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Research Submission on

The Impact of the Social Security System on Poverty in South Africa

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EXECUTIVE SUMMARY

This paper identifies and quantifies the severe nature of poverty in South Africa, highlighting the predicament facing the nation's twenty-three million poor people. The existing social security programmes have not adequately addressed the problems—most of the poor live in households that receive no social security benefits at all, and the rest remain poor in spite of the benefits they receive. Nevertheless, South Africa's social security grants do make a significant impact, reducing the average poverty gap by approximately 23%.

The relatively low percentage belies important variances. The State Old Age Pension (SOAP) reduces the poverty gap for pensioners by 94%. Poor households that include pensioners are, on average, significantly less poor than households without pensioners. Social security reduces the average poverty gap for skip generation households by 62.4% and for three-generation households by 46.1%. For the average poor household without a pension-eligible member, however, social security's impact is almost negligible. For households with only children and working age adults, the average poverty gap reduction is only 8.4%, and for households comprised only of working age adults, the reduction is only 7.6%. South Africa's social safety net has a very loose weave.

1. INTRODUCTION

Low or non-existent incomes compound poor access to health care, education, housing, and social infrastructure. South Africa's social security system aims to provide income transfers to poor households in order to address a state of poverty rooted in apartheid's legacy.

This paper assesses the state of poverty and the impact of the social security system in South Africa through the use of a household-level micro-simulation model. The first major section of the paper, Section 2, provides a brief overview of social assistance programmes currently available in South Africa. The next section (Section 3) presents the micro-simulation model. Section 4 provides an analysis of household structure, with a particular focus on the structure of parental care and poverty. Section 5 provides information on the social, economic and fiscal implications of the current social security system. The final section (Section 6) provides a conclusion.

2. AN OVERVIEW OF THE SOCIAL SECURITY SYSTEM[1]

In April 2001, an estimated 3.5 million South Africans received a social security grant[2]. The *State Old Age Pension* (SOAP) is the largest social assistance programme with about 1.9 million beneficiaries. The important redistributive impact of this programme has been recognised by government, labour and academia.[3] The *Disability*

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[1] For a more detailed discussion see Haarmann (2000) and Haarmann (1998).

[2] Payment Extraction Report for Pay Period April 2001, SOCPEN system—Department of Social Development, 5 April 2001. The figure counts beneficiaries for the *Child Support Grant* as the actual number of grant recipients, not the number of children. In March 2001, there were 842,892 beneficiaries receiving grants for 1,084,659 children.

[3] Finance Minister Trevor Manual acknowledged the SOAP system as one of government's most important poverty alleviation programmes (Budget Speech 1997/98), a fact which is similarly recognised in the White Paper (1997): "The number of elderly South African beneficiaries has stabilised, with fairly good coverage (80%), but there are still particular pockets where many eligible people do not get a grant. The impact of a grant income on household income for people

Grant (DG) is the second largest programme in rand terms, but smaller than the *Ch.*
Support Grant (CSG) in terms of beneficiaries. DG beneficiaries numbered 643,107 in
April 2001. Eligibility for the grant is based on a medical diagnosis assessing the degree
of disability, along with a means test. Reform of the DG has been the subject of a recent
task team report.[4]

The introduction of the CSG represents one of the most important reforms
introduced by the government since the transition to democracy. In April 2001, 800,476
caregivers received grants with an estimated value of 120 million rand. The distinctive
feature of the programme is the concept of 'follow the child', meaning that the benefit is
independent of the child's family structure. This grant was introduced in April 1998,
paying R100 per month per child for children under the age of seven. The declared goal
then was to reach 3 million children within the next five years. At the same time, the
phasing-out of the *State Maintenance Grant* (SMG) with about 350,000 beneficiaries
started. The Department decided to phase out the grant over a period of three years. In

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in poverty is dramatic. The majority of people in poverty who are not white live in three-generation households, and the grant is typically turned over for general family use. In 1993, there were 7,7 million people in households that received a state grant. For black South Africans, each pensioner's income helped five other people in the household." See also COSATU (1996), Ardington & Lund (1995), and Haarmann (2000).

[4]Haarmann (2000) summarises the findings of the task team's report (Schneider & Marshall, 1998): "The task team recommends changing the test by moving from assessment of functional capacity only to evaluation of a range of needs and economic factors and hence developing a 'profile of needs' of the applicant. This profile should, besides the medical and financial indicators, also include indicators like the costs related to the specific disability, the support mechanisms, and a socio-economic profile of the area and possible vulnerability to discrimination. The rationale for this recommendation is the appreciation that each disability creates a range of needs. This is especially the case in the South African situation where other social security measures like accessible health care, re-training, vocational rehabilitation and transport are largely absent. The task team *inter alia* recommends the employment of 'evaluators' in each district for evaluating the needs of people with disabilities, an improvement in the administration and information system of the grant and a stronger intersectoral collaboration of the different departments. Strategies for people with disabilities that were already set out in the White Paper ranged from improvement of accessibility to the welfare system, to training opportunities, transport and the labour market*".*

April 2001, the CSG benefit was raised to R110, with a commitment to adjusting it inflation in subsequent years.[5]

Other programmes include the *Foster Care Grant* (FCG), which provides benefits for families that have adopted a child, and the *Care Dependency Grant* (CDG), which supports parents taking care of a disabled child at home. At the age of 18, the disabled individual can apply for a DG. In terms of numbers of beneficiaries, the SOAP, the DG and the CSG are the largest social security programmes.

The next section outlines the micro-simulation model used to analyse the impact of social security programmes in South Africa.

3. THE MICRO-SIMULATION MODEL[6]

The household-level micro-simulation model enables one to analyse how income grants are effecting the social, economic and fiscal spheres of society.

3.1 DATA

The micro-simulation model used in this analysis is built on the *Southern Africa Labour and Development Research Unit* (SALDRU) database, a household survey covering 9,000 households including approximately 40,000 individuals.[7] The database contains estimates of population, broken down by demographic variables (race, gender, age, geographical attributes, etc.), characteristics of household structure, measures of income and spending patterns, and other socio-economic indicators.

In order to obtain a nationally representative sample, the SALDRU survey employed a two-stage self-weighting design using *Census Enumerator Sub-districts*

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5 Finance Minister Trevor Manuel, Budget Speech 2001.
6 For a comprehensive and detailed discussion of the assumptions and mechanics of the micro-simulation model employed for a similar analysis, see Haarmann (2000).
7 SALDRU (1994).

(ESD) and households, adjusted provincially to match the racial distribution based on the 1991 Census as well as demographic projections (SALDRU 1994).

Alternative data sources analysed in the course of the modelling include the *October Household Surveys* (1994, 1995, 1997, and 1999) and the *Income and Expenditure Surveys* (1995) conducted by *Statistics South Africa* (SSA). These surveys are similar in scope and content to the SALDRU survey, but they cover a larger number of households.

The methodology employed by SSA (and its predecessor organisation, *Central Statistical Services*) varied from survey to survey, and the latest household survey (OHS 1999) does not contain the richness of data necessary for the type of analysis presented in this paper. In particular, the most recent OHS (1999) does not report continuous income and expenditure measures. Within the limitations of the data, however, the principle results in this paper have been corroborated using data from SSA.

3.2 METHODOLOGY

The nominal rand figures for income and expenditure in the survey were adjusted to March 2001 figures based on the actual *Consumer Price Index* (CPI) figures produced by SSA[8] as well as projected CPI figures presented by the *National Treasury*.[9] In order to foster consistency with the official South African statistics, the SALDRU data set was re-weighted in line with a 1996 census baseline. Alternative weighting mechanisms were evaluated, and the SALDRU weights were adjusted in line with Census 1996 weights by race and province. Alternative demographic assumptions proved to have little impact on the population estimates.

The poverty line measures used in the analysis are based on "adult equivalents" which adjust for household size and composition based on the methodology employed

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8 STATS (2000).

by the government-commissioned *Poverty and Inequality Report* (PIR). Childr younger than 15 years of age were counted with half the household weight of adults, and the resulting adjusted household size was raised to the 0.9 power in order to reflect economies of scale. The formula can be written:

Adjusted Household Size = [Number of adults + ½(Number of children)]$^{0.9}$

As a result of this adjustment formula, a household with one adult would yield an adjusted household size of one. However, a household with three adults and six children (not uncommon in the poorest households) would yield an adjusted household size of five.

The population growth assumptions from the 1996 Census base line figures to 2001 are based on ASSA's national AIDS and demographic model, which models the AIDS epidemic and its impact on future fertility and mortality rates. The ASSA model, in turn, bases its assumptions (AIDS-dependent fertility and mortality rates, migration, etc.) on national and international studies, corroborated against empirical evidence.[10] The model defines a 'household' based on the concept of a common food and resources pool in line with the SALDRU study.

3.3 DESCRIPTIVE ANALYSIS

The first definition of the household comprised all individuals who:

(i) live under this 'roof' or within the same compound/homestead/stand at least 15 days out of the past year **and**

(ii) when they are together, they share food from a common source (that is, they cook and eat together) **and**

(iii) contribute to or share in, a common resource pool (that is, they contribute to the household through wages and salaries or other cash and in-kind income that

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9 National Treasury (2001).

they may be benefiting from but not contributing to, for example, children a[...] other non-economically active people in the household). Visitors were excluded from this definition.

The second definition of the household included only those members who had lived 'under this roof for more than 15 days of the last 30 days'.[11]

The analysis in this paper categorises the age distribution of the population into three major groups:

- Infants, children and youth (ages 0-17 years).
- Working age adults (women aged 18-59 years; men aged 18-64 years).
- Adults in pensionable age (60 years and above-female; 65 years and above-male).

The difference in categorising adults in pensionable age reflects the current eligibility criteria for the SOAP, which has a particularly strong impact on many of the poorest households in South Africa. The category for infants, children and youth is further divided into three sub-categories:

- Infants and very young children (aged 0-4 years).
- Children (aged 5-13 years).
- Youth (aged 14-17 years).

The impact of social security on infants and young children aged from 0 to 4 years is particularly great as they are most at risk from malnutrition, with its lifelong consequences for health, education, and productivity. From 14 years onwards, the HIV/AIDS risk becomes particularly pronounced, and hence this group is tracked separately. In addition, the presence of each of the parents in the household is tested

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10 For details on the model, see Dorrington (1999a,b,c).
11 SALDRU (1994).

based on two tests:

- Presence of each parent for at least six months of the year (strict test).

- Presence of each parent for at least 15 days out of the year (flexible test).

In addition, the gender of the head of household is tracked. Once defined, each household was categorised into one of seven household types, based on the age stratification discussed above:

1. Only infants, children, and youth (hereafter referred to as "children").

2. Children and working age adults.

3. Children and adults in pensionable age (skip generation household).

4. Children, working age adults and adults in pensionable age (three-generation household).

5. Only working age adults.

6. Working age adults and adults in pensionable age.

7. Only adults in pensionable age.

When examining the distribution of resources on the household level, one has to be aware that the intra-household distribution is often neglected. While until recently, research often assumed a 'unitary model' in which the household …(acts) as a single decision-maker… new evidence points to various forms of 'collective' or 'bargaining' models.[12] As Haarmann points out, "pooling of resources does not mean equal access to or even equal decision-making power over the resources."[13] The distributional analysis in this paper follows the lead of the *Key Indicators of Poverty Report*[14] and the *Poverty and Inequality Report*[15], based on consumption quintiles and defining the poor as the 40% of

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12 Haddad, Hoddinott, Alderman (1997).
13 Haarmann (2000).
14 World Bank (1995).
15 May (1998).

the population with the lowest consumption. Consumption is more relevant than incom

as it provides a better sense of the real resources contributing to the

productivity/employability of job-seekers. In addition, consumption data is more reliable

than income data.[16]

4. HOUSEHOLD STRUCTURE AND SOCIAL SECURITY REFORM

In order to assess the impact of the social security system on poverty and to

consider various reforms to areas of social security that are ineffective, it is instructive to

analyse the structure of households.

Table 1: Household structure (March 2001)

	only child.	Child. + work. Age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Only work. Age adults	Work. age adults + adults in pen. age	only adults in pen. age	Total
No. of people								
Total	58,604	28,758,097	603,631	9,446,117	4,612,308	997,625	400,953	**44,877,335**
No. 0-17	58,604	15,090,087	400,417	4,419,833	0	0	0	**19,968,941**
No. 0-4	7,082	4,301,805	62,734	1,274,775	0	0	0	**5,646,396**
No. 5-13	21,407	7,719,485	235,152	2,305,151	0	0	0	**10,281,195**
No. 14-17	30,115	3,068,797	102,531	839,907	0	0	0	**4,041,351**
No. 18-59/64	0	13,668,010	0	3,533,337	4,612,308	600,443	0	**22,414,098**
No. 60/65-	0	0	203,214	1,492,947	0	397,182	400,953	**2,494,296**
% of people:								
	0.1%	64.1%	1.3%	21.0%	10.3%	2.2%	0.9%	**100.0%**
% children 0-17	0.3%	75.6%	2.0%	22.1%	0.0%	0.0%	0.0%	**100.0%**
% 0-4	0.1%	76.2%	1.1%	22.6%	0.0%	0.0%	0.0%	**100.0%**
% 5-13	0.2%	75.1%	2.3%	22.4%	0.0%	0.0%	0.0%	**100.0%**
% 14-17	0.7%	75.9%	2.5%	20.8%	0.0%	0.0%	0.0%	**100.0%**
% 18-59/64	0.0%	61.0%	0.0%	15.8%	20.6%	2.7%	0.0%	**100.0%**
% 60/65-	0.0%	0.0%	8.1%	59.9%	0.0%	15.9%	16.1%	**100.0%**
Average No. of people in the HH:								
	3.5	6.5	4.4	8.9	2.2	3.4	1.7	**6.4**
Av. 0-17	3.5	3.5	3.1	4.4	0.0	0.0	0.0	**3.2**
Av.0-4	0.5	1.0	0.5	1.3	0.0	0.0	0.0	**0.9**
Av.5-13	1.5	1.8	1.8	2.3	0.0	0.0	0.0	**1.7**
Av.14-17	1.5	0.7	0.8	0.8	0.0	0.0	0.0	**0.6**
Av. 18-59/64	0.0	3.0	0.0	3.3	2.2	2.1	0.0	**2.9**
Av. 60/65-	0.0	0.0	1.3	1.2	0.0	1.2	1.7	**0.3**

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16 For a discussion, see Haarmann (2000).

This section examines South Africa's household structure as well as two other important household characteristics, namely parental care and poverty. Table 1 summarises South Africa's household structure as modelled for March 2001. The table employs a standard format used throughout this paper--breaking the statistics down by the household types identified in Section 3.3.

The table indicates an estimated population for South Africa in March 2001 of approximately 45 million people. This compares to the SSA estimate of 43 million people in October 1999. The typical South African lives in a household with six members. The following observations can be inferred from this table:

• Most pensioners (84%) live in households with non-pensioners, so it is likely that old age pensions support the living standards beyond their immediate beneficiaries.

• Nevertheless, most adults (81%) and children (76%) live in households with no pensioners, so they are less likely to benefit from the grants paid to pensioners. It becomes clear that while pension money often benefits poor children, pensions are not good at targeting them.

• Over four million working age adults live in households with no pensioners or children. The poor in these households are excluded from a social security system that protects children and pensioners.

• Most South Africans live in large households (more than 6 people). Since larger households tend to be poorer, a fixed grant to each household will not be efficient in targeting the poor--larger *per capita* benefits will accrue to wealthier households.

4.1 PARENTAL CARE AND HOUSEHOLD STRUCTURE

The structure of parental care has important implications for social security reform. Table 2 summarises the parental care situation of South Africa's children. An estimated 58,04 children (under age 18) live in households with no adult presence. Social security programmes that require adult recipients exclude this population. While more than half (54.3%) of South Africa's children live with both parents using the less restrictive "parent in household at least 15 days per year" test, only 41.4% live with both parents when using the more restrictive "6 months per year" test. 18% of South Africa's children have no parent in their household at least six months per year (but this figure drops to 12.5% with the less restrictive "15 days per year" test.)

Table 2: Parental care (March 2001)

	only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Total
No. of children in parental care - de jure:					
Father + mother	24,266	9,508,128	32,623	1,272,726	**10,837,743**
Only mother	13,545	4,000,816	82,329	1,978,729	**6,075,419**
Only father	0	351,157	6,352	205,587	**563,096**
None	20,793	1,229,986	279,113	962,791	**2,492,683**
Total	58,604	15,090,087	400,417	4,419,833	**19,968,941**
% of children in parental care - de jure:					
Father + mother	41.4%	63.0%	8.1%	28.8%	**54.3%**
Only mother	23.1%	26.5%	20.6%	44.8%	**30.4%**
Only father	0.0%	2.3%	1.6%	4.7%	**2.8%**
None	35.5%	8.2%	69.7%	21.8%	**12.5%**
No. of children in parental care - de facto:					
Father + mother	0	7,376,811	4,910	890,017	**8,271,738**
Only mother	3,016	5,525,106	21,523	2,023,145	**7,572,790**
Only father	0	344,777	6,338	178,310	**529,425**
None	55,588	1,843,393	367,646	1,328,361	**3,594,989**
Total	58,604	15,090,087	400,417	4,419,833	**19,968,941**
% of children in parental care - de facto:					
Father + mother	0.0%	48.9%	1.2%	20.1%	**41.4%**
Only mother	5.1%	36.6%	5.4%	45.8%	**37.9%**
Only father	0.0%	2.3%	1.6%	4.0%	**2.7%**
None	94.9%	12.2%	91.8%	30.1%	**18.0%**
Average ratio of adult (age >= 18) per child:					
	0.0	1.2	0.6	1.5	1.2

4.2 THE HOUSEHOLD STRUCTURE AND POVERTY

Table 3 shows the distribution of the South African population broken down by consumption quintiles across household types.

Table 3: Consumption quintile analysis (March 2001)

	only child.	child. + work. age adults	child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Only work. Age adults	work. Age adults + adults in pen. age	Only adults in pen. age	Total
No. in quintiles:								
1. Qu.	8,147	7,997,013	248,659	4,140,675	344,083	198,393	20,413	**12,957,383**
2. Qu.	27,548	6,985,016	196,133	2,898,941	550,445	183,988	41,017	**10,883,088**
3. Qu.	16,446	6,058,613	113,741	1,679,273	809,338	183,230	52,851	**8,913,492**
4. Qu.	6,463	4,385,535	37,878	544,744	1,303,694	206,664	82,246	**6,567,225**
5 . Qu.	0	3,331,920	7,220	182,483	1,604,749	225,350	204,426	**5,556,148**
% in quintiles:								
1. Qu.	0.0%	17.8%	0.6%	9.2%	0.8%	0.4%	0.0%	**28.9%**
2. Qu.	0.1%	15.6%	0.4%	6.5%	1.2%	0.4%	0.1%	**24.3%**
3. Qu.	0.0%	13.5%	0.3%	3.7%	1.8%	0.4%	0.1%	**19.9%**
4. Qu.	0.0%	9.8%	0.1%	1.2%	2.9%	0.5%	0.2%	**14.6%**
5 . Qu.	0.0%	7.4%	0.0%	0.4%	3.6%	0.5%	0.5%	**12.4%**
Total	**0.1%**	**64.1%**	**1.3%**	**21.0%**	**10.3%**	**2.2%**	**0.9%**	**100.0%**
% within each HH type by quintile:								
1. Qu.	13.9%	27.8%	41.2%	43.8%	7.5%	19.9%	5.1%h	**28.9%**
2. Qu.	47.0%	24.3%	32.5%	30.7%	11.9%	18.4%	10.2%	**24.3%**
3. Qu.	28.1%	21.1%	18.8%	17.8%	17.5%	18.4%	13.2%	**19.9%**
4. Qu.	11.0%	15.2%	6.3%	5.8%	28.3%	20.7%	20.5%	**14.6%**
5 . Qu.	0.0%	11.6%	1.2%	1.9%	34.8%	22.6%	51.0%	**12.4%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
% within each quintile type by HH type:								
1. Qu.	0.1%	61.7%	1.9%	32.0%	2.7%	1.5%	0.2%	**100.0%**
2. Qu.	0.3%	64.2%	1.8%	26.6%	5.1%	1.7%	0.4%	**100.0%**
3. Qu.	0.2%	68.0%	1.3%	18.8%	9.1%	2.1%	0.6%	**100.0%**
4. Qu.	0.1%	66.8%	0.6%	8.3%	19.9%	3.1%	1.3%	**100.0%**
5 . Qu.	0.0%	60.0%	0.1%	3.3%	28.9%	4.1%	3.7%	**100.0%**
Total	**0.1%**	**64.1%**	**1.3%**	**21.0%**	**10.3%**	**2.2%**	**0.9%**	**100.0%**

Poor households are large and crowded. Nearly 30% of South Africans live in the poorest household consumption quintile--more than twice as many people as in the wealthiest quintile. Half of the adults of pensionable age who live alone are in the wealthiest quintile--only a tenth are in the poorest quintile. The very poor (bottom quintile) in three-generation households are twenty-three times more numerous than the wealthy (top quintile) in these households. Likewise, the very poor in skip generation households number thirty-four times the number of the wealthy in these households. On

the other hand, a wealthy individual (top quintile) is ten times more likely to live in household consisting only of working age adults than is a very poor person (bottom quintile).

Table 4 provides a picture of the demographics of the people living in the 40% of households with the lowest *per capita* consumption. 53% of South Africans live in these poorest households, including 60% of the nation's children.

Table 4: Poverty (March 2001)

	only child.	child. + work. age adults	child. + adults in pen. age	Child. + work. Age adults + adults in pen. Age	Only work. Age adults	Work. age adults + adults in pen. age	Only adults in pen. Age	Total
No. of people (bottom two quintiles):								
Total	**35,696**	**14,982,029**	**444,791**	**7,039,617**	**894,528**	**382,381**	**61,430**	**23,840,471**
No. 0-17	35,696	8,316,042	302,333	3,412,776	0	0	0	**12,066,848**
No. 0-4	3,996	2,428,136	49,571	1,013,125	0	0	0	**3,494,829**
No. 5-13	15,226	4,200,340	173,728	1,749,222	0	0	0	**6,138,517**
No. 14-17	16,473	1,687,566	79,035	650,429	0	0	0	**2,433,502**
No. 18-59/64	0	6,665,986	0	2,575,979	894,528	240,045	0	**10,376,538**
No. 60/65-	0	0	142,458	1,050,861	0	142,336	61,430	**1,397,085**
% of people (bottom two quintiles):								
	0.1%	**62.8%**	**1.9%**	**29.5%**	**3.8%**	**1.6%**	**0.3%**	**100.0%**
% children 0-17	0.3%	68.9%	2.5%	28.3%	0.0%	0.0%	0.0%	**100.0%**
% 0-4	0.1%	69.5%	1.4%	29.0%	0.0%	0.0%	0.0%	**100.0%**
% 5-13	0.2%	68.4%	2.8%	28.5%	0.0%	0.0%	0.0%	**100.0%**
% 14-17	0.7%	69.3%	3.2%	26.7%	0.0%	0.0%	0.0%	**100.0%**
% 18-59/64	0.0%	64.2%	0.0%	24.8%	8.6%	2.3%	0.0%	**100.0%**
% 60/65-	0.0%	0.0%	10.2%	75.2%	0.0%	10.2%	4.4%	**100.0%**
Average No. of people in the HH (bottom two quintiles):								
	4.2	**7.4**	**4.7**	**9.3**	**2.7**	**3.7**	**1.4**	**7.6**
Av. 0-17	4.2	4.1	3.4	4.7	0.0	0.0	0.0	**4.1**
Av.0-4	0.6	1.2	0.6	1.4	0.0	0.0	0.0	**1.2**
Av.5-13	2.1	2.1	1.9	2.4	0.0	0.0	0.0	**2.1**
Av.14-17	1.5	0.8	0.9	0.9	0.0	0.0	0.0	**0.8**
Av. 18-59/64	0.0	3.2	0.0	3.4	2.7	2.4	0.0	**3.2**
Av. 60/65-	0.0	0.0	1.3	1.2	0.0	1.2	1.4	**0.4**

A number of observations can be drawn from the table:

- Poor households are more likely to be made up of pensioners living with children and working age adults.
- 8 people live in the average poor household, compared to 6 in the average household for the nation as a whole (the average household in the poorest quintile is more than twice as large as the average household in the wealthiest quintile).

5. THE IMPACT OF THE CURRENT SOCIAL SECURITY SYSTEM

This section compares a scenario without any social security assistance with a scenario modelled on the current level of take-up of existing social security grants. It provides an assessment of the social, economic and fiscal implications of the current social security system.

5.1 SOCIAL IMPLICATIONS

The micro-simulation model provides an assessment of the social implications of the current delivery of social security benefits, based on data available for March 2001. Table 5 presents key demographic statistics for the population as a whole.

Table 5: Demographic analysis (March 2001)

	only child.	child. + work. age adults	child. + adults in pen. age	Child. + work. Age adults + adults in pen. Age	Only work. Age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
% of households below subsistence line (R401) if there were no social assistance transfers:								
Percent	87.6%	55.2%	91.4%	81.9%	23.1%	53.5%	39.3%	**58.0%**
Rural / urban								
Rural	93.7%	49.8%	81.9%	65.6%	29.2%	40.0%	25.2%	**51.1%**
Urban	6.3%	50.2%	18.1%	34.4%	70.8%	60.0%	74.8%	**48.9%**
% female headed households:								
	4.9%	20.2%	58.3%	46.9%	16.9%	37.6%	28.3%	**26.4%**
Racial stratification of the household types								
"african"	100.0%	75.7%	95.1%	91.1%	64.2%	57.6%	32.9%	**77.3%**
"coloured"	0.0%	10.5%	3.8%	6.4%	6.6%	10.0%	2.2%	**9.1%**
"indian"	0.0%	3.0%	0.3%	1.0%	3.0%	5.6%	0.2%	**2.6%**
"white"	0.0%	10.7%	0.8%	1.6%	26.2%	26.7%	64.7%	**11.1%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

In the absence of social assistance transfers, 58% of South African households would fall below the subsistence line of R401 per adult equivalent. Households with both children and adults of pensionable age are the most vulnerable. 91.4% of households with children and adults in pensionable age (skip households) and 81.9% of households with children, working age adults, and adults in pensionable age (three-generation households) would fall below the subsistence line without the current social

security system. 87.6% of child-headed households would be similarly poor.

These households are disproportionately African and rural--81.9% of skip households, 65.6% of three-generation households, and 93.7% of child-headed households are rural, and nearly all are African. Households with only working age adults, on the other hand, are disproportionately urban (70.8%) and significantly less vulnerable--only 23.1% would fall below the subsistence line in the absence of existing social assistance transfers. 26.4% of South Africa's households are headed by women.

Table 6 summarises key statistics associated with the simulation, taking account of the current delivery of social security benefits based on data available for March 2001.

Table 6: Simulation results of current social security system (March 2001)

	Only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. Age adults + adults in pen. Age	Only work. Age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
Total No. of people living in the bottom two quintiles:								
	35,696	14,982,029	444,791	7,039,617	894,528	382,381	61,430	**23,840,471**
% of people living in the bottom two quintiles:								
	0.1%	62.8%	1.9%	29.5%	3.8%	1.6%	0.3%	**100.0%**
Total No. of people living in HH receiving no social assistance (bottom two quintiles):								
	31,773	10,309,418	63,857	581,737	835,592	15,325	2,897	**11,840,597**
% of people living in HH receiving no social assistance (bottom two quintiles):								
	89.0%	68.8%	14.4%	8.3%	93.4%	4.0%	4.7%	**49.7%**
Average No. of people living in the HH (bottom two quintiles):								
	4.2	7.4	4.7	9.3	2.7	3.7	1.4	**7.6**
Average No. of people employed in the HH (bottom two quintiles):								
	0.0	1.0	0.0	0.8	1.0	0.6	0.0	**0.9**
Average No. of people receiving social assistance (bottom two quintiles):								
	0.1	0.4	1.3	1.5	0.1	1.2	1.3	**0.7**
Average % closed of the poverty gap by social assistance (bottom two quintiles):								
	2.5%	8.4%	62.4%	46.1%	7.6%	73.4%	94.0%	**22.9%**
Average *per capita* social assistance transfer (bottom two quintiles):								
	R 6	R 14	R 154	R 84	R 21	R 201	R 523	**R 42**
Average *per capita* social assistance transfer through SOAP (bottom two quintiles):								
	R 0	R 0	R 147	R 69	R 0	R 191	R 523	**R 28**
Average *per capita* social assistance transfer through CSG (bottom two quintiles):								
	R 3	R 4	R 4	R 4	R 0	R 0	R 0	**R 4**
Average *per capita* social assistance transfer through DG (bottom two quintiles):								
	R 0	R 8	R 2	R 10	R 18	R 11	R 0	**R 9**

Approximately half of the people in the bottom two quintiles live in household that receive no social security benefits. Out of a projected 23,840,471 people in the bottom two quintiles, the simulation model estimates that 11,840,597 individuals (49.7%) live in households who receive no social assistance.

The average *per capita* social assistance transfer is R42, of which two-thirds (R28) is distributed through the SOAP. The DG accounts for approximately 20% (R9), and the CSG accounts for approximately 10% (R4). Existing social security programmes reduce the average poverty gap by 22.9%, but leave 13,063,820 in destitution (with income levels less than half the poverty line).

5.2 ECONOMIC AND FISCAL IMPLICATIONS

The simulated economic and fiscal impact, represented by transfer statistics of the current system, is summarised in Table 7. The simulation estimates that 3,643,244 individuals are currently receiving social security—more than half of these (1,898,312) receiving the SOAP. The estimated number of CSG beneficiaries is 1,096,759, while 648,172 people receive the DG.

Research findings show that the number of beneficiaries that receive social security is significantly less than the actual number of beneficiaries that are eligible for social security. Take-up rates for social security are estimated to be as low as 43%.[17]

The total value of transfers is R18.1 million, of which R11.6 million is distributed to individuals living in the bottom two quintiles. Approximately 60% of the benefits are transferred to rural recipients, consistent with the strong rural bias to South African poverty.

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17 See Samson *et al* (2001).

Table 7: Social transfer statistics (March 2001)

	Only child.	Child. + work. age adults	Child. + adults in pen. age	Child. + work. Age adults + adults in pen. Age	Only work. age adults	work. age adults + adults in pen. age	Only adults in pen. age	Total
Total number of people reached by social assistance programmes:								
SOAP	0	0	158,579	1,222,999	0	287,822	228,913	**1,898,312**
CSG	2,035	759,422	22,647	312,655	0	0	0	**1,096,759**
DG	0	360,641	4,763	181,542	89,874	10,397	955	**648,172**
Total	**2,035**	**1,120,063**	**185,990**	**1,717,195**	**89,874**	**298,218**	**229,868**	**3,643,244**
Total annual transfers by social assistance programmes (in millions):								
SOAP	R 0	R 0	R 1,077	R 8,152	R 0	R 1,878	R 1,427	**R 12,534**
CSG	R 3	R 1,002	R 30	R 413	R 0	R 0	R 0	**R 1,448**
DG	R 0	R 2,247	R 27	R 1,215	R 553	R 71	R 4	**R 4,118**
Total	**R 3**	**R 3,250**	**R 1,135**	**R 9,780**	**R 553**	**R 1,949**	**R 1,431**	**R 18,099**
Total annual transfer to quintiles (in millions):								
1. Qu.	0.0	1,081.5	448.0	4,093.6	119.4	436.1	125.7	**6,316.7**
2. Qu.	1.3	1,031.2	376.3	2,980.9	76.5	493.3	257.5	**5,261.3**
3. Qu.	1.4	747.5	237.3	1,943.5	143.5	350.4	315.7	**3,844.5**
4. Qu.	0.0	307.5	69.6	574.1	151.8	355.1	289.6	**1,749.3**
5 . Qu.	0.0	73.4	0.0	188.5	74.6	320.8	439.8	**1,084.6**
Total annual transfer rural / urban. (in millions):								
Rural	2.7	1,875.8	888.3	6,318.6	210.4	901.7	585.2	**10,830.5**
Urban	0.0	1,363.1	241.3	3,450.9	355.4	1,049.5	847.0	**7,336.5**
Total annual transfer by race (in millions):								
"african"	2.7	2,805.8	1,064.7	8,818.0	388.0	1,269.3	768.7	**15,403.1**
"coloured"	0.0	331.4	61.9	719.8	109.8	214.1	36.5	**1,490.5**
"indian"	0.0	48.3	6.7	113.7	28.8	138.5	0.0	**319.0**
"white"	0.0	80.5	0.0	132.5	46.9	333.8	623.1	**1,179.4**

6. CONCLUSIONS

This paper identifies and quantifies the severe nature of poverty in South Africa, highlighting the predicament facing the nation's twenty-three million poor people. The existing social security programmes have not adequately addressed the problems—most of the poor live in households that receive no social security benefits at all, and the rest remain poor in spite of the benefits they receive. Nevertheless, South Africa's social security grants do make a significant impact, reducing the average poverty gap by approximately 23%.

The relatively low percentage belies important variances. The SOAP reduc
the poverty gap for pensioners by 94%. Poor households that include pensioners are,
on average, significantly less poor than households without pensioners. Social security
reduces the average poverty gap for skip generation households by 62.4%, and for
three-generation households by 46.1%. For the average poor household without a
pension-eligible member, however, social security's impact is almost negligible. For
households with only children and working age adults, the average poverty gap
reduction is only 8.4%, and for households comprised only of working age adults, the
reduction is only 7.6%. South Africa's social safety net has a very loose weave.

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