

Policy Options to Leverage the System of Social Grants for Improved Access to Economic Opportunity

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Executive Summary

There is now strong evidence that the expanding system of social grants has played an important role in alleviating poverty in South Africa. Moreover, receipt of social grants has been found to produce positive externalities above and beyond the benefits that accrue to individual recipients. For instance, the presence of a grant recipient in a household has been found to bestow benefits on the remaining household members. These protective benefits include health, housing and educational benefits. In some cases, it has been shown that household members have been released to search or obtain work. Thus, social grants serve a broader role in protecting the remaining household members, especially children, from vulnerability.

Despite this success, poverty and inequality continue to blight the socio-economic landscape. Coupled with adverse labour market conditions, poor returns to unskilled labour and the high rate of unemployment, it appears as if the current adverse conditions being experienced by a large number of citizens are likely to persist, in the short-term at least.

Even within this context, concerns have been raised about the rapidly expanding system of grants. These include the burden it places on the fiscus and the possibility that it creates welfare dependency (e.g. discouragement of work-seeking behaviour) and perverse incentives.

The Department of Social Development has commissioned the HSRC to identify creative options to link grant recipients to livelihoods and enhance economic sustainability.

In considering this question, it is essential to understand that the largest growth in grants accrues to people who not meant to be working themselves. In particular, the largest expansion in the system of grants (in terms of number of beneficiaries) accrues to poor children, where there were 450,000 poor children receiving grants in 1997, expanding to almost 7.3 million by 2006. Pensioners are the second largest group of beneficiaries, numbering about 2 million in 2006. The financial impact varies considerably, as pensioners receive about R 870 pm, while the CSG provides about R 200 pm. Disabled are the third largest group, with about 1.3 million beneficiaries in 2006.

Therefore a strategy to expand employability would not target the beneficiary. Instead, this strategy needs to focus on able bodied working age people in the same household as the grant recipient. The HSRC project outlines the structure of these households and the link to current and potential work opportunity. It is worth noting that approximately 18% of the care givers of CSG recipients do already work. A large proportion of working people would qualify for the CSG. In September 2006, approximately 1.4 m workers earned less than R 500 pm and 2.1 million people earned less than R 1,000 pm. It cannot be assumed that these people worked for the full year, so large portion of them could qualify for the CSG. So, the DoSD strategy may need to recognize that enhancing livelihoods will be implemented in the presence of the grant. In other words, it is possible that the livelihood package will require both the grant, plus support to enhance access to economic opportunity.

To this end, the system of grants offers a powerful instrument that can be leveraged for these interventions. The state reaches 11 million individuals once per month through a trusted source that reliably gives them money. This may enhance the efficacy of any intervention. It will also enable monitoring and evaluation of any intervention, since beneficiaries have a strong incentive to stay in the system.

The proposals to be put forward by the HSRC consider the policy instruments that might be accessed, and the policy options. The aim is to identify how the system of grants might be leveraged to enhance economic participation.

Five instruments for intervention are identified including:

- Direct job placements and job creation
- Top-up subsidies or vouchers
- Credit for productive activities
- Information
- Insurance

These instruments could be applied to the following four general policy options:

1. Direct job creation
2. Enhanced job search and employability
3. Support for self-employment
4. Support to stabilise income from employment or self-employment

The applications of instruments to policy options include:

1. Direct employment creation

1a. Improving access to social sector EPWP

- *Rationale:* Social sector EPWP expansion has been slow, partly because CBOs don't have information about how to apply or how programmes are meant to work. The HSRC estimates that these programmes could ultimately generate about 500,000 work opportunities. There is substantial overlap in EPWP target population and grant recipient households. Link into these households might enable more rapid expansion of EPWP, plus improved access of grant recipient HHs to these opportunities.
- *Options:*
 - Regular information on how to access EPWP opportunities through cell phone link and/or through pay point.
 - Vouchers as top up to beneficiary household for social sector services would stimulate this sector

1b. Employment subsidies for direct job creation

- *Rationale:* Obtaining a first employment experience is a challenge for young people anywhere, but particularly in South Africa. Approximately 50% of youth are unemployed. The children of marginalised grant beneficiary households are more likely to fall into the group of unemployed.

- **Options:** An employment voucher could be provided to working age youth in beneficiary households to pay for all or part of a temporary work experience. This voucher might be redeemed by the employer in cash or through the tax system. The employer might be for-profit or not-for profit (eg CBOs or government). However, abuse of the vouchers (eg displacement of current workers) might be less likely if the vouchers have a time limit and if they are applied to resource constrained activities like CBOs.

2. Enhancing employment search and employability

2a. Job search information:

- **Rationale:** many unemployed say they don't know where to look for jobs. There is also evidence to show the informal firms choose products poorly.
- **Options:**
 - Circulate information about location of labour centres, web sites with information, new employers in the area, where to register CV, etc. Circulate this information through: monthly grant payment, cell phone/sms, etc

2b. Education and training vouchers

- **Rationale:** There is clear evidence that education raises the probability of being employed. However, there are a number of factors militating against higher levels of educational attainment, apart from the core difficulties within the education system. For example, because youth unemployment is so high, young people appear to get a message that it is not worth completing high school. Once in a tertiary opportunity, there is a high drop-out rate for black students. This is mostly explained by social and financial stress. The opportunities in the vocational training system are difficult to access, partly as a result of institutional complexity.

Poor working people may also find it difficult to access training opportunities, as so many are in marginalised and precarious work where these kinds of benefits are not available. Yet, such training could enable upgrading to higher paid opportunities.

- **Options:** Training vouchers could be provided to beneficiary households for further education and training in technical colleges, technikons or universities. Some minimum requirement might be established, such as the successful completion of Grade 11 or of Matric.

Training vouchers could be provided to beneficiary households to pay for tutors, especially in respect of high school mathematics.

2c. Reducing transport costs for job search or getting to work

- **Rationale:** a very large proportion of unemployed say it is too expensive to look for job, particularly because the probability of success seems low. It is also expensive to take a low paying job if far from home, as travel is expensive.
- **Options:**

- Transport coupons as top up to beneficiary household if search for job
- Transport subsidy as top up to beneficiary household if can prove that found a job

2d. Incentives to temporary disability grant beneficiaries to return to work

- ***Rationale:*** Concerns have been raised about the rapid increase in costs associated with the temporary disability grant. Relaxing employment conditions associated therewith and providing incentives to encourage work-seeking behaviour amongst those who are temporarily disabled might encourage re-entry to the labour market.
- ***Options:*** Allow those who are temporarily disabled to choose between working or not working. If they elect to work, provide them with income support when doing so in order to encourage them to work. For example, offer a top-up fee related to earnings e.g. rand-for-rand matching of income up to 80% of current grant amount.

3. Support for self-employment

- *Rationale:* people linked to beneficiaries, and/or disabled, could be assisted to initiate or expand productive activities thereby bolstering their income; some activities have high probability of link to grant-recipient household
- *Options (these could be provided to grant recipient households):*
 - Offer vouchers for purchase of inputs like seeds, fertilizer, water or implements. 2 million households are engaged in subsistence agriculture as a secondary activity. The yields from the activity could be increased.
 - Insurance against theft of these purchases
 - Offer vouchers for purchase of advice
 - Generate simple circulars with information on how to improve yields or profitability
 - Access to credit

4. Stabilising incomes

- Increasing chance of keeping business alive
 - *Rationale:* theft is an extremely important cause of informal sector business failure
 - *Option:* provide (or subsidise) insurance for productive assets in grant recipient households.
- Increasing chance of staying employed
 - *Rationale:* a large proportion of CSG care givers do work. There is an extremely high HIV infection rate amongst young women – approximately 1/4 to 1/3 of women under age 30. It will be important to ensure that these women stay active as mothers, care givers and earners.
 - *Options:*

- Target social and health services to support women in grant recipient households with HIV services to ensure they stay healthy.

These offer examples of the ideas emerging from the HSRC project. These will be assessed against a decision making framework that considers their costs and benefits. The approach is generally not one that requires coercion or conditionality in the core grant. This is informed by two considerations. First, the SASAS survey shows that the majority of unemployed South Africans believe that work is essential to their meaning in life (50%), and feel extremely negative about being unemployed even when everyone around them is also unemployed (88%). The majority of poor people interviewed in SASAS (83%) said they would take a very low paid job if they thought it would give them a leg up. This speaks to a strong motivation to work, if given the opportunity. Second, unlike any other intervention, it should be possible to track top-up benefits given to grant recipients as they must stay in monthly contact with the grants administration.

It is recommended that the next steps involve:

1. A review of proposed options, with the Dept of Social Development, the Social Security Agency, and other relevant Government departments, stakeholders and experts. This process could help to refine the specific ideas and narrow the options to a smaller set. It should be noted that a suite of options could be identified, since different types of support will suite different types of recipients.
2. The smaller set of options could be more comprehensively investigated and costed. These could be presented in a scenarios format, to support decision making. That is, this process would present cost/benefit of any intervention.
3. Once further honed in, it is recommended that a small set of options be piloted to test for how recipients respond to the added benefit.
4. Simple and low cost monitoring and evaluation systems should be implemented alongside these pilots.

In a January 2008 roundtable comprised of SASSA, DSD, Treasury, the Department of Labour, the Presidency and a number of experts, it was agreed that a Phase 2 should be pursued to focus on the provision of information and the provision of a subsidy or voucher.

1. Introduction

There is now strong evidence that the expanding system of social grants has played an important role in alleviating poverty in South Africa. Moreover, receipt of social grants has been found to produce positive externalities above and beyond the benefits that accrue to individual recipients. For instance, the presence of a grant recipient in a household has been found to bestow benefits on the remaining household members. These protective benefits include health, housing and educational benefits. In some cases, it has been shown that household members have been released to search or obtain work. Thus, social grants serve a broader role in protecting the remaining household members, especially children, from vulnerability.

Despite this success, poverty and inequality continue to blight the socio-economic landscape. Coupled with adverse labour market conditions, poor returns to unskilled labour and the high rate of unemployment, it appears as if the current adverse conditions being experienced by a large number of citizens are likely to persist, in the short-term at least.

The distribution of social grants in South Africa expanded considerably between 2001 and 2007. There were 3.6 million beneficiaries in 2001, and 12.1 million beneficiaries in 2007. These grants target vulnerable sections of the population, mainly children, pensioners, and disabled. The context is one of extremely high unemployment and underemployment of labour market participants, so that able bodied adults of working age are often not able to support vulnerable members of their households who are not meant or able to work. A household with young, old or disabled members will require more support than one that has only labour market participants. This is true, whether the labour market participant is working, searching or discouraged. However, in a context of such high unemployment, there is concern that unemployed household members are depending on grants that are meant to target children, the aged or disabled. This causes the grant to spread very thinly, dramatically reducing its contribution to the intended beneficiary. Moreover, there has been some concern that the grant may be acting as a disincentive for some to search for work. Finally, there is concern for the pressure the grants put on the fiscus.

In this light, the Department of Social Development commissioned the HSRC to consider how beneficiary households might be more closely linked to economic opportunity. There is considerable evidence to show that:

- there are some people who prefer not to work
- however, the majority of the unemployed would like to work, not only to earn a living but also to derive meaning in life
- there is an equal probability of working or not working for those aged below 24 years, while about 30% of those aged 25 – 34 were unemployed (by the official definition) in 2005.
- there are important barriers to employment for a large proportion of South Africans, and especially for beneficiary households.

This study identifies possible policy options to increase economic participation amongst social grant beneficiary households. It is assumed that the majority of recipients would work if they could, and that a minority would shirk.

There is a strategic opportunity in the system of grants that has hitherto not been sufficiently leveraged. The grant reaches 12 million beneficiaries once a month, through a trusted channel, with which it must stay in contact. While the beneficiaries are not themselves meant to be working (unless temporarily disabled), there are potentially millions of beneficiary household members that are or could be working. The channel of the grants administration offers a unique opportunity to reach poor working and unemployed people to enhance their participation in the economy.

This report is divided into two main parts. The first section offers an overview of characteristics of beneficiary households. Critical attention is devoted to the presence of labour market participants and their current link to economic activity. We are interested in labour market participants, whether they are working, searching for work or discouraged. Their characteristics in terms of educational attainment, geographic location and forms of communication are also considered. The second section considers possible instruments that could complement the system of grants, and their application to policy solutions that could enhance economic participation.

In this paper, the “beneficiary” refers to the person targeted by the grant (such as the child, pensioner, or disabled person, etc). A “recipient” is the person who physically receives the grant. This may or may not be the beneficiary. In other words, this might be the pensioner or disabled person, or it might be the mother of the child, or a care giver to a pensioner or disabled person. The “beneficiary household” refers to all the people living in the home with the beneficiary (such as the mother, father, relatives, etc).

2. Overview of grant beneficiary households

This section of the report reviews characteristics of beneficiary households. Critical attention is devoted to the presence of labour market participants and their current link to economic activity. We are interested in labour market participants, whether they are working, searching for work or discouraged. Their characteristics in terms of educational attainment, geographic location and forms of communication are also considered.

2.1. Overview of social grants

The primary source of data on beneficiary characteristics is de Koker, de Waal and Vorster (2006). This is a review of the socio-economic characteristics and living arrangements of a sample of beneficiaries that was taken from the SOCPEN dataset and commissioned by the Department of Social Development. When presented by way of comparison, data on all households in South Africa has been taken from relevant Statistics South Africa (Stats SA) publications that are themselves based on recent censuses and/or nationally representative surveys (e.g. General Household Survey, Labour Force Survey etc.).

According to SOCPEN records, there were approximately 12 million grant beneficiaries of all types in South Africa at the end of June 2007. These are divided into 11 types of grants that are each directed to the achievement of a specific set of outcomes. The numbers awarded under each type of grant and, the value of each grant, are presented in Table 1.

In June 2007, there were 7.9 million Child Support Grant (CSG) beneficiaries, accounting for 66% of the number of grants. Old age pensioners were the next largest group with 2.2 million beneficiaries representing 18% of all beneficiaries. There were 1.4 million beneficiaries of the Disability Grant: recent figures from the DSD indicate that approximately 19% of disability grant beneficiaries are in receipt of a temporary disability grant and 81% are on a permanent disability grant.

Table 2: Type and number of grants in South Africa: 2001 to 2006

Grant Type	August 1997	April 2001	April 2005	January 2006	June 2007	Value of grant per month June 2007
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
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
TOTAL	2 965 629	3 610 214	9 402 795	10 749 599	12 057 595	

Source: Figures for 1997 – 2006 from Pauw and Mncube (2007), based on data from National Treasury (2005). Figures for 2007 from SOCPEN data.

Due to the possibility of the receipt of more than one grant (grant type or number of the same grant) per household, this translates into fewer households than the total number of beneficiaries reported above. Looking at households, most households are in receipt of either one (36%) or two (31%) types of grants. By far the most common form of grant receipt is the Child Support Grant, with 51% of households reportedly in receipt of at least one child development grant.

Table 1 presents trends in the number of grant beneficiaries between 1997 and 2007. A cursory glance at the data reveals a large increase in the uptake of grants on the whole. Between April 2001 and July 2007, the number of beneficiaries increased by 8.4 million. In absolute terms, the largest increases were for the child support and disability grants (increases of 6.96 million and 773 571 respectively). The increases observed have been argued to reflect a combination of the difficult conditions which citizens are faced with, chief amongst these being the HIV and AIDS epidemic.

2.2. Household Composition

Given the purposes for which each grant is intended, it is safe to say that the underlying assumption that beneficiaries themselves will not be encouraged to seek work can be made; beneficiaries are either too young, too old or too sick to be eligible

to seek employment. Arguably, one grant type where employment creation might present an alternative to the handout of a grant, or a supplement to it, is that of the award of a temporary disability grant.

However, grant beneficiaries live in households where labour market participants may be present.

There are, on average, five household members in beneficiary households (this is the median number). Approximately 70% of members in beneficiary households do not receive any type of grant. Therefore, there are 3.5 other household members per one grant beneficiary in beneficiary households.

Children are present in 80% of beneficiary households. The majority (57%) of beneficiary households are comprised of adult men, adult women and children. One-fifth (21%) of beneficiary households contained only adult women and children. Only 2% of beneficiary households contained only men and children.

It is noteworthy that in 25% of households, women were the only adults present meaning that in at least 25% of households a woman was the household head. Although households headed by females tend to be poorer on average, it has been argued that developmental outcomes amongst household members are better when a female acts as the head of the household (Wagstaff, 2001). Tentatively, such findings, as well as data on the composition of beneficiary households, would tend to support the notion that policy options be targeted toward females.

There are negative and positive benefits associated with the presence of ever-increasing numbers of other household members. While household members may be responsible for the primary needs (as caregivers, additional sources of income, sources of care and support) of grant beneficiaries, their presence may also divert resources away from grant beneficiaries. In fact, prior studies have found that those without access to support move in with those who do as part of their response to economic distress (Woolard and Klasen, 2004) and that grant incomes are likely to be pooled in household incomes and used to support *all* household members not just grant beneficiaries alone. These findings indicate that that any interventions that aim to leverage the grant need to take into account the behavioural responses of other household members and the consequences associated with the household's overall response (Case and Deaton, 1996).

2.3. Household Income

A first step in thinking about potential deepening of economic activity should consider what sorts of economic activity labour market participants are involved in now. Monthly household incomes were estimated at a mean value of R1 260 and a median value of R 990. This masks significant inter-provincial discrepancies.

Importantly, the monthly per capita income of households, including all sources of income regardless of the employment status of household members, was usually below R412 per capita per month (2005 prices) that has been recommended as a poverty line by National Treasury for South Africa. It was calculated that approximately 70% of beneficiary households fell below this poverty line with the support of grants. Without grants, 94% would fall below the proposed poverty line.

This result suggests that in practice, acute economic conditions and large household sizes limit the impact of the grant, even in the presence of other means of economic support i.e. the depth of poverty these households experience is insufficient to be alleviated by their limited economic opportunities alone.

The average beneficiary households consist of at least five members. More than three-quarters (78%) do not have members that are employed or in receipt of a regular income.

The data seems to suggest that, even if a member is employed, beneficiary households are likely to be experiencing severe economic distress. For example, almost one fifth of CSG recipients (18%) reported holding down a job for which they received an income¹. Of these, only 26% report being employed in the formal sector. The rest of the respondents reported being employed in sectors such as the informal sector, as farm labourers or working for a private person, presumably as a domestic worker. These sectors are characterized by precarious employment relationships, unstable incomes and generally low wages. De Koker et al (2006, chapter 6) show that 40% of employed CSG recipients worked for the full year, while the remaining 60% worked between one and nine months in the previous year.

BOX 1: A working mother from Alex

Thembi is a domestic worker living in Alex. She lives in a shack with her boyfriend who is unemployed, and her two children. Her brother also lives in her home, and does odd jobs. Thembi's employer pays R 1000 per month, so she qualifies for the Child Support Grant. Her salary enables a per capita earning of R200 per month, and the grant raises that to R 280 per month.

They could rise above the poverty line if her boyfriend or brother contributed at least what she earns to the household income, and/or if Thembi could find a better paying job, perhaps as an office cleaner.

There is no guarantee that incomes from formal employment in the private sector are sufficient to lift households out of poverty. Indeed, 57% of workers in the formal sector earned less than R2 500 per month in 2006 and 30% (2.1 million workers) earned less than R 1,000 per month (Sept LFS 2006). 1.4 million workers earned R 500 per month or less. The CSG requires a maximum household income of R 1,100 per month in the rural areas or in informal housing, and R 800 per month if the beneficiary household is in the urban area and living in formal housing (Hall and Monson, 2006). It is probable that households currently qualifying for the grants are more likely to access work opportunities in the lower earning realm of the labour market. For example, CSG care givers will typically be single, black and possessing low educational attainment.

The portrait above appears to be of households stuck in poverty, even in the presence of an income support and the employment of household members, who are usually

¹ This includes only CSG recipients who are in the working age population. However, if pensioners are included, the percentage shifts only slightly to 17%.

employed in low-paid seemingly unstable employment. Woolard and Klasen (2004) identify some predictors of this long-term poverty cycle in South Africa as large initial household sizes, poor educational levels and weak access to employment opportunities. Arguably, the identification of these key areas provides insights into what areas policy can be directed to when attempting to alleviate poverty via increasing rates of economic participation.

The stability of income is almost as important as the absolute value of income for the attainment of long-term development goals. For this reason, information needs to be gathered on the composition of households' income in order to assess the sustainability of these income sources.

It was reported that approximately 85% of beneficiary household income is from grants. It is only amongst the top 5% of beneficiary households that most household income is from employment (78%). Regarding the employment status of household members, 62% of households indicated that they did not have a household member who earned an income through employment. A comparable figure for the general population is 37% (Bhorat, 2004). More than three-quarters (78%) of beneficiary households reported that other income sources were unstable streams of income. Levels of self employment were low at 5%. Speculatively, this low percentage and the conditions of the majority of these entrepreneurs as described in a review of this sector (Stats SA, 2005), suggests that there exists limited opportunities for long-term opportunities in this sector.

2.4. Desire to work

Concerns have been expressed about the perverse incentives associated with an expanding system of social grants. The concern is for welfare dependency. One set of concerns arises where the recipient increases the probability of acquiring a condition for which a grant is needed. The temporary disability grant, foster care grant and child support grant are the grants to which the most suspicion has been attached. A second set of concerns have been raised about the extent to which the provision of a grant in the household discourages work-seeking behaviour by the other members of the household.

There are clearly some people who may be influenced by the availability of grants in this way, and there are certainly anecdotal stories to this effect. However, there is little empirical evidence to show that this is a general problem. In a comprehensive investigation of the existence of perverse incentives among grant beneficiaries conducted using data from the SOCPEN database, Steele (2006) asserts that there is no evidence to support the notion that children are farmed out in pursuit of the Foster Care Grant (FCG) or that the award of the Child Support Grant (CSG) encourages women to have more children. All told, this study contends that there is limited evidence for the existence of perverse incentives in the award of any grant. Makiwane and Udjo (2006) studied teenage fertility trends using census and other survey data from both before and after the introduction of the CSG. Upon analysis, they find no evidence that the CSG resulted in any perverse incentives in the behaviour of this group.

Notwithstanding empirical work that supports the hypothesis that the presence of a grant in the household stimulates job-seeking behaviour (Ardington, Case and Hosegood, 2007), qualitative work conducted in rural parts of South Africa asserts that other household members may be reluctant to lose the relative stability offered by

staying in a grant household and would thus be unlikely to seek work (Klasen and Woolard, 2001; Francis, 2006). This is argued to be particularly relevant in rural areas where employment opportunities are limited.

Studies conducted using the HSRC's South African Social Attitudes Survey (SASAS), however, find that poorer persons display a very favourable disposition towards work and express a strong willingness to do so should the opportunity arise (Noble, Ntshongwana and Surender, forthcoming).

In contrast, the HSRC South African Social Attitudes Survey (SASAS) shows that unemployed and poor people have a very favourable disposition towards work and express a strong willingness to do so should the opportunity arise. In their analysis of SASAS data, Noble, Ntshongwana and Surender (forthcoming) found that the majority of unemployed South Africans believe that work is essential to their meaning in life (50%), and feel extremely negative about being unemployed even when everyone around them is also unemployed (88%) (see Noble, forthcoming). The majority of poor people interviewed in SASAS (83%) said they would take a very low paid job if they thought it would give them a leg up. This speaks to a strong motivation to work, if given the opportunity. Second, unlike any other intervention, it should be possible to track top-up benefits given to grant recipients as they must stay in monthly contact with the grants administration.

As a further indication of the lengths to which work seekers are prepared to go to access employment opportunities, over three quarters of respondents indicated that they would be prepared to move to find a job. These responses appear to be validated by the reasons respondents reported moving for during the past five years. According to (Noble, Ntshongwana and Surender, forthcoming), roughly 60% of respondents who had moved between provinces or municipalities reported that they did so in order to find work.

It is therefore plausible to assume that members of the target population will respond positively to measures that either provide employment opportunities or enhance their employability.

2.5. Education levels

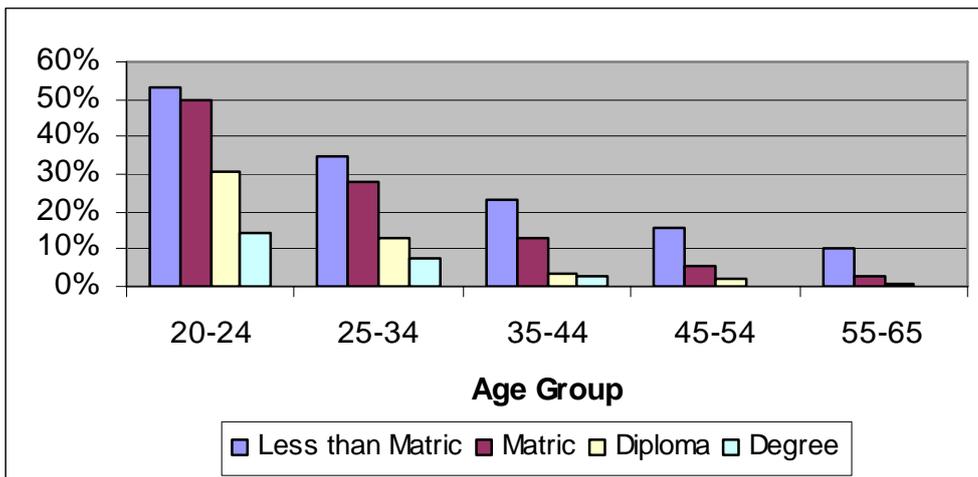
Educational attainment is important for at least two reasons. First, it is a good predictor of labour market success. Figure 1 shows that this is particularly important for youth. About half of young people aged 20-24 year olds with matric or less were unemployed, as compared to about 30% of those with a diploma. Therefore some of the interventions might seek to influence educational attainment of beneficiary household members. Second, it will influence how a communications strategy might be formulated to reach this target population.

Conservatively, the finding that at least 83% of main caregivers of children in beneficiary households are female would suggest tailoring information packages around women's empowerment and strengthening their relative decision-making power with respect spending patterns in order to maximize the use made of resources.

Given this importance, educational levels of grant recipients for the two main child-oriented grants are reported on. Of the recipients of the Child Support Grant, 11% report no formal schooling, 19% between 1 and 6 years of formal schooling, 53% between 7 and 11 years of schooling and 17% report holding a matriculation certificate or higher. Amongst recipients of foster care grants, the comparative figures

are 21%, 32%, 37% and 10%. These figures are not very different from population-wide estimates of educational attainment. The implications of this result for the structuring of information and messaging will be elaborated upon in later sections of this report.

Figure 1 - Unemployment by age and educational attainment



Source: Altman (2007a)

It is worth pointing out that literacy rates were not reported on, although the ability to navigate the application for a grant may point to at least some functional levels of literacy and navigational ability amongst recipients. This distinction needs to be borne in mind given the structural deficiencies in the schooling system, especially the systematic under-investments in certain racially-classified types of schools pre-1994.

2.6. Expenditure

In line with prior studies (Stats SA, 2002), food was identified as the single largest expenditure item amongst beneficiary households with beneficiary households indicating that well over half of the grant is spent on food. For the majority of beneficiary households (roughly 70%), food is acquired primarily through market transactions as only 30% of beneficiary households report some form of production of food for their own needs. This covered a variety of definitions e.g. keeping chickens, growing vegetables, raising livestock and the percentage of households engaged in this activity varied quite substantially between provinces (10% to 65%). An interesting observation made in de Koker, de Waal and Vorster (2006) is that the majority of beneficiary households would not have sufficient income to cover their food needs if not for the provision of a grant.

The patterns of household access to land does not differ much from that observed in general household surveys, which indicate that only 1.382 million or 10.5% of households have access to land for agricultural purposes (Stats SA, 2006). It should be noted, however, that this national estimate ignores provincial-level variations in access to land. This suggests that there exists the potential for local action to be initiated in

this area. Gentilini (2007) offers an overview of some of the methods that are available to the state to enhance the food security of the most vulnerable. A key conclusion reached, and shared by many other studies designed to determine the appropriate mix of policy responses to poverty alleviation (Pauw and Mncube, 2007), is that the choice of strategies is highly dependent upon governments' assessments of their ability to implement.

Payment methods for food, the finding that most households indicate that they do not possess livestock or have access to land and the urban bias of beneficiary location into account may act as a limiting factor on the extent to which they will be able to engage in subsistence agriculture for own food consumption. These results suggest that innovative ways in which to support food security of households are needed e.g. urban food gardens, etc.

Expenditure on accommodation and rents are quite low and, in line with prior work, payment for municipal services accounts for the second-largest grant expenditure item. In prior work on South African households in general, however, the term used was "housing expenditure." The research team will investigate whether these apply to the same concept in later sections of the report (i.e. only municipal services as in de Koker, de Waal and Vorster (2006) or inclusive of rentals and maintenance for example).

Analysis of the GHS 2006 dataset reveals that nearly 10% of South African households receive a government housing subsidy of some sort (Stats SA, 2007). Housing subsidies were not reported upon in the analysis of beneficiary households. This has several implications for the development of policy options that leverage the grant. For example, residential patterns reveals that roughly 2/3 of SA citizens live in formally constructed housing. This percentage, although roughly comparable, is slightly lower than that observed amongst beneficiary households (73%).

An analysis of ownership patterns amongst all households, however, reveals that roughly 71% of households report owning or at least paying off their dwellings. This figure was not reported on in the analysis of beneficiary households although it would seem unlikely (given the means testing attached to grant application) that the ownership percentage is that high amongst grant recipients. Therefore, they may not have the use of one of the principal assets that households use to leverage their wealth.

2.7. Debt

One of the most striking characteristics is the lack of indebtedness to all sources exhibited by grant beneficiary households at present. The most common creditors are schools (17%) and the local authority (13%). This stands in contrast to the general agreement of the necessity to borrow money to pay for essentials (40%). Discounting the biases inherent in self-reported data, one possible reason for this is that they're not able to access as much credit as they would like to.

Figures provided by the department indicate that, at minimum, approximately 20% of grant beneficiaries (across all types of grant) hold bank accounts and actually elect to receive funds that way. Unfortunately, it wasn't possible to disaggregate this data by urban versus rural location. Moreover, fully 40% of households agree that it is necessary to sometimes borrow money or buy on credit. Speculatively, this suggests that there is a discrepancy between bank services and bank availability with only 2% of households indicating that any household members held a loan at the bank. This

discrepancy is noticeable especially in light of the stark economic choices that have to be made by poor persons (Banerjee and Duflo, 2006) and the opportunities for consumption smoothing that may be afforded through the ability to bank income for when needed.

2.8. Communications

Channels available for quick communication with beneficiaries were also investigated. Of all possible communication channels, radio coverage is widespread amongst this target group with 74% of respondents reporting the ownership of a hi-fi/ radio in the home. Ownership of cellular phones was reported by 51% of respondents. Means of communication at paypoints will be explored further with key informants.

2.9. Location

Urban beneficiaries are slightly over-represented amongst beneficiary households, 67% located in urban areas versus an estimated urbanization rate of 58% for South Africa as a whole. While this differential is small, it may prove to be a factor when developing and targeting interventions.

2.10. Likely sources of employment

It is probable that most new jobs sourced by low skill workers will be found in retail, restaurants, personal services (such as hairdressing, shoe shining) and some business services (such as repair, office cleaning, etc). Government spending should also ensure a large number of jobs being found in construction. Higher and mid-level skill jobs will be found in sectors like finance, business services (such as business process outsourcing, real estate, etc), and the public sector. To halve unemployment, the HSRC employment scenarios find that about one million EPWP care jobs would be needed by 2014. This is shown in figure 1 and table 1 below. Figure 1 shows how employment grew between 1996 and 2006. It compares this to the HSRC's mid-range employment scenario for 2014, where the economy grows by an average of 4.5% between 2004 and 2014 (see Altman 2007). Table 1 offers more detail on levels of sector employment in 2004, compared to the HSRC's three employment scenarios for 2014 where the economy grows by an annual average of 3%, 4.5% and 6% pa.

The implication is that a large portion of working people will be found in low paid precarious jobs. Some sectors, such as mining, manufacturing or the public sector, pay low skill workers better than others. Table 2 shows the distribution of wages by sector in 2004. More than half of formal sector retail workers earned less than R 1000 per month in that year, as compared to 38% in manufacturing and 10% in mining. Almost all informal sector workers earn less than R 2,500 per month, and the majority earn less than R 1,000.

This also has implications for the skills needed to find work. Increasingly, low skill workers will need improved communications skills to get jobs like waiters, sales, and so forth. People who work are likely to change jobs regularly and could need more support for job search and for getting to work.

Figure 2 - Employment trends 1996 - 2006, and scenarios to 2014

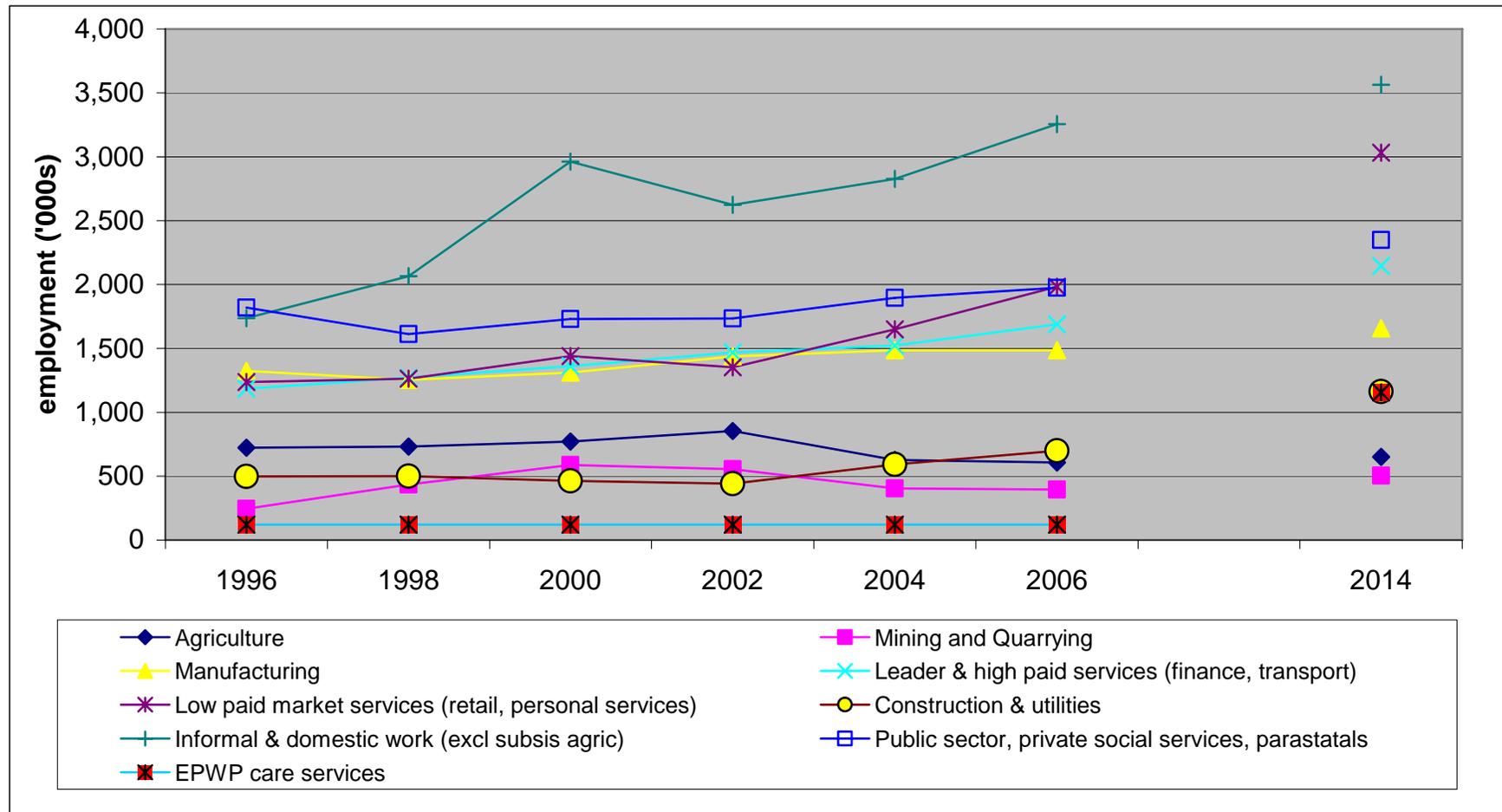


Table 1 - Employment scenarios to 2014

Sectors	Employment in 2004	Employment in 2014		
		Scenario 1: Slow down	Scenario 2: high domestic orientation	Scenario 3: More employment from traded sectors
Agriculture	650,000	588,437	650,000	650,000
Mining	425,000	404,323	503,035	571,164
Manufacturing	1,500,000	1,576,710	1,656,933	1,891,288
Leader & high paid services (eg finance, transport)	1,563,000	1,905,288	2,145,841	2,545,962
Follower services (eg retail, personal services)	1,915,000	2,777,947	3,031,347	2,973,936
Construction & utilities	620,000	962,841	1,163,825	1,163,825
Informal sector & domestic work & subsis agric; less EPWP	2,815,000	3,315,524	3,563,213	3,568,436
Public sector, private social services & parastatals	1,800,000	2,164,429	2,348,027	2,560,826
EPWP-type jobs - construction	220,000	370,000	370,000	220,000
EPWP-type jobs - community care	120,000	2,522,653	1,155,931	442,713
Total	11,628,000	16,588,152	16,588,152	16,588,152
Unemployment rate	25.6%	13.0%	13.0%	13.0%
Unemployment rate, without EPWP	27.8%	28.2%	21.0%	16.5%

Source: Altman 2007

Table 2 - The distribution of formal sector earnings by sector, 2004

Sector	Wages earned per month		
	1-1000	1000 - 2500	2500 +
Agriculture, hunting, forestry and fishing	85.2%	4.7%	10.1%
Community, social and personal services	20.4%	10.7%	68.9%
Construction	58.0%	22.2%	19.8%
Financial intermediation, insurance, real estate and business	30.0%	15.5%	54.5%
Manufacturing	38.0%	23.6%	38.3%
Mining and quarrying	10.1%	32.6%	57.4%
Private households	95.7%	3.4%	0.9%
Transport, storage and communication	28.3%	16.7%	55.1%
Wholesale and retail trade	56.0%	17.3%	26.7%

Source: LFS, Sept 2004, as presented in Altman 2007.

2.11. Summary

This paper reviewed essential information on the link between grant beneficiaries and economic participation. It also considered characteristics to inform how the Department of Social Development might potentially offer assistance that could enhance the potential for economic participation. A backdrop is offered for the purpose of developing policy options, in paper #2. The main findings are the following:

- The majority of grant beneficiaries are young children and pensioners who are not meant to work. In addition, low skill jobs in both the formal and informal sectors are very low paid and precarious. A large proportion of working people do need assistance for their children. Therefore, a programme to intensify employability should focus only on assisting working age people in beneficiary households to improve their access to economic participation, and not to get them off grants per se.
- There is strong evidence that unemployed people in poor households have a very strong desire to work
- Young people below the age of 30 have an equal probability of working or not working
- The economy is generating large numbers of low skill jobs, and is likely to do so in future.
- Education levels amongst grant recipient and other households is not that different. Nevertheless, education is a good predictor of success and improved access to education opportunity could expand economic participation.

- There are important barriers to accessing economic opportunities in SA, particularly related to access to information, money, education and production inputs.

3. Policy Instruments and Options

3.1. Introduction

This section of the report considers possible instruments that could complement the system of grants, and their application to policy solutions that could enhance economic participation. The objective is to identify scalable policy options that could be linked to the grant, insofar as they enhance the access to economic opportunity for labour market participants in beneficiary households. It is proposed that such a system be subject to the additional requirement that it be within the Department of Social Development's policy service delivery mandate.

The policy instruments include:

- Direct job placements and job creation
- Top-up subsidies or vouchers
- Credit for productive activities
- Information
- Insurance

Economic participation might be enhanced in the following ways:

- Direct job creation
- Enhanced employability
- Job search facilitated
- Support for self-employment
- Support to stabilise income from employment or self-employment

The paper is divided into 2 parts. The first part outlines generic policy instruments that could be aligned to the social grants system. The second part considers how these instruments might be applied to specific interventions that could address some delivery problem that constrains economic participation amongst the most marginalised. The paper concludes by recommending a way forward.

3.2. Policy Instruments

Five policy instruments are identified for consideration in this paper, including:

- Direct job placements and job creation

- Top-up subsidies or vouchers
- Credit for productive activities
- Information
- Insurance

3.2.1 Direct job creation

Government could provide jobs by directly engaging in employment creation programmes. Such support would be relevant for unemployed members of beneficiary households, whether searching or discouraged.

To ensure that this employment does not displace market based opportunities, the work opportunity could not be better than a market based job. Otherwise, recipients might be encouraged to leave their current opportunity to take one generated by government. This poses a challenge, since the quality of work opportunities currently available to grant recipients is quite poor, both in terms of length of opportunity and pay.

There are three main ways that Government could directly generate work opportunities:

- By generating work opportunities in the public service. The difficulty in expanding jobs for grant recipients through the public service is that the lowest rate of pay is currently set at approximately R 38,000, which is about four or four times what a grant recipient is likely to earn in the market. Given the large numbers of jobs required, such a programme could become financially unsustainable.
- By large public works type programmes or social sector projects (e.g. support of Early Child Development Centres). The EPWP generated about 317,000 work opportunities in 2006/7. This is the equivalent of 4% of broad unemployment. The opportunities tend to be very short term and low paid (see Altman and Hemson, 2007). The EPWP would need to become much larger, and offer more stable opportunities to have any real impact on beneficiary household incomes or recipient employability. It is worth noting that the social sector EPWP is meant to be delivered through CBOs who apply for funding. Enabling CBOs to access this funding and technical support could have an important impact on expanding the social sector EPWP.
- By offering subsidies to firms or CBOs to employ people, on special terms that ensure they do not displace existing workers. Such a programme might have the greatest chance of a developmental impact, on both the employability of the recipient and also on expanding resources of non-profit organisations.

Direct job creation might be done by creating the job and offering a placement, or by subsidising a job that might not otherwise exist. In the latter case, a subsidy or voucher could enable a resource poor non-profit agency to employ workers. Alternatively, it might encourage firms to employ more low skill workers.

Job creation might also be stimulated if the eligibility age for the old age grant were lowered to age 60 for men. This could generate more opportunities from beneficiary households. The Child Support Grant could be extended up to the age of 18. Should this have the effect of keeping CSG children for longer and improving their attendance and grades (both plausible given the grant, see refs), the employability of

grant beneficiaries is enhanced improving their chances of accessing economic opportunities in future.

There is a view that social grants might be made contingent on searching for or obtaining work. This arises from a concern about “welfare dependency” and for the overall cost of the social grants. This view may assume that helping people to obtain work would reduce the need for the grant. There are a number of considerations:

- There are about 7 million unemployed by the broad definition, and the economy is generating between 200,000 and 500,000 net new jobs each year. It is therefore unreasonable to *require* the most marginalised in society to find work in this context.
- The public employment schemes are not nearly large enough to enable any sort of grant contingency.
- The sort of work that might be obtained is unlikely to raise the beneficiary household out of poverty. The majority of jobs created for low skill workers are extremely low paid and precarious. At best, a work opportunity could reduce the overwhelming reliance on a grant

3.2.2 Top-up subsidies in cash, vouchers or in-kind support

There has been some debate about making the social grants conditional on some desired behaviour. Usually, the discussion focuses on behaviour of child carers who would be required to take their child for health check-ups and immunisation or ensure their children are in school, etc. There has also been some question as to whether the grants could be made contingent on behaviour related to work, whether searching for work or finding a job. However, simplicity in the aims and implementation has been an important strength of the social grants programme. Imposing requirements that may be difficult to monitor or even achieve could make the programme less successful. For example, there are approximately 7 million unemployed people (by the broad definition), but employment is only growing by 200,000 to 500,000 per annum. Therefore a programme to *enhance the chances* of working makes more sense than one that *requires* it.

An alternative approach could see conditionality attached to a top-up to the core grant. This might be given in the form of cash, a voucher or in-kind support.

At the simplest level, government could offer subsidies for the acquisition of productive assets or assets that could be used to leverage credit or be converted into cash in future. These could be used to pay for productive inputs, for market intermediation (eg job search, transport), to enhance employability (eg for training), or to make a job ‘affordable’ (eg transport).

This form of support could be abused in a number of ways. For example, cash might be used for purposes other than what it was intended for. Vouchers might become tradable and be used by unintended beneficiaries. The interventions might distort markets for inputs, transport or training in some way. In-kind support attached to particular goods (eg an account with specific stores to buy identified products) could distort demand: for example, Government might identify inputs that are not appropriate. On the other hand, this set of policies could generate demand for new products and services that are appropriate to low income producers and workers.



The DSD would need to consider whether such top-up support would only be available to grant recipients, their households, or even a wider community. For example, what if a neighbour used subsistence agricultural inputs such as seeds or fertiliser, expanded their yield, and shared the extra yield with the beneficiary in exchange for having been given the “top-up”? Is this an unintended or intended consequence?

A top-up implemented in alignment with the social grants programme might be less open to abuse than any other way of providing this support. Grant recipients must stay in touch on a monthly basis in order to pick up the grant. If a grant recipient took the top-up, they might have to show proof of how it was used, what its impact was, etc. This would make monitoring and evaluation viable, and could ensure compliance with the aims of the top-up.

3.2.3 Credit

Micro-credit for productive purposes is hardly available in South Africa. Most micro-credit schemes are aimed at consumption purposes. This poses serious constraints on the ability to establish or expand a micro-enterprise. Most informal businesses are established using credit from other family members and naturally this is less possible if the recipient is living in an impoverished community.

Potentially, the social grant might be used as “collateral” for a micro-loan, in combination with a solid business plan. The Social Security Agency could partner with financial institutions to offer special products aimed at micro-enterprise. The credit would have to be government guaranteed.

As with the top-up support, the recipient has a particular interest in compliance as they aim to continue receiving their monthly grant. Compliance does not refer to business success or failure, but rather that the recipient used the funding in the way intended. Such a programme could be monitored and evaluated, with the aim of testing the availability of micro-finance on economic participation.

3.2.4 Insurance

Economic participation would be enhanced if the impact of uncertainties and crisis were reduced. The marginal position of poor people means that they are exposed to a greater number of threats from the external environment and are thus more vulnerable. Due to poor access to savings, each crisis, whether ill health or theft of a productive asset, can destroy a livelihood. Uncertainty could be reduced with the creation and maintenance of insurance markets that protect the assets (physical or human) of the target population.

For example, in general the poor are more susceptible to crime and theft. There is evidence to show that this is an important explanation of business failure in the informal sector. It also constrains risk taking by potential entrepreneurs.

Undoubtedly, the most productive asset with which one can be endowed is one’s health. Therefore, finding ways to offer health insurance to the target population may prove especially fruitful. Furthermore, as health shocks are frequently a cause of either pushing people into poverty, or deeper in if already there, health insurance is likely to provide a mechanism to protect the household from poverty. South Africa is in the process of considering the introduction of a social insurance scheme whose contributions for low income earners will be subsidized. Note that in most cases the

beneficiaries themselves will not be eligible for health and life insurance. The targets here are those in beneficiary households who are economically active and whose illness and/or death would impose economic hardship on the household as a whole.

Reviews of the market for insurance amongst the poor generally indicate that such schemes are likely to be beset by shortfalls in cost recovery and high administrative costs relative to premium income as well as incomplete market and pricing data on the underlying assets (Dercon, Bold and Calvo, 2007).

The difficulties with the provision of micro-insurance has led many reviewers to propose a rule-of-thumb according to which, for low insured amounts and co-varying risks especially, savings schemes be used as a substitute of sorts for insurance markets. Schemes used in other parts of the world, (case studies amongst rural farmers in China) report much success with projects that are aimed at allowing the poor to build up their assets in the form of social insurance and giving them the opportunity to take out loans against this collateral. In this case, social insurance has allowed them greater access to financial markets, unlocking sources of credit. By and large, these have been used to acquire assets that can be used productively for income generation.

The essence of this argument is that special micro-insurance schemes or savings schemes might be made available to grant recipients or beneficiary households.

3.2.5 Information exchange

Limited access to information and networks amongst marginalised black households is an important explanation of low levels of economic participation. This is one of the central apartheid legacies. This affects the choice to finish high school, what to study, how to get resources to study, how to look for a job, how to apply to government employment creation schemes, the identification of profitable market niches and how to get credit, etc. This could help activate an unemployed person, and reduce the risk and uncertainty associated with job search or a business investment.

Addressing information gaps is perhaps the most obvious and least contentious approaches to deepening economic participation. Monthly information circulars could be provided to grant beneficiaries along with the grant payment, whether at the pay point or by cell text message.

3.3. Policy Options

From this list of instruments, the following options can be extracted. These are elaborated on in the sections that follow.

Economic participation might be enhanced in the following ways:

- Direct job creation
- Enhanced employability
- Job search facilitated
- Support for self-employment
- Support to stabilise income from employment or self-employment



3.3.1 Direct Employment

a. The Expanded Public Works Programme

Rationale:

The HSRC estimates that the social sector EPWP could ultimately generate about 500,000 work opportunities, particularly through Early Childhood Development for children under five and Home Community Based Care. It is the intention that these services mostly be delivered by community based organisations. There is substantial overlap in the social sector EPWP target population and grant recipient households. Many of the grant recipients could be delivering the type of services envisaged by the social sector EPWP: in fact, may already be doing so albeit in a precarious manner that presently characterises these services.

The social sector EPWP is currently running at a small scale, having created 37,000 opportunities in 2006/7 (Altman and Hemson, 2007). This is partly due to poor information about how to access the programme funding and support. The monthly link into beneficiary households could provide an excellent channel for funding and information that could be the key to expanding the social sector EPWP and simultaneously creating work opportunities for beneficiary households. This monthly link could also provide an excellent avenue to monitor and evaluate the roll-out of social sector EPWP.

Options:

- Provide monthly information on how to access EPWP opportunities through cell phone link and/or through pay point.
- Provide vouchers as top up to recipients for child care services. Currently, the national framework allows for a subsidy of R 8 per child per day. This can support the delivery agents in providing the service. It appears that this may not be enough to ensure quality needed. Moreover, this funding is generally not reaching care providers. A top-up provided to the recipient would stimulate this sector and ensure more rapid expansion. It could also ensure that the recipient is able to choose the service provider.

Target group:

- Information on access to beneficiary households of all grants
- Child care vouchers for recipients of CSG.

b. Employment subsidies for direction job creation

Rationale:

Obtaining a first employment experience is a challenge for young people anywhere, but particularly in South Africa. Approximately 50% of youth are unemployed. The children of marginalised grant beneficiary households are more likely to fall into the group of unemployed.

Options:

- An employment voucher could be provided to working age youth in beneficiary households to pay for all or part of a temporary work experience. This voucher

might be redeemed by the employer in cash or through the tax system. The employer might be for-profit or not-for profit (eg CBOs or government). However, abuse of the vouchers (eg displacement of current workers) might be less likely if the vouchers have a time limit and if they are applied to resource constrained activities like CBOs.

Target group:

- Vouchers to youth in beneficiary households

3.3.2 Enhancing employment search & employability

a. Job search information

Rationale:

Many unemployed say they don't know where to look for jobs. They are either located far from economic centres, or they lack the networks that would help them find employment.

Options:

- Information could be circulated on a monthly basis to beneficiary households through cell text messages and pay points that would bolster approach to job search, such as on the location of labour centres, web sites with information, new employers in the area, where to register a CV, etc.
- Ideas could also be circulated in respect of the types of jobs that are becoming available for low skill workers. This information could be area specific or could also enable people to make more informed decisions about migrating to locations where they have a better chance of finding work.
- Information on training opportunities available by local centres, or employers could also be circulated.

Target group:

Beneficiary households and surrounding households

b. Education and Training vouchers

Rationale:

There is clear evidence that education raises the probability of being employed. However, there are a number of factors militating against higher levels of educational attainment, apart from the core difficulties within the education system. For example, because youth unemployment is so high, young people appear to get a message that it is not worth completing high school. Once in a tertiary opportunity, there is a high drop-out rate for black students. This is mostly explained by social and financial stress. The opportunities in the vocational training system are difficult to access, partly as a result of institutional complexity.

Poor working people may also find it difficult to access training opportunities, as so many are in marginalised and precarious work where these kinds of benefits are not available. Yet, such training could enable upgrading to higher paid opportunities.

Options:

Training vouchers could be provided to beneficiary households for further education and training in technical colleges, technikons or universities. Some minimum requirement might be established, such as the successful completion of Grade 11 or of Matric.

Training vouchers could be provided to beneficiary households to pay for tutors, especially in respect of high school mathematics.

Target group:

High school students and youth in beneficiary households.

A condition might be proof that youth is a biological child. However, access to such a benefit would most probably benefit the worker and the economy no matter who is awarded.

Working age grant recipients

c. Reduction in transport costs for job search or getting to work

Rationale:

A very large proportion of unemployed say it is too expensive to look for job, particularly because the probability of success seems low. It is also expensive to take a low paying job if far from home, as travel is expensive.

Options:

Transport vouchers could be offered to beneficiary households if can show that they searched for work, and/or if they can prove that they found employment.

Target group:

Beneficiary households

Such a benefit could be open to abuse, and careful design would be required to minimise this possibility. However, it is recognised that transport costs do pose a sufficiently large long term policy challenge to labour market efficiency. The link to grant recipients enables greater possibility for monitoring and evaluating the use of such a voucher.

d. Incentives to work: Temporary Disability Grant

Rationale:

Concerns have been raised about the rapid increase in costs associated with the temporary disability grant. Relaxing employment conditions associated therewith and providing incentives to encourage work-seeking behaviour amongst those who are temporarily disabled might encourage re-entry to the labour market.

Options:

Allow those who are temporarily disabled to choose between working or not working. If they elect to work, provide them with income support when doing so in order to encourage them to work. For example, offer a top-up fee related to earnings e.g. rand-for-rand matching of income up to 80% of current grant amount.

Target group:

Beneficiaries of disability grant

e. Attaching conditionality to work-seeking

Rationale:

It has been demonstrated that, even without the grant, beneficiary households would still need some form of income support. To entice recipients into actively seeking employment opportunities, incentives contingent upon having accessed an economic opportunity over the previous month could be offered to them.

Options:

Provide a top-up to the grant payable to recipients should they be able to demonstrate active involvement in some economic activity over some period (eg greater than 100 hours, 150 hours etc.) over the past month.

Before pursuing any of these options, recipients would need to be assured, and officials would need to be convinced, that the grant would not (should not) be cut in the event of recipients accessing an employment activity, at least initially. Consideration may also be given to the option of making the conditions on household socioeconomic status less stringent (e.g. if recipient earns less than R1 100 per month rather than if household earns less than R1 100 per month) where recipients elect to work.

Target group:

Working age grant recipients

3.3.3 Support for self-employment

Rationale:

People linked to beneficiaries, and/or disabled, could be assisted to initiate or expand productive activities thereby bolstering their income; some activities have high probability of link to grant- recipient household. For example, two million households are engaged in some form of subsistence agriculture. Approximately two million people were involved in informal economic activity in 2006 (not including domestic work). It is possible that these activities might expand more rapidly, both in terms of scale and earnings, if entrepreneurs had better access to production inputs and to product knowledge. For example, informal firms in SA tend to choose their products poorly, often copying what others are doing rather than identifying higher earning niches. This partly explains why informal sector participants earn less than their formal sector counterparts.

Option:

There are three main ways to support self-employment amongst grant beneficiary households:

- By supplying monthly commercial information, such as that on how to identify market niches, where to get credit or inputs, or how to improve agricultural yields or business profitability
- By providing vouchers for production inputs. These could cover items such as seeds, fertiliser, water, or implements of subsistence agriculturalists. Vouchers might also be provided for business advisory services or agricultural extension services.
- By providing credit products tailored for this group of grant recipients.

Target group:

Beneficiary households

As with all such instruments, there exists the danger that they will be quickly converted into cash (at a discount) rather used for the purpose for which intended. By making vouchers out to the bearer and not the beneficiary alone one could increase the probability that somebody in the beneficiary household makes use of these instruments. The link to the grant raises the probability of compliance, as monitoring, evaluation and sanctions for misuse are more easily implemented.

3.3.4 Stabilising incomes for working poor

a. Insurance

Rationale:

Theft is an extremely important cause of informal business failure. This might be theft of stock or equipment. A very low income household is unlikely to have savings or access to credit to replenish or re-purchase so as to keep their business going. There

is evidence that this threat has the impact of destabilizing informal businesses, but also of creating risk aversion amongst entrepreneurs. Poor persons' greater exposure to risk leads them to prefer more stable activities that are low risk but may be associated with lower returns. Opportunities for them to maximise the value of their assets are thus reduced. Arguably, providing insurance for this sector of the population will eliminate some of this uncertainty and enable them to maximise the use of their assets.

Options:

- Vouchers or other forms of financial support to access specially designed insurance schemes for micro-enterprise could be made for beneficiary households. This may require the development of new products should they not already be available. The provision of financial support to pay for insurance could in itself encourage the establishment of competing private schemes.
- Information could be provided in respect of reliable information on opportunities for short term micro-insurance. Under this scheme, information on organisations that offer micro-insurance on an individual and/or group basis could be gathered and shared with grant recipients.
- Information on low-cost schemes that provide health and life insurance and funeral cover could also be provided along with the grant. Plausibly, such information will be relayed on to other household economically active household members by grant recipients as they will usually not be eligible for such cover.

Target group:

- Financial support to grant recipients
- Information for beneficiary households and related communities



b. Service delivery in the area of HIV and AIDS

Rationale:

There is an extremely high HIV infection rate amongst young women – approximately ¼ to 1/3 of women under age 30. It will be important to ensure that these women stay active as mothers, care givers and earners. Almost one-fifth of CSG recipients do work. As the economy grows, more women will find work in an expanding services economy. Early support for HIV-infected mothers could lengthen their participation in the labour market.

HIV and AIDS are argued to have played an important role in driving the high uptake of grants. A key intervention would relate to preventing new HIV infections and arresting the progression of HIV to AIDS amongst those members of beneficiary households who are of economically active working age.

Responsibility for rolling out these interventions is the responsibility of the health department. However, access to the healthcare system and the dissemination of healthcare messages about early detection are not the sole determinants of service utilization. There may be a role for the DSD to increase uptake of these services through its system of social grants. In particular, grant recipients could be supported with information and top-up support that gives them special access to health enhancing services.

Options:

- Female grant recipients might receive special support to access HIV/AIDS services. This might arise through vouchers for ARVs, HIV services available at pay-points, regular communication on health and nutrition through pay-points or cell messages.
- Information on the availability of HIV and AIDS services offered in the surrounding area could be provided to grant recipients using the options described under the information sharing schemes. In the case of the CSG and the FCG, the department could explore linking the provision of testing for HIV with grant receipt. For example, an incentive or top-up to the grant could be offered to caregivers when they presented at a local clinic for testing etc. on a certain date. This would be redeemed when caregivers tested at a clinic and furnished proof of testing. To monitor compliance, and limit unnecessary repeat testing for the sake of increased income, incentives to test could be offered on a cyclical basis, for example, every six months. Admittedly, ethical considerations may preclude the use of this option and its acceptability would need to be explored.

Target group:

- Finance and special services for grant recipients
- Information for beneficiary households and related communities.

3.4. Options for Exploration

In a stakeholder workshop in January 2008, it was agreed that the basic ideas put forward in this document had merit. It was proposed that two generic instruments be investigated in the first instance:

- The provision of information
- The provision of a 'top-up', whether cash or in kind

It was recognised that these would need more detailed exploration in relation to pros and cons, specific intention and design, and appropriate channels for delivery alongside the grants. As this paper covers only the conceptual issues, the more detailed exploration will be undertaken in a follow-up project.

An important principle is that the opportunity to which access is being improved must already exist. Where it is operating at a small scale, there must be evidence that it would expand relatively easily. This intervention will specifically not set up a new service, except insofar as it is related to making access to matching services. This intervention only builds on an existing channel through which money is provided.

Some initial thoughts on what this will entail include:

3.4.1 Information

The stakeholder group was unified in supporting idea of circulating information. While this may seem to be the simplest approach, it poses its own complications. Some questions that need to be explored include:

- a. Should the information offer general support, or should it be linked to a specific outcome? For example:**
 - Circulars could be provided on a range of topics from health and nutrition, to how to access to ARVs to how to access the social sector EPWP opportunities to job search support to small business development opportunities. This approach could be beneficial since it is sometimes difficult to second-guess what information will be useful nationally. However, this could impose the risk that some information will be incorrect or redundant. This could reduce confidence in the service, or worse, mislead beneficiary households.
 - Alternatively, the service could offer focused support in relation to one or two specific activities that Government specifically wants to see scaled up. If this approach is taken the service might focus on one or more of the following:
 - Agricultural information support to small and subsistence farmers: how to access inputs, how to improve yields, etc
 - Job search information



- Information on how to participate in social sector EPWP; information on how to improve service delivery in social sector EPWP where already participating

b. How will information be identified? The complexity of assembling simple, effective, and correct information should not be underestimated.

- How much information at any one time? In what format?
- Should new information be provided, or is it repeated to ensure diffusion?
- How to determine if it is correct information?
- How to determine what is needed? For example, people may be aware of a service, but are not using it if it is ineffective.

A small pilot survey in the next phase of the project might help in answering some of these questions

c. Determining the channels

- How are the grants distributed currently? There are a range of channels, but a large proportion is distributed through private contractors.
- Should information provision be contracted out to the same providers or others? Would these contractors act as information brokers?

3.4.2 “Top up” in cash or in kind

a. General or Specific?

A “top – up” to the grant might be made for only one or two specific purposes. This could simplify the design and monitoring and evaluation of any intervention. However, considerable forethought would be required to be sure that the correct need was identified.

Alternatively, the project could offer a suite of options, and test what and grant recipients actually use this extra support.

Either way, the specific focus areas could include:

- Agricultural support to small and subsistence farmers – eg subsidized inputs, subsidised advisory or extension services
- Job search support – eg subsidised job search
- FET and HET opportunity voucher
- Employment subsidy, which could be tied to individual or to employer
- Subsidy to care giver to pay for community based social services such as ECD or HCBC. This could complement existing subsidy already channelled through the respective government departments to service providers (eg R 9/day/child to deliver ECD (0-4)).

b. Cash, vouchers or in-kind?

The provision of cash has the effect of generalising the support. That is, the households are sufficiently poor that the cash may simply be added to the pot of income used for general necessities. Perhaps the household might need to report on and show proof of how the cash was used, but this may introduce too much complexity.

Vouchers are sometimes the safest approach, although they in themselves cause distortions. For example, a tradable voucher can taken on a monetary value, with unintended consequences for the market for certain goods or services.

In-kind support, where a specific product is given to the recipient, is the most controversial as it assumes that the state can know perfectly what the recipient needs or wants. It can also cause market distortions, and raise prices for these products.

Generally, a top-up aimed at the purchase of certain goods and services could draw forth more of that activity, since there is now a “signal” to providers to produce more. On the other hand, a top-up that is too focused on specific goods and services may result in a secondary market, where people “buy” more of a product than they want or need, and resell at a below-market price. (This is an example of where a tradable voucher can take on a market value, usually at some value below the re-sale price).

An employment subsidy is particularly complex. There are two particular concerns here:

- Deadweight loss – where funds are spent, person is employed, but they would have been anyway, and/or they simply displace someone else (ie net employment is not increased).
- Substitution effect – workers who are already employed but do not qualify for the employment subsidy are replaced by those who do qualify.

c. To household or to service provider? To Work-seeker or to employer?

- A subsidy could be given to the household or to the provider: for example, a subsidy for agricultural inputs could be given to the household or the vendor or a cooperative. An education voucher could go directly to the household or to the college itself.
- A subsidy could go to the worker-seeker or the employer: for example, a work voucher could be given to individuals, who present themselves to firms. Alternatively, the firm or NGO can apply to hire against this subsidy and search for qualifying work-seekers.

These are just some examples of ways that information or a top-up might be designed, and only some of the pros and cons. There is no inherent correct or incorrect approach – the design must simply consider the objectives and the context. There will be deeper investigation in the next phase of the project.

3.4.3 Monitoring response and outcomes.

Supporting grant recipient households has a special benefit, in that they can be monitored much more easily than other households. Recipient households also have a specific interest in staying in the system and therefore in complying with the intention of any extra benefit received.

A pilot should be designed to determine:

- Baseline – expression of interest by communities about what they need, how they would like to get it, why don't they have it now, what have they tried to do historically to get it, what they already know, etc
- Monitoring – low cost approaches to monitoring large numbers of users on a regular basis would need to be developed.
- Evaluation – what did they do with the information or top-up? Did it raise their level of economic participation? If not, why not? Were the providers effective and appropriately identified?

3.5. Recommendations and Conclusions

This paper explored possible ways of leveraging the social grants to promote economic participation amongst beneficiary households. As noted at the outset, there is a special opportunity in the system of grants that has not been sufficiently mined. Government reaches 12 million beneficiaries on a monthly basis, through a trusted channel that gives them money on which they rely. This offers a special opportunity to reach the most marginalised households on a regular basis. Moreover, it may be easier to monitor and evaluate, and ensure resources are used for intended purposes, since recipients could be required to provide monthly feedback on how they used any additional benefit given to them.

It is recognised that simplicity has been a key to success in the social grants, both in terms of its aims and its administration. Any top-up support should have the same quality.

A number of recommendations have been made in respect of direct job creation, enhancing employability, the facilitation of job search, support for the self employed and support to stabilise existing livelihoods. These have been chosen for their relative simplicity, the potential alignment to the grants administration, their potential impact on economic participation and their scalability.

It is recommended that the next steps involve:

5. A review of proposed options, with the Dept of Social Development, the Social Security Agency, and other relevant Government departments, stakeholders and experts. This process could help to refine the specific ideas and narrow the options to a smaller set. It should be noted that a suite of options could be identified, since different types of support will suite different types of recipients.

6. The smaller set of options could be more comprehensively investigated and costed. These could be presented in a scenarios format, to support decision making. That is, this process would present cost/benefit of any intervention.
7. Once further honed in, it is recommended that a small set of options be piloted to test for how recipients respond to the added benefit.
8. Simple and low cost monitoring and evaluation systems should be implemented alongside these pilots.



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Appendix 1: Instruments and Associated Policy Options

Table 1: Instruments and associated Policy Options

	Options									
	Direct employment		Enhancing employment search & employability					Support for self-employment	Stabilising income	
	EPWP	subsidy to employer	job search information	education & training vouchers	cover transport costs	incentives to work for temp disability	conditionality to work-seeking		Insurance	HIV service delivery
Direct job creation		x								
Top-up cash, vouchers or in-kind support		x		x	x	x	x	x	x	x
Credit								x		
Insurance								x	x	x
Access to information			x					x	x	x

Appendix 2: Eligibility and Value of Social Grants

Grants in South Africa are awarded to members of different categories of the deserving poor i.e. the elderly, the disabled and children in low-income families and are meant to provide income support for those who are unable, or ought not, to support themselves financially. In addition:

- a) they are to reside in households where income falls below some threshold or
- b) their income from other sources should be below some threshold

as the case may be.

An *Old Age Pension* of a maximum value of R870 per month is awarded to men above the age of 65 and women above age 60. Grant amounts (G) are determined according to the formula:

$$\begin{aligned} \text{and} \quad G &= 1.15A - 0.5B && \text{for an unmarried person} \\ G &= 1.075A - 0.5B && \text{for a married person} \end{aligned}$$

where $A =$ maximum value of the grant
 $B =$ annual income of applicant or combined income of applicant
 and spouse if married.

The full grant, however, is usually awarded in practice.

A *Disability Grant* of R820 per month is awarded to working age adults (between 18 and 59) who, upon medical assessment, can demonstrate that they are unable to work due to the existence of a medical or physical condition. The condition can be of either a temporary or permanent nature. The grant is means-tested and similar restrictions as under the Old Age Pension apply.

A *Child Support Grant* of R200 per month is awarded to the primary caregiver of a child below the age of 14 years who resides in the home. It is not linked to the biological relationship between the child and the caregiver. The grant is means-tested. To qualify for the grant, a caregiver and her spouse have to earn below:

- a) R800 per month if living in formal housing in an urban area or
- b) R1 100 per month if living in a rural area or in informal housing in an urban area.

A *Foster Care Grant* of R620 per month is provided to the foster parent of a child under the age of 18 who has been placed in foster care by the state and is under the supervision of a government-appointed social worker. There is no means test applied to this grant.

A *Care Dependency Grant* of R870 per month is provided for the care of a child under the age of 18 who is suffering from some severe mental or physical illness or disability and is in need of permanent care at home. The grant is means tested.