Poverty and Inequality in South Africa

Sharing the Cake

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Background

• Reducing poverty and inequality has been at the core of development policy in South Africa
• cornerstone of the Reconstruction and Development Program (RDP) ,1994
• driver of the National Development Plan NDP Vision 2030
• economic growth as a broad measure on which all initiatives and policies to reduce poverty and inequality are anchored.
Introduction

• What is the state of poverty and inequality in South Africa? (paying particular attention to changes between 2006 and 2011, (reliable data for the period is available)

• What is the government doing about poverty and inequality in the country?

• Are these interventions optimal?

• Concluding remarks and recommendations
Methodology

- Three national poverty lines calculated by Statistics South Africa (2014)
- The *food poverty line* - basic minimum nutritional requirement, i.e. the daily recommended dietary requirement demarcated by age, gender, and occupation
  - inflation-adjusted to R321 per month in 2010.
- The *lower-bound poverty line* households - sacrifice some of their basic food requirements in order to meet their non-food needs.
  - inflation-adjusted to R443 per month in 2010.
- The *upper-bound poverty line* - in addition to the basic food there are certain basic non-food items that they need
  - inflation-adjusted to R620 per month in 2010/11.
- Although three poverty measures were used in the estimations and analysis, the ensuing discussion focuses on the *lower-bound poverty line* to facilitate the flow of the discussion.
- There is currently no consensus on an official national poverty line in South Africa.
Methodology

• The analysis uses data from the Income and Expenditure Surveys (IES) for 2005/06 and 2010/11 to illustrate changes in poverty between the two time periods.

• The IES was chosen for the analysis over other surveys because, in addition to collecting detailed income and expenditure information, it is conducted at 5-year intervals, allowing comparison of outcomes over time.
Methodology

• per capita consumption expenditure is used as the welfare indicator.

• based on aggregate household consumption expenditure, which is the annual value of a household’s total spending on goods and services acquired, including imputed values for own produced items.

• “lumpy, durable goods” were excluded to reduce their biasing factor in the monthly estimates.

• The analysis was carried out using ADePT Software, which uses an automated system to analyse data from micro-level surveys such as household and labour force surveys. It is developed by the World Bank.
State of Poverty in RSA

- **headline national poverty reduced**, with rural areas experiencing faster poverty reduction than urban.
State of Poverty in RSA

- **Changes in Depth and Severity of poverty**

<table>
<thead>
<tr>
<th></th>
<th>Poverty Gap</th>
<th>Squared Poverty Gap</th>
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<tbody>
<tr>
<td><strong>Food poverty line</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Rural</td>
<td>15.6</td>
<td>11.1</td>
</tr>
<tr>
<td>Total</td>
<td>8.5</td>
<td>6.3</td>
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<tr>
<td><strong>Lower bound poverty line</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>8.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Rural</td>
<td>27.8</td>
<td>20.0</td>
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<tr>
<td>Total</td>
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<td>11.7</td>
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<tr>
<td><strong>Upper bound poverty line</strong></td>
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<tr>
<td>Urban</td>
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<td>11.9</td>
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<tr>
<td>Rural</td>
<td>42.0</td>
<td>31.8</td>
</tr>
<tr>
<td>Total</td>
<td>26.8</td>
<td>19.6</td>
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</tbody>
</table>
State of Poverty in RSA

- Gains in poverty reduction were uneven across provinces, but progress at national level was driven largely by KwaZulu-Natal

Distribution of the poor, at provincial level

2011

- KwaZulu-Natal: 27.5%
- Eastern Cape: 19.1%
- Western Cape: 4.8%
- Limpopo: 17.4%
- Mpumalanga: 7.5%
- Gauteng: 8.6%
- North West: 8.4%
- Free State: 4.9%
- Northern Cape: 1.7%
State of Poverty in RSA

Probability of being poor

- A probit regression on the probability of being poor at the lower bound poverty line was estimated to find correlates of the probability of being poor
- Conditional results - report the %age change in the probability of being poor following a unit change in a given characteristic

- Age of household head
  - Probability of being poor falls with the age of the household head

- Gender
  - Being a male headed household is associated with a 4.3 % decrease in the probability of being poor. (slightly higher in 2006 (4.8 %) than in 2011 (4.0 %))
State of Poverty in RSA

Probability of being poor

- Education of household head
  - Raising the household head’s level of educational attainment from no schooling to having completed primary education is associated with an 8.2% reduction in the probability of being poor (the coefficients for educational attainment are higher in 2006 than in 2011)

- Household size
  - positively correlated with the probability of being poor, however, the probability of being poor does not rise or fall with household size.

- Racial differences
  - blacks and coloureds are associated with a higher probability of being poor than whites.
  - Having a coloured household head is associated with a 42.8% higher probability of being poor than those whose head of households is white.
State of Inequality in RSA

Less progress was made in reducing levels of inequality nationally.
Interventions to Combat Poverty and Inequality

- **Social Grants**
  - have expanded since 2000
  - the child support grant
  - old age grant,
  - disability grant
  - foster care grant, and
  - care dependency grant.
- South Africa has one of the biggest cash transfer systems in Africa.
- In 2012/13, 16 million, that is 31 percent of the population of the country, benefited from one form or another of the cash transfer systems (National Treasury (2013)).
- The expansion has been driven by the Child Support Grant
- 3.4 percent of GDP (translating into R120 billion) is currently being spent on social grants (The Presidency, 2014).
- The number of grant beneficiaries increased by 13.3 million from 2.7 to 16 million people between 1994 and 2014.
Interventions to Combat Poverty and Inequality

Expanded Public Works

- government initiative introduced in 2004 aimed at addressing unemployment and poverty alleviation in South Africa in the short to medium-term.
- programme creates temporary work opportunities for unemployed people and that are relatively unskilled.
- Skills development to facilitate exit
- aimed at reorientation of existing public sector expenditure to bring significant numbers of those living in poverty and who are unemployed to productive work and is implemented by established government structures.
- three sectors, namely: Social; Infrastructure and the Environmental and the Non-state sector (NGOs).
- spent more than R17 billion on EPWP projects nationwide and created more than 3 million (3, 502, 397) work opportunities in all sectors combined as at 30th March 2014 (Department of Public Works (2014)).
- significant injection of resources into poor people’s pockets but the temporary nature and the cost of these work opportunities is still a cause for concern.
- The number of Full Time Equivalents (FTEs) generated is still very low and the cost of creating /hosting an EPWP opportunity is unacceptably high (McCutcheon and Parkins (2012))
- debates into whether this is the best way to help those struggling to find employment.
Interventions to Combat Poverty and Inequality

Non-Cash Based Interventions

• **public investments**
  • water and sanitation,
  • electricity,
  • housing,
  • education and
  • primary health care.

• **Free Basic Services (FBS)**
  • the need to provide services to poor populations that cannot really afford them.
  • introduced in 2000 to address asset and capability poverty.
  • include subsidised and specified capped provision of water, sanitation, energy (Free Basic Energy & Free Basic Alternative Energy) and refuse removal.
  • This policy has resulted in increased access to sanitation; potable water, and electricity. However, challenges still exist in rural areas (The Presidency, 2014).
The South African economy has been experiencing sluggish growth in recent years, growing at only 1.9% in 2013 and it is now projected to grow at 1.7% in 2014.

The provincial tax base has been narrowing and own revenue collection has declined (Figure 6).
Sustainability

- *low growth scenario*
- *deterioration of the fiscus* raise questions regarding the sustainability of social wage oriented interventions against poverty and inequality.
- In a subdued growth environment, there is subsequently very little to redistribute.
- The reduced redistributive powers of Government will mean that
  - inequalities persist
  - progress towards poverty reduction might be halted or subdued.
- *for how long can the fiscus sustain the social wage interventions in a low growth environment?*
Sustainability

• What exit strategies are in place for people on social grants and other forms of the social wage?
Concluding Remarks

• Is a reduction in poverty necessarily accompanied by a reduction in inequality?
• Should the South African government interventions continue to target largely the reduction of poverty headcount ratios in the hope that as poverty decreases, inequality will follow suit?
• Strategies in place are probably not the best practice?
• South Africa has made notable progress in terms of aggregate poverty reduction this has not been accompanied by an equally substantial reduction in inequality.
• Reducing inequality has proven to be ‘sticky’ as the Gini coefficient fell slightly from 67.3 to 65.2.
• What are the policy implications and recommendations for interventions in the reduction of poverty in view of South Africa’s recent low growth environment?
• What do we do about inequality? A redefinition of the concept?
• An important follow up question is whether the priority for government policy should be reducing poverty or inequality or both.
• So what speaks to poverty and what speaks to inequality in the government’s strategy to remedy the plight of the poor in the country?
Concluding Remarks

• These questions become even more relevant in the absence of interventions that are clearly targeted at reducing inequality.

• *Inequality* is a necessary evil for a country to develop; that it is the engine of free market economic societies; and therefore does not need any interventions to fight it as it is inequality itself that fuels aspiration and the desire for achievement (Fieldstein (1999) and Lewin (2010)).

• Inequality drives much of the social unrest in South Africa, which has been witnessed in recent years. This has both a direct and indirect impact on dampening growth rates in the country, thereby accentuating poverty and inequality.

• Paper does not attempt to provide answers to all these questions.

• It highlights their importance and brings them to the forefront of the debate and future research on poverty and inequality interventions in the country.

• The analyses suggest fighting poverty would benefit from an approach that takes into consideration the complex linkages between inequality and poverty in South Africa and integrates both distributional and poverty reduction goals.
Thank You!

END