



2166

## AN OVERVIEW OF POVERTY AND INEQUALITY IN SOUTH AFRICA

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### Summary

South Africa is an upper-middle income country, but is a country of stark contrasts. The extreme inequality evident in South Africa means that one sees destitution, hunger and overcrowding side-by-side with affluence.

- South Africa has a per capita GNP of USD3690 p.a. (in 1998 dollars); yet
- About 15% of adults are illiterate [17];
- 9,2% of children under 5 are malnourished [6];
- Life expectancy has fallen from 62 years in 1990 to 48 in 1999 as a consequence of AIDS [17];
- It is estimated that 13% of the population and 25% of adults in South Africa are HIV-positive ;
- The infant mortality rate is 45 per 1000 live births;
- The maternal mortality rate is 230 per 100 000 live births;
- Of the 44 million people in the country in 2000[14], about 8 million were surviving on less than the international dollar a day poverty line and 18 million were living on less than 2 dollars per day<sup>2</sup>;
- 37% of households survive on less than R1000 per month (in 2002 Rands) [14];
- 60% of the poor get no social transfers [15];
- Health expenditure is 7% of GNP, but less than half of this is public spending [17].

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<sup>2</sup> This is based on the PPP conversion that the World Bank used prior to 2000. In 2000, the Bank recalculated the conversion from Rands to PPP dollars and revised the "dollar a day" amount from R92 to R55 per person p.m. (in 1993 Rands). If the 2000 PPP is used, the number of people below the USD1 level would be 3 million and the number of people below the USD2 level would be 10 million.

## Perceptions of Poverty in South Africa

In 1997 a Participatory Poverty Assessment (PPA) was undertaken in South Africa (May, 1998). The poor characterised their poverty as:

- *Alienation from kinship and the community:* The elderly without care from younger family members were seen as 'poor', even if they had an old-age state pension (which provided an income which is relatively high by local standards). Similarly, young single mothers without the support of older kin or the fathers of their children were perceived to be 'poor'.
- *Food insecurity:* Households where children went hungry or were malnourished were seen as living in poverty.
- *Crowded homes:* The poor were perceived to live in overcrowded conditions and in homes in need of maintenance.
- *Use of basic forms of energy:* The poor were regarded as lacking safe and efficient sources of energy. In rural communities, the poor - particularly women - walk long distances to gather firewood.
- *A lack of adequate paid, secure jobs:* The poor perceived lack of employment opportunities, low wages and lack of job security as major contributing factors to their poverty.
- *Fragmentation of the family:* Many poor households were characterised by absent fathers or children living apart from their parents. Households may be split over a number of sites as a survival strategy.

Poverty is multi-faceted. It can be linked with hunger, unemployment, exploitation, and lack of access to clean water, sanitation, health-care or schools. It can be about vulnerability to crisis and homelessness. While clearly many of these issues are related to not having enough money, it is simplistic to ignore the non-material aspects of the experience of poverty. The poor are not concerned exclusively with adequate incomes and consumption. Achieving other goals such as security, independence and self-respect may be just as important as having the means to buy basic goods and services. Nevertheless, money-metric measures of welfare (such as income or expenditure) "probably provide the best objective proxy for poverty status" (Baulch, 1996).<sup>3</sup>

## Who is poor in South Africa?

Living standards are closely correlated with race in South Africa. While poverty is not confined to any one racial group in South Africa, it is concentrated among blacks<sup>4</sup>, particularly Africans. According to the 1999 October Household Survey:

<sup>3</sup> At the same time, one needs to be wary of relying solely on the money-metric approach. For example, Klasen (2000) compares a standard expenditure-based poverty measure with a specifically created composite measure of deprivation. While there is a strong overall correlation between expenditures and levels of deprivation, the correlation is much weaker among the worst-off South Africans. In general, the deprivation measure finds more Africans, rural dwellers, members of *de facto* female-headed households, and members of smaller households deprived than expenditure poor.

<sup>4</sup> The term "black" refers to Africans, Coloureds and Asians.

- 52% of Africans are poor<sup>5</sup>.
- While Africans make up 78% of the population, they account for 95% of the poor.
- 17% of Coloureds are poor, in comparison with rates of less than 5% among Indians and Whites.

The neat division of the South African population into only four race groups obscures the fact that there are some small ethnic minorities (such as the San) whose live in extreme poverty. These groups are not adequately captured in household surveys.

Since a household survey collects information principally at the *household* level, it cannot tell us much about the inequalities in resource allocations within households. When we talk about poor **women**, for example, we are talking about those women who are living in poor households. In reality, there may be many women who, although they live in non-poor households, should be counted as poor because of the inequalities in intra-household allocations. What does emerge clearly from the South African household surveys, however, is that households headed by women are more likely to be poor.

- A household headed by a resident male has a 28% probability of being poor, whereas a household with a *de jure* female head has a 48% chance of being poor and a household with a *de facto* female head (because the nominal male head is absent) has a 53% chance of being poor.<sup>6</sup>
- There are at least four factors at play here: female-headed households are more likely to be in the rural areas where poverty is concentrated, female-headed households tend to have fewer adults of working age, female unemployment rates are higher and the wage gap between male and female earnings persists [2].

Poor households lack access to **basic services**, although there have been remarkable strides in the provision of clean water and adequate sanitation since 1994. According to the OHS of that year, in 1999,

- 75% of the non-poor had electricity, compared with 27% of the poor;
- 73% of the non-poor had access to adequate sanitation (flush, Chemical or VIP toilet), compared with 38% of the poor;
- 77% of the non-poor have piped water, compared with 47% of the poor.<sup>7</sup>

There is a very strong correlation between **educational attainment** and standard of living (see Figure 2). According to the 1998 IES and OHS,

- 58% of adults with no education are poor;
- 53% of adults that have less than seven years of (primary) education are poor.
- 34% of adults with incomplete secondary schooling are poor;

<sup>5</sup> By poor we mean that household income is less than R800 per month (1999 Rands).

<sup>6</sup> These figures are based on the PSLSD data as the 1995 OHS data did not make a distinction between *de facto* and *de jure* household heads.

<sup>7</sup> The figure for access of the non-poor to safe water is up dramatically from the 1995 figure of only 28%.

- poverty rates drop significantly with the attainment of “matric” and further qualifications. 15% of those with completed high school are poor and only 5% of those with tertiary education are poor.<sup>8</sup>

Enrolment rates in South Africa are high and do not reflect gender bias: the gross primary enrolment for boys is 135% and 131% for girls [17], although this is hard to interpret because of high repeat rates. In 2000, 94% of boys and 95% of girls aged 8-16 were enrolled in school [14].

Poverty and morbidity and mortality are linked. The poor have particular difficulties in accessing health care because they do not have the most basic income for transport, food and basic clothing [15].

- 54 of every 1000 rural African infants dies before age 1; compared with 39 urban African infants and 11 White infants [6] (see Table 1).
- Child (under 5) mortality in the poorest province, Eastern Cape, is 81 per 1000, compared with 13 in the Western Cape [6].
- Health expenditure is 7% of GNP, but less than half of this is public spending [17].
- Less than one-fifth of South Africans belong to medical aid schemes, yet the private health care system employs 85% of pharmacists and 60% of medical specialists [7].
- There are health spending and service-level inequities between rural and urban areas. For example, in 1998 public health spending in the Grahamstown district is four times the level of the Mount Frere district [7].
- TB testing is available at 88% of urban clinics, but only at 59% of rural ones [7].
- Pap smears are only available at 29% of rural clinics, compared with 72% of urban clinics [7].
- In 2000, 25% of women attending antenatal clinics were HIV-positive. However, in KwaZulu-Natal 36% were infected, compared with less than 10% in the Western Cape [8].

South Africa has one of the highest per capita HIV prevalence and infection rates in the world with an HIV prevalence rate for adults of about 25 per cent in 2001. The comparative figure for the whole population was about 13 per cent. The percentage of adult deaths that could be attributed to AIDS-related diseases increased from about 9 per cent in 1995/1996 to about 40 per cent by 2000/2001. HIV/AIDS is impacting negatively on human capital realisation, skills availability and skills shortages in South Africa. HIV/AIDS will also have dire consequences for household income and household expenditure patterns [16].

**Children** are disproportionately represented among the poor.

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<sup>8</sup> The incidence of poverty among those with some tertiary education is largely accounted for by young adults that are still studying and thus not yet reaping the financial rewards of their education.

- Almost 10 million (or 58% of) children are poor (using a relative poverty line which defines the poorest 40% of households as poor).
- Three-quarters of children (more than 2 million) in the Eastern Cape are poor.
- Around 30% of children in Eastern Cape, Limpopo and Free State are will not grow to their full potential (Health Systems Trust, 1998).
- The number of children orphaned by AIDS in South Africa may reach 1 million children by 2004. [1]<sup>9</sup>.

The **disabled** population are also disproportionately poor.

- The 1999 OHS suggests that while less than 2% of individuals living in households with monthly incomes above R10 000 are categorised as disabled, the disability rate was more than twice as high for individuals living in households with monthly incomes below R800 per month (in 1999 terms).

Not surprisingly, poverty and **unemployment** are closely linked. Table 2 shows that the unemployment rate among those from poor households is 52%, in comparison with an overall national rate of 29%. In addition, labour force participation is lower in poor than non-poor households. More than half of the working-age poor (or about 5 million adults) are outside of the labour market. As a result, the percentage of working age individuals from households below the poverty line that are actually working is significantly lower than average. Only 24% of poor adults (about 2 million people) are employed, compared with 49% (or 8 million) from non-poor households.

Figure 3 shows the differences between the **sources of income** for poor and non-poor households<sup>10</sup> (where "poor" means below the higher poverty line defined above). It is clear that the poor are far more dependent on remittances and state transfers than the non-poor. What cannot immediately be seen from the graph is that poor households typically rely on multiple sources of income. This reduces risk, as the household is less vulnerable if it should experience a sudden loss of income from a particular source. Figure 3 again highlights the importance of wage income. Poor households are characterised by a lack of wage income, either as a result of unemployment or of low-paid jobs. The cost of unemployment goes further than loss of income and even feelings of personal worth. South Africa's failure to socialise many young men, which is evident in the high rates of crime, alcohol abuse and family violence creates a vicious cycle of family breakdown [15].

### **Where are the poor?**

According to the 1995 OHS/IES:

<sup>9</sup> A cumulative number of 1.1 million children will likely be orphaned by AIDS within the next five years, but since approximately one-third of infants born to HIV-positive mothers are infected, without treatment, some infants who are destined to be orphans will also be diagnosed with AIDS themselves.

<sup>10</sup> Capital income refers to income from sources such as dividends, interest and imputed rent. Imputed rent is the price attached to the benefit of owning the dwelling in which the household resides. The household is, in effect, renting the dwelling from itself.

- The poor are concentrated in the former **homelands** – Bophutatswana (north-West), Ciskei & Transkei (Eastern Cape), KwaZulu (KZN), Lebowa & Venda (Limpopo Province), the peri-urban areas and the townships.
- 74% of the poor live in **rural areas**, 15% live in small towns, 4% live in the secondary cities (e.g. Pietermaritzburg) and 7% live in the major metropolitan centres (namely Durban, Cape Town, Port Elizabeth and Pretoria / Johannesburg).
- 62% of the rural population are poor, compared with 32% of those in small towns, 25% in the secondary cities and 13% in metropolitan areas.

According to OHS 99:

- the **Eastern Cape** and **Limpopo** are the poorest provinces.
- The Western Cape and Gauteng have the lowest rates of poverty.

According to the 1996 Census:

- the poorest magisterial districts in the country are both in the Eastern Cape, namely Elliotdale and Willowvale [12].

### **Inequality in South Africa**

Because surveys across different countries are not directly comparable, it is not possible to say with certainty which country is the most unequal. But, it cannot be disputed that South Africa is one of the most unequal societies in the world<sup>11</sup>, with measured income inequality levels similar to Brazil. Based on the 1995 IES data, the Gini coefficient on household income (before taxes) was 0,60.

One way to express the degree of inequality in a country is to examine the expenditure shares of households by decile. (Households are ranked on adult equivalent expenditure and then divided into 10 groups with equal numbers of households in each.) Figure 4 shows that the poorest 40% (bottom 4 deciles) of households are responsible for less than 10% of total expenditure, while the richest 10% of households consume 45% of total spending.

The Theil-T index allows one to decompose inequality into within-group and between-group components. Using the Theil-T measure to decompose inequality by race, 40% of inequality is found to be due to between-race inequality,<sup>12</sup> 33% is due to intra-African inequality and 21% is due to intra-White inequality.

### **Why is there poverty and inequality in South Africa?**

Past policies of segregation and discrimination have left a legacy of inequality and poverty and, in more recent decades, low economic growth. The apartheid system was heavily biased towards providing health, education and housing services to the white minority, to the detriment of the black population who were denied the opportunity to accumulate human and physical capital. Labour market policies were aimed at protecting

<sup>11</sup> The Taylor Commission report that South Africa is the 5<sup>th</sup> most unequal country in the world.

<sup>12</sup> By way of comparison, in Malaysia – a country which also has a history of racially-based inequality – the between-race component was only 13% in 1983.

the position of white workers through active policies such as job reservation, while inferior education, influx control and the Group Areas Act ensured little competition from other race groups. Apartheid also unequally distributed resources (including land, mining rights and access to capital) thereby marginalizing a large sector of the population to menial and poorly paid sectors of the labour market, if granting access at all.

The massive investment in state education for white schoolchildren in the 1950s and 1960s resulted in white workers securing the skills that enabled them, in the 1970s and 1980s to command high incomes without the need for policies such as job reservation [15]. Restrictive past economic practices thus prevented much of the population from vertical mobility within the labour market, leading to a skewed income distribution which was in turn reinforced by an unequal distribution of skills and training.

### **Conclusion**

This short document has stressed the dominance of race, gender and location as deep markers of poverty and inequality. Past policies of segregation and discrimination have left a legacy of inequality and poverty and, in more recent decades, low economic growth. The historical overview of the labour market makes it clear that the high levels poverty and inequality that persist in South Africa have been aggravated by a variety of government interventions. The chief challenge of the democratic government is to attempt to undo the harm of decades of racially based policies, specifically those that impact on the labour market, either directly or indirectly.

The profiles presented here provide clear indications of the mechanisms through which policy will need to work. Household wage income is seen to be the major determinant of inequality and poverty. Many South African households have no access at all to wage income and there is wide divergence in the wages of those that are employed. Thus policy needs to be directed both at increasing the number of jobs, but also at increasing the quality of employment and earnings for those households that find themselves at the bottom of the household wage distribution.





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Appendix 1

Figure 1a: Provincial poverty rates

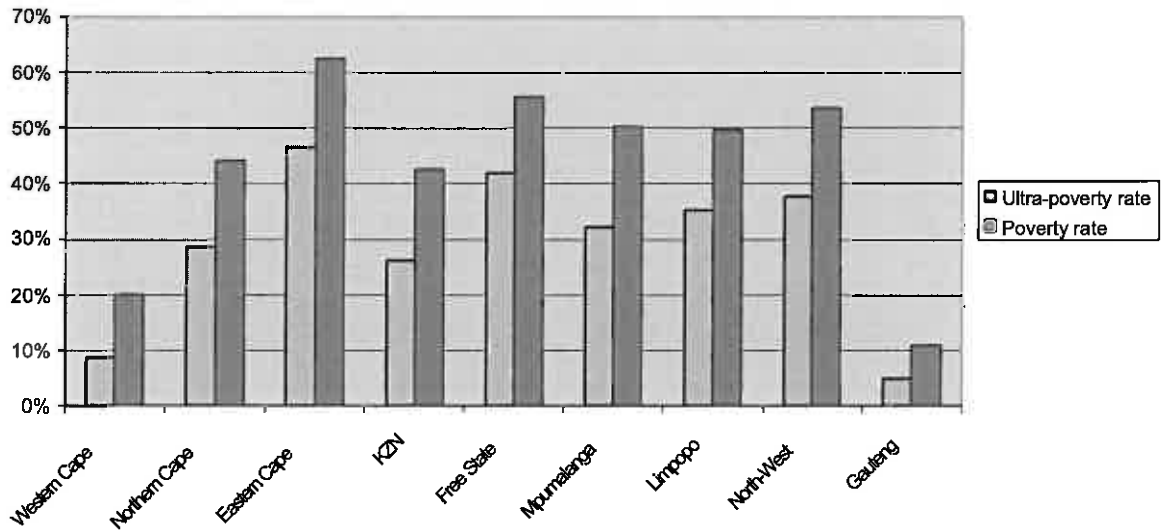
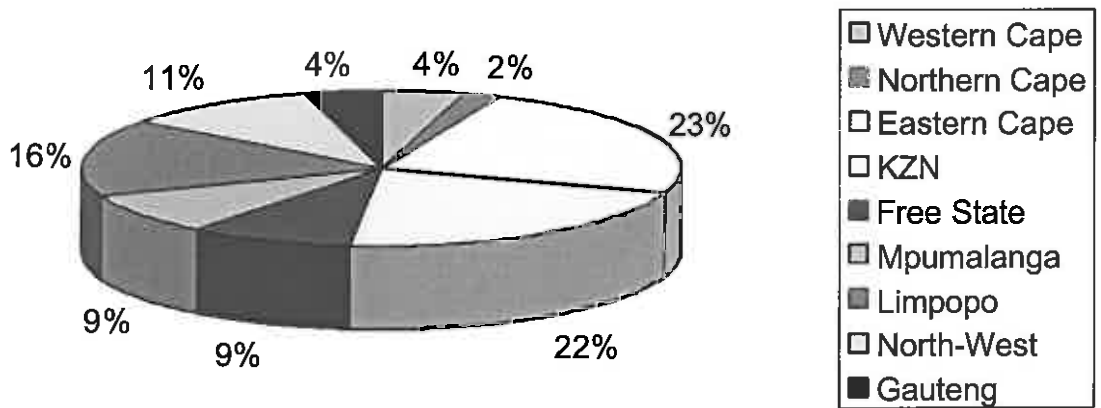
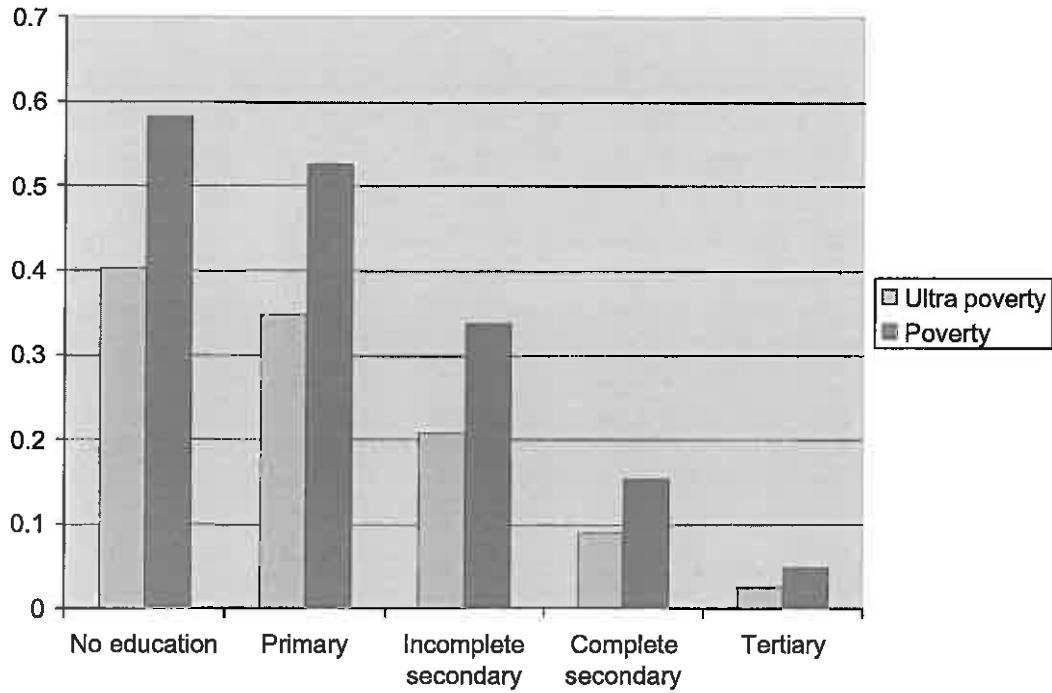


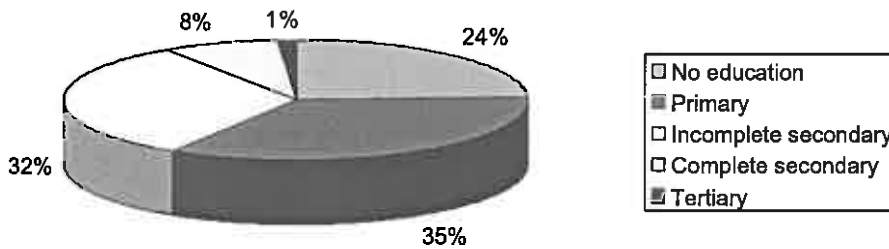
Figure 1b: Provincial poverty shares



**Figure 2a Poverty rates by average educational attainment of adult household members**



**Fig 2b Poverty shares by average educational attainment of adult household members**



**Table 1: Infant and child mortality rates**

Background characteristic	Neonatal Mortality	Post-neonatal Mortality	Infant Mortality	Child Mortality	Under-5 Mortality
<b>Residence</b>					
Urban	16.4	16.2	32.6	11.0	43.2
Non-urban	22.0	30.1	52.2	20.1	71.2
<b>Province</b>					
Western Cape	4.0	4.4	8.4	4.8	13.2
Eastern Cape	24.7	36.5	61.2	20.5	80.5
Northern Cape	20.5	21.3	41.8	14.3	55.5
Free State	9.9	26.9	36.8	13.7	50.0
KwaZulu Natal	23.2	28.9	52.1	23.6	74.5
North West	20.0	16.8	36.8	8.8	45.3
Gauteng	17.8	18.5	36.3	9.3	45.3
Mpumalanga	23.6	23.6	47.3	17.3	63.7
Northern	18.3	18.9	37.2	15.7	52.3
<b>Education</b>					
No education	19.7	39.1	58.8	26.5	83.8
Sub A - Std 3	25.1	28.6	53.7	26.4	78.7
Std 4 - Std 5	19.3	22.3	41.5	14.5	55.4
Std 6 - Std 9	16.5	22.9	39.3	13.8	52.6
Std 10	18.2	12.0	30.2	3.2	33.3
Higher	21.9	7.3	29.3	0.0	29.3
<b>Population Group</b>					
African	20.6	26.5	47.0	17.4	63.6
Afr. urban	18.3	20.4	38.7	12.7	50.9
Afr. non-urban	22.3	31.3	53.6	21.2	73.7
Coloured	9.6	9.2	18.8	9.6	28.2
White	(11.4)	(0.0)	(11.4)	(3.9)	(15.3)
Asian	*	*	*	*	*
<b>Sex of child</b>					
Male	23.7	25.4	49.0	17.7	65.9
Female	14.6	20.7	35.3	13.0	47.9
<b>Mother's Age at Birth</b>					
Less than 20	20.3	22.3	42.5	19.2	60.9
20-29	19.3	20.9	40.2	14.9	54.5
30-39	18.4	24.1	42.5	13.3	55.2
40-49	(18.2)	(56.3)	(74.5)	(30.2)	(102.5)

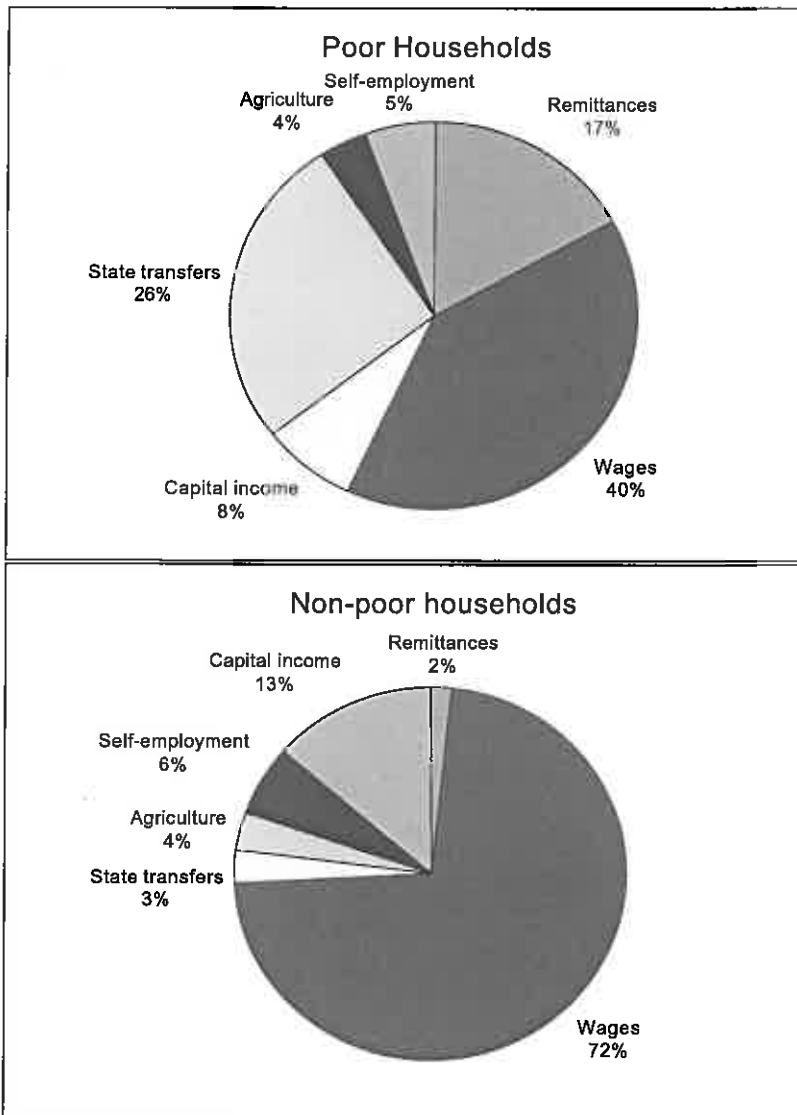
*Source: 1998 SA Demographic & Health Survey Preliminary Report, 1999.*

Note: Figures in parentheses are based on 250-500 cases, while an asterisk denotes a figure based on fewer than 250 cases that has been suppressed.

**Table 2: Unemployment, by race, gender and location (%)**

<b>Unemployment Rates</b>	<b>Ultra-poor</b>	<b>Poor</b>	<b>Non-poor</b>	<b>All</b>
<b>(Broad) unemployment rates by:</b>				
<b>Race</b>				
African	59.4	52.7	24.5	36.9
Coloured	46.1	36.7	17.0	21.8
Indian		67.5	12.8	13.7
White		75.0	4.5	4.7
<b>Gender</b>				
Female	65.9	59.1	25.3	37.4
Male	51.6	44.0	12.9	22.4
<b>Location</b>				
Rural	56.3	48.8	22.4	36.7
Urban	65.7	57.5	16.8	24.0
<b>Total broad unemployment rate</b>	<b>58.7</b>	<b>51.5</b>	<b>18.4</b>	<b>29.3</b>
<b>Total narrow unemployment rate</b>	<b>34.9</b>	<b>30.6</b>	<b>11.0</b>	<b>16.4</b>
Labour force participation rate	43.4	45.8	61.6	55.3
Share of adults 16-64 working	17.7	21.9	48.3	37.9

**Figure 3: Sources of income among poor and non-poor households.**



*Source: own calculations on 1995 IES, Statistics South Africa.*

Figure 4

