Rethinking Economic Policy for South Africa in the Age of Covid-19:
Innovative policy responses for the post-lockdown Phase

Fragmented Social intervention versus a Basic Income Grant

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Fragmented Social intervention versus a Basic Income Grant: An exploratory analysis for South Africa

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Executive Summary

While South Africa's public transfer system is designed to target the most vulnerable, it also raises the concern that some households without individuals with qualifying age profiles (e.g. elderly for Old Age Pension or children for the Child Support Grant) may be left behind. The objective of the current study is to reimagine the fragmented transfer system to ensure both short and long term benefits in terms of alleviating poverty and inequality. Using data from National Income Dyamcs Study (NIDS) and NIDS-CRAM (Coronvirus Rapid Mobile Survey), the study makes a case for a basic income grant (BIG) in South africa to replace the Child Support Grant (CSG) and Old Age Pension (OAP). The following are the main findings of this exploratory analysis:

- The current fragmented social transfer system, despite its limitations, plays a vital role in reducing poverty and inequality in the country. Without it, poverty rate would be 16 per cent higher and Gini would be 9 points higher. The poverty gap and poverty severity as well is significantly lower due to the current transfer system.
- However, 1.2 million of the poorest live in households that are left outside of the social security net under the fragmented system. This accounts for 5.6% of the poor living in households without any form of support.
- The study estimates 44% of population to be below the food poverty line (R585 pm) in February 2020. The government has provided temporary relief through top-ups of OAP, CSG and introduction of Covid Social Relief of distress grant. The Covid social relief of distress grant has brought 4% of population under the coverage of social security for the first time.
- May 2020 saw a per child top-up of R300 per CSG, while this was replaced with per caregiver top-up of R500 in June-October. As a result, poverty rate declined to 38% and 40% under the May and June-October policies.
- A comparison of the May policy and the June-October shows that the income distribution under the former is slightly to the right of the latter resulting in a marginally higher Gini coefficient (by 0.003 points) and an estimated half a million more individuals (1% of total population) fall below the poverty line under the June-October policy relative to the May policy.

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- The poverty impact of the shift from per child to per caregiver policy has been marginal from a national average perspective. The study finds that a household has to receive up to 4 CSGs on an average under the per child top-up policy in order to reduce the probability of living in poverty.
- The poverty gap difference between the May and June-October policy also is marginal (0.01 points). Therefore, in terms of headcount poverty, poverty gap and poverty severity, the change has not been massive between per child top up and per caregiver top up.
- Ideally, CSG should assist in breaking the cycle of poverty across generations by providing additional support for the health, education and overall well-being of the child, and most importantly transition the child from poverty as an adult.
- Contrary to this, we find evidence of CSG being used as a livelihood supplementation strategy resulting in higher fertility rate and larger household sizes. This has the perverse effect of increasing poverty as the CSG amount is lower than the food poverty line.
- Following from the above, it is not surprising then that there is intergenerational transfer of poverty with little evidence of income mobility through CSG. With the CSG beneficiaries having a significantly higher probability of depending on CSG for their own children.
- These findings imply that built-in incentive of CSG to drive up the population would lead to increased fiscal burden in future years without the resultant improvement in poverty and inequality.
- The study hence looks at Basic Income Grant (BIG) for adults as a policy alternative that would not leave any household behind and does not provide the perverse incentive of increasing fertility. A BIG of R1200 (upper bound poverty line) is expected to reduce poverty rate, poverty gap and poverty severity by half.
- It is important to note that the upper bound poverty line as at August 2020 is R1, 268. Therefore, the fact that there will still be 19% of the population under the food poverty line of R585/person/month under the BIG1200 policy is an indication of the number of children (minor dependents) in these households.
- The cost of following a hybrid model, BIG along with the continuation of the existing CSG, will be especially high while transitioning from a fragmented model to a BIG. But this can ensure that big size families already receiving more than 3 CSGs are not compromised due to the transition.
- As these simulations are based on Covid economic scenario, the poverty figures are expected to improve further as the economy bounces back.
- The biggest hindrance to the introduction of a BIG is the fiscal cost. The study estimates the BIG1200 and BIG1800 policies will require 150% and 275% more than the current budgeted allocation. While this looks discouraging, the study argues that the long run implications of a

BIG on poverty and inequality will be more effective than the current fragmented social support system which encourages population increase and reduces the probability of income mobility.

- In the absence of ability to implement BIG, there is a need to consider radical alternate policies. One of the options is to consider a female BIG (FBIG) exclusively for women. Although the immediate poverty and inequality benefits of FBIG will not be as substantial as discussed for BIG, this will have the additional benefit of empowering women in a country that is ravaged by gender-based violence. Further, female BIG will reduce the wage gap in the country. Also, as shown by Duflo (2003), the efficiency of public transfer programs may depend on the gender of the recipient. Following the same argument, BIG to women are more likely to benefit the household and children as a whole, providing additional motivation for Female Basic Income Grant (FBIG) as an effective form of public transfer program within the current fiscal constraints.
- An FBIG is not a radical departure from the existing system as it may appear at first glance. The current system already has a bias towards women built into it with over 97% of CSG being received by women on behalf of the children. Kohler & Bhorat (2020) shows that the overwhelming majority of recipients of every grant type (with the exception of the War Veteran's Grant) are women. The study therefore suggests that a means-tested female BIG, without conditioning on dependent children, will serve the national priorities better in the long run.
- There is a need to rethink the social support system in South Africa. While this study makes a benchmark contribution towards this end, further studies using administrative data is required to give shape to a new policy approach to the problem of poverty, unemployment and inequality in the country. More work needs to be done to identify an appropriate income threshold to apply the means-test to substitute the varied thresholds applied under the current fragmented system.