted into debt repayments.
- In rural areas, the dependency ratios, especially for the OAG is high. This is due to high unemployment rates and grandparents caring for children as parents search for employment in urban areas.
- Income from the social grant is not exclusively used for the qualifying child but used to support the entire household.

What are poor households using grant money for?

For the majority of the poor, and consequently those who receive grants, food, energy and transport make up the bulk of monthly expenditure. The Living Conditions Survey of Households in South Africa 2008/09 (Stats SA, 2011) finds that households in the bottom two deciles spend around 42% of income on food, close to 20% on housing, electricity, water and other utilities and nearly 8% on transport.

Table 6: Annual household consumption expenditure by main expenditure group and decile.

	Expenditure deciles					Total
	1	2	3	9	10	
Food and non alcoholic beverages	44.4	44.9	43.8	15.8	9.6	19.3
Alcoholic beverages and tobacco	2.2	1.7	1.5	1	0.7	1
Clothing and footwear	6.4	6.6	7.2	4.7	3.2	4.8
Housing, electricity, water and other utilities	20.4	18.6	17.4	30.1	25.9	24.9
Furniture and other hh equipment	3.9	4.9	5.3	4.6	5.6	5.4
Health	1.1	1.3	1.5	1.3	1.3	1.3
Transport	8.4	7.4	7.7	12.1	21.1	15.3
Communication	3.7	3.5	3.4	3.6	3.3	3.4
Recreation and culture	1.2	1.6	1.7	4.6	5.3	4.3
Education	0.5	0.6	0.6	2.8	3.8	2.8
Restaurants and hotels	2.3	2.1	2.3	2.1	2.5	2.4
Miscellaneous goods and services.	5.4	6.6	7.6	17.2	17.3	14.9

Source: Stats SA, 2011 Living conditions of households in South Africa, 2008/09

Given that the majority of grant recipients are located within the bottom three deciles, their largest expenditure item is food. Furthermore, if expenditure on food is broken down by product, the main expenditure are for bread and cereals (between 17-18%), followed by meat (8%) and vegetables (5%).

Table 7: Expenditure by decile for food products

Food products	Expenditure deciles					Total
	1	2	3	9	10	
Bread and cereals	17.9	17.5	16.9	3.5	2.4	5.9
Meat	8	8.5	8.3	4.1	2.6	4.6
Fish	0.9	0.9	0.8	0.3	0.3	0.4
Milk, cheese and eggs	3.2	3.3	3.3	1.8	1.3	1.9
Oils and Fats	2.5	2.5	2.5	0.6	0.3	0.9
Fruits	0.6	0.7	0.6	0.4	0.4	0.5
Vegetables	5.2	4.8	4.5	1.4	0.9	1.8
Sugar, jam, honey, chocolate and confectionary	2.5	2.6	2.6	0.7	0.5	1
Food products n.e.c	1.4	1.8	1.9	0.7	0.5	0.9
Coffee, tea and cocoa	0.9	0.8	0.8	0.3	0.2	0.4
Mineral water, soft drinks, fruit and vegetable juices	1.3	1.5	1.4	0.9	0.7	1

Source: Stats SA, 2011 Living conditions of households in South Africa, 2008/09

Neves et al (2009)²⁰ find that social grants in South Africa generate economic benefits such as mitigating risks, facilitating savings and investments and supporting the development of local markets. Cash transfers support consumption, in particular for food and groceries, but also finance transport, school fees and clothing. The research suggest that even in the case of the CSG, which is low in value, cases of reported hunger were 30% lower than for non-recipients with similar household characteristics.

Social grants improve both the welfare of recipients but also the households in which they reside. They support the investment in productive capital, both human and capital. Money left over from food and fuel purchases are used for education expenditure, including school fees, transport, uniforms and stationary. In particular the research by Neves et (2009)²¹ confirms previous findings that the CSG and OAG play an important role in increasing school enrolment rates, while the OAG is also used in building activities such as upgrading or the construction of a house.

In terms of savings and access to credit, the analysis suggests that grant recipients have higher levels of savings and in particular precautionary savings across the spectrum of the different grants. The saving mechanisms are dominated by informal financial structures, including stokvels. However, the introduction of various low cost banking products by formal financial channels have led to an increase in formal banking accounts.

In terms of supporting or inhibiting economic growth, little evidence exists for developing countries. However, since economic growth is dependent on a number of factors, no clear casual relation can be established at a macro level. Research by the OECD highlights that only certain types of direct social transfers have a significant positive effect on economic growth, with much of the benefits of social grants occurring at the micro or individual level where it supports consumption and human capital investment.

Social grants play an important role in supporting and strengthening livelihood strategies and productive activity, including informal sector activity, domestic labour, child, ill, disabled and elderly care. They allow for flexibility in which the income can be used to support economic activity and mitigate against shocks.

²⁰ Neves, D, Samson, M, van Niekerk, I, Hlatshwao, S, du Toit, A. "The use and effectiveness of Social Grants in South Africa, FinMark Trust, PLAAS, EPRI, 2009.

²¹ Neves, D, Samson, M, van Niekerk, I, Hlatshwao, S, du Toit, A. "The use and effectiveness of Social Grants in South Africa, FinMark Trust, PLAAS, EPRI, 2009



The FinMark Trust study in 2009 (Neves *et al*, 2009) finds that many of the negative aspects associated with social grants have limited substance or are areas which require further enquiry.

In relation to the labour market disincentive effects of social grants, the study highlights that in developing countries where transfers are relatively low these grants act as a supplementary income while also allowing for other household members to enter the labour market.

In South Africa individuals of working age are excluded from social grant system. Caregivers of children below the age of 18 represent the only potential group who could be of working age, however, the low monetary value of the CSG is unlikely to serve as a disincentive for labour market participation. Research by Eyal (2010)²² suggest that the receipt of a child support grant by African mothers between the ages of 20 to 45 is associated with a higher probability of labour force participation.

Thus grant money is used by recipients in a number of ways, some sophisticated, some less so; however, it confirms that the poor are well aware of their individual needs.

Hypothesis for a demand side intervention:

The budgets of poor households are severely constrained and as such they do not have sufficient financial resources to buy necessities. As local goods are often more expensive, income received from the grants does not remain in circulation within the local economy, as the poor use income to pay for transport to buy goods in neighbouring areas or buy from large chain stores which are cheaper.

By providing additional financial resources to individuals in a household, purchasing power could be increased. If these additional financial resources are then also spent locally, local enterprises would benefit, while poor households would also spend less money on transport, thus leaving more income available to the household and thereby increasing household welfare. This would result in a spill over effect for the local economy through the increased demand for local goods.

The study will also identify the appropriate mechanisms for a demand side intervention. Options include a card or voucher redeemable for specific products or a loyalty card redeemable at local enterprises. These would serve as “local currency” to the receiving individual. The study would identify the behavioural changes in terms of the consumption and expenditure patterns of the individual as a result of receiving this card in comparison

²² Eyal, K., Woolard, I. “Female Labour Force Participation and the Child Support Grant in South Africa”, SALDRU, 2011



to those who do not receive the card through the use of empirical techniques, such as randomised controlled trials.

In terms of the target population for the intervention, there are a number of possibilities; the participants could be poor communities, all grant recipients, only recipients of a specific grant, such as Child Support Grant recipients, or it could take the form of a new type of grant such as a BIG (Basic income grant) to 19-59 year olds who are currently receiving no state support, are unemployed and have never worked.

The monetary value of the top-up card will be influenced by the amount of money spent by grant recipients on different products or services, determined by an analysis of existing surveys and focus group discussions of the target population.

In terms of measuring the outcomes, it is also conceivable that the recipients themselves undertake livelihood strategies by re-selling as opposed to consuming the products they receive through the intervention, earning themselves additional income. Capturing these observed behavioural changes through a survey and including the outcomes in a pilot design will be of crucial importance.

In addition to the voucher/card it would also be beneficial to look at the “add on services” which could make a difference to

poor households in South Africa. These could include:

- Financial literacy.
- Business start-up support services.
- Training and career guidance for those who are unemployed.
- Link to other government programmes, such as the Community Works Programme (CWP) to build skills which could improve future employability.

Conclusion

South Africa has seen many benefits from the social grant system. By introducing a demand side intervention to facilitate spill over effects from these grants in local communities, it might be possible to also improve local economic development in the areas where the poor live.

Theory of change

Cash transfers and LED (Demand side intervention)

