Poverty & Inequality Reduction Strategies for South Africa

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1 Introduction

The South African government is committed to reducing poverty and inequality. This will require policy-makers to pay particular attention to the following three areas:

- **Accelerating economic growth**. There is strong cross-country evidence that economic growth benefits the poor, although the impact on inequality is less clear.
- **Improving the distribution of income and wealth**. South Africa has one of the most unequal distributions of income in the world. High inequality tends to be accompanied by political and social instability, high crimes levels and general discontent.
- **Accelerating social development**. Targeted interventions have a place alongside the creation of an enabling environment for increased growth. There is strong international evidence that poverty and inequality reduction is strongly enhanced by social development programmes. These would include, for example, programmes for improved education (especially of girls), enhanced access to water and sanitation and child immunization.

This short paper looks at the extent of poverty and inequality in South Africa before turning to a discussion of poverty and inequality reduction programmes.

2 Poverty in South Africa

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[1];
- 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].

2.1 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[2], particularly Africans. According to the 1999 October Household Survey:

- 52% of Africans are poor[3].
- 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.[4]

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[1] 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.

[2] The term "black" refers to Africans, Coloureds and Asians.

[3] By poor we mean that household income is less than R800 per month (1999 Rands).

[4] 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.

- 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.[5]

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;
- 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.[6]

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 repetition 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].

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[5] The figure for access of the non-poor to safe water is up dramatically from the 1995 figure of only 28%.

[6] 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.

- 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.

- 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][7].

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

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[7] 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.

million people) are employed, compared with 49% (or 8 million) from non-poor households.

2.2 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[8], 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,[9] 33% is due to intra-African inequality and 21% is due to intra-White inequality.

2.3 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 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.

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[8] The Taylor Commission report that South Africa is the 5th most unequal country in the world.

[9] 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.

3 Productive sector programmes

3.1 Macroeconomic policy supporting

There is now strong evidence that economic growth is "good for the poor". Without rising real output per capita there can be little progress in poverty reduction. Rebuilding and strengthening the economy is thus one of the key requirements for sustained poverty alleviation.

There is evidence that low and stable **inflation** helps to protect the poor against the erosion of their incomes. However, very low inflation rates may accompany economic contraction. These costs need to be considered alongside the benefits of low inflation. GEAR proposes maintaining single digit inflation, which in turn requires a fairly restrictive monetary and fiscal stance. It remains an open question whether attempting to push inflation so low produces substantial marginal benefits.

In order for a country to grow, it requires **savings** to support investment. To this end, the National Government is reducing government dissaving by running a lower and lower budget deficit each year. But again, this needs to be considered alongside the need for government to spend on poverty alleviation programmes. There are opposing viewpoints as to whether increased government spending (by running a higher deficit) "crowds out" or "crowds in" private investment. For example, those that argue for the "crowding in" of private investment suggest that expenditures on infrastructure and education are likely to increase the amount and profitability of private investment opportunities and lead to an increase in private savings and investment. On the other hand, the "crowding out" proponents believe that increasing government investments financed by larger deficits are offset by reduced private investment, because people realise that they will have to pay for the public sector deficits eventually. Under these circumstances, a higher government deficit to finance greater public investment will result in an offsetting decrease in private investment and no change in private savings behaviour. Available cross-country evidence suggests that crowding out" is a stronger effect than "crowding in" but there may be special categories of public investment with significant "crowding in".

The thrust of current **monetary policy** is to phase out exchange controls (gradually), to maintain low inflation rates and to ensure that the real exchange rate is at a competitive level (to stimulate exports). All these factors are aimed at creating a positive environment for private sector investment. These objectives have the potential to contribute positively towards reducing poverty and inequality, especially if the firms that take advantage of the export markets produce more labour-intensive products.

Trade and industrial strategies are needed to help South African industry become internationally competitive. But, these policies need to be carefully planned to ensure that the structure of production is consistent with the country's resource endowment and can benefit the poor in the long-run. This requires an approach that encourages the use of labour-intensive technologies as well as taking the appropriate precautions to deal with the negative shocks to the poor that may result from globalisation.

3.2 Access to productive assets

Macroeconomic stability is essential for high and sustained rates of economic growth. Hence **macroeconomic stability** should be a key element of any poverty reduction strategy. However, macroeconomic stability by itself is not sufficient for high rates of

growth. For maximum effect, growth needs to be accompanied by a reduction in inequality. The poor require enhanced access to land, capital, technology and infrastructure if they are to compete on an equal footing with the non-poor. For this to happen, there need to be policies aimed at improving the distribution of income and assets within society, such as land reform, pro-poor public expenditure and measures ot improve the poor's access to financial markets.

Infrastructure services such as communications, power, transport, water and sanitation are central to both the activities of the household and a nation's economic production. In particular, the absence of sanitation facilities and potable water directly impacts upon the health of people and on their ability to generate livelihoods. Enormous strides have been made in both these areas since 1994, but there are still millions of people without safe water and adequate sanitation.

Since 1994, more than a million houses (giving shelter to 6 million people) have been built under the National Housing Programme. 90% of these have been on the basis of full subsidies to households with monthly incomes of less than R1500. The backlog remains huge, however, and this programme needs to proceed with renewed vigour.

3.3 Access to employment opportunities

The first democratically elected government of 1994 inherited a serious and worsening unemployment problem. As discussed in Section 2.1, only one-quarter of poor adults in South Africa have jobs. It is imperative that the government actively seek to stimulate job creation and to improve the quality of employment.

The job market is affected by various economic policies. Macroeconomic and sectoral policies have indirect effects, while certain specific policies and programmes have direct effects on the structure and operations of the job market. The main macroeconomic policy measures (fiscal, monetary and the exchange rate) have been analysed above. The key message is that a favourable macroeconomic environment often leads to an expansion of economic activity in the tradeable goods sectors. These sectors are generally labour-intensive, which favours job creation.

The poor have more difficulty creating their own jobs. They generally do not have any assets and thus lack sufficient collateral to access bank credit. The South African Government is committed to assisting in the development of viable, sustainable **SMMEs**. Ntsika Enterprise Promotion Agency and Khula Enterprise Finance provide financial as well as non-financial support for SMMEs. In addition, public procurement policy treats SMMEs preferentially.

4 Social programmes

The objectives of social policies are to make basic social services more accessible to poor households, to ensure that these services remain uninterrupted and to increase the number of such services as well as their quality. Since there are many sorts of social policies, the discussion here is limited to those that have the greatest direct impact on poverty. These are:

- Social safety nets
- Health care policies
- Education policies.

4.1 Social safety nets

Safety nets are programmes that protect a person or household against the adverse outcomes of chronic incapacity to work (chronic poverty); and a decline in this capacity from a marginal situation that provides minimal means of survival with few reserves (transient poverty). The term "safety nets" encompasses various transfer programmes designed to play both a redistributive and risk reduction role in poverty alleviation. The redistributive role is intended to reduce the impact of poverty and the risk reduction role is intended to protect individuals, households, and communities against uninsured income and consumption risks.

Although safety net programmes need to be devised to address both redistributive and risk reduction roles, country specific conditions dictate whether safety nets play primarily a redistributive or primarily a risk reduction role. Risks can be household-specific (for example death in a family, unemployment of the wage earner), community- or regionally based (e.g., drought, famine, epidemics) or nationwide (e.g., drought, global financial risks, shifts in terms of trade, etc.). The poor may be more vulnerable than the non-poor to these risks. Therefore, it is important to design programmes to address the particular need and characteristics of various categories of the poor. The role of safety nets is particularly critical during economic downturns or systemic shocks.

There is a broad range of mechanisms (or public safety nets) for protecting individuals from acute deprivation or inadvertent declines in income. These can include, among others:

- food subsidies
- feeding programmes
- public works and other employment programmes
- credit-based self-employment programmes
- social funds and related interventions
- and child allowances.

In addition to public safety nets, most societies have informal community-based arrangements (private safety nets) that help mitigate against deprivation and temporary income shortfalls. In South Africa, for example, it is common for urban workers to remit part of their income to impoverished relatives in rural areas.

The RDP policy framework of 1994 specifically stated that there should be "a co-ordinated national public works programme to provide much needed infrastructure, to repair environmental damage, and to link back into, expand and contribute to the restructuring of the industrial and agricultural base" [11].

I want to focus here on two specific public works programmes, namely Working for Water and the LandCare Programme. These two programmes pay participants a wage in exchange for providing labour for the achievement of conservation tasks. In addition, these programmes pay attention to related activities such as training and skills transfer and the creation of secondary industries.

These programmes are relatively small. At the end of last financial year there were about 23 000 people working on the Working for Water project and about 7000 under the LandCare programme. To put these figures in perspective – this represents about

1% of the rural unemployed. (Community-based Public Works contributed another 19 000 jobs, taking this to about 1.4% of the unemployed.)

The participation of a community in one of these programmes causes a shock to households' livelihood strategies. This shock can be either positive or negative, depending on the response of the individual household. The participation of a large fraction of a community's members in the programmes as wage earners has meant a large inflow of cash into the chosen communities. This has allowed some participants to pay off debts, eat better, seek medical attention, repair houses and invest in livestock and agricultural needs. There is evidence, however, that some participants instead ceased agricultural activity altogether (since they now had paid employment) and others used their meagre wages to leverage even greater hire-purchase debt.

4.2 Health care policies

Poverty is both a consequence and a cause of ill health. Health is thus seen as one of the key ultimate goals of development. Health-care policies are designed to make health care more accessible and to bring about improvements in its quality. Increasingly, these policies are being aimed at **preventative**, rather than curative, medicine. For example, there is increased emphasis on immunization coverage around the World.

Governments can do a lot to improve the health of their populations. Governments must make health care **accessible** to all. For this to happen, there must be an equitable division of health care facilities and people must be able to utilise facilities, regardless of their financial situation. There are a variety of ways in which Government can reduce the price of health care to the poor, for example: health insurance, fee-waivers and targeted food subsidies.

4.3 Education policies

Inadequate education is one of the most powerful determinants of poverty and unequal access to education is a strong correlate of inequality. There is strong cross-country evidence that **basic education** plays a catalytic role in reducing deprivation and vulnerability. Education lifts earnings potential, explands labour mobility, promotes the health of parents and children, reduces fertility and child mortality and affords the disadvantaged a voice in civil society and the democratic system.

Education investments are critical for a country's sustained economic growth. Education directly enhances the productivity of the workforce and can promote better natural resource management and technological adaptation. Education is fundamental for creating a competitive, knowledge-based economy. These impacts are strongest where education is integrated into a broader competitiveness strategy of macroeconomic stability, trade openness and adequate infrastructural investments.

Early childhood development (ECD) has been shown to significantly enhance the performance of learners once they enrol in school. For example, a 1996 evaluation of Free State ECD programmes revealed significant differences in performance in Grade 1 of children who had attended ECD and those that had not. Additionally, the provision of ECD facilities frees up their caregivers (usually women) to engage in their own income-generating activities.

Investment in the **education of girl children** is especially important. Research shows that girls' education fosters higher rates of female labour market participation and

productivity. It also directly impacts on the welfare of families – with even a few years of education, women are more likely to plan there families and to seek antenatal and post-natal care which lowers maternal and infant mortality. Educated women tend to provide children with better nutrition and more often take them to be immunized. Educated women are also more likely to send their own children to school and to keep them there longer.

Adult literacy programmes are also important. These programmes empower people and give them greater confidence to interact with civil society and the state. Adult basic education programmes have been shown to have positive effects on labour productivity, family health and the educational attainment of participants' children.

5 Institutions

Effective governance of poverty and inequality is dependant on institutions responsive to the needs of the poor. State institutions, in particular, must be oriented towards the poor at all phases of policy design and delivery. But other institutions, such as a culture of human rights, the rule of law, gender equality and open electoral procedures are also important. Apartheid policies affected all of these institutions, resulting in an institutional framework that favoured whites, men, urban-dwellers and established industrial interests.

Poverty and inequality reduction can only be achieved through the efficient functioning an cooperation of NGOs and government departments. In particular, the administrative capacity of government departments at all levels needs to be enhanced so that the poor are able to access benefits to which they are entitled. While the current government have paid meticulous attention to the design of excellent policies, these have not always been matched by improved service delivery and effective monitoring and evaluation systems.

6 Conclusion

In conclusion, I'd like to emphasise the need for monitoring poverty and inequality reduction. In the current context of liberalization, globalization and an economic change affected by internal and external shocks, it becomes essential to monitor the extent and nature of poverty. Economic and social change leave some people by the wayside and make certain social groups vulnerable, at least in the short-term.

In order to know where, when and how to direct efforts to reduce poverty and inequality, one needs up-to-date information which can answer the following questions: Which are the poor households? Which are the vulnerable groups? What are the characteristics of poor and vulnerable households? What are the processes that aggravate their vulnerability? What are the countermeasures that can be taken?

Lastly, then, the challenge is to take this information and use it wisely to devise policies that will bring about radical and sustainable social change.

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7.1 Appendix

7.2 Figures and Tables

Figure 1a: Provincial poverty rates

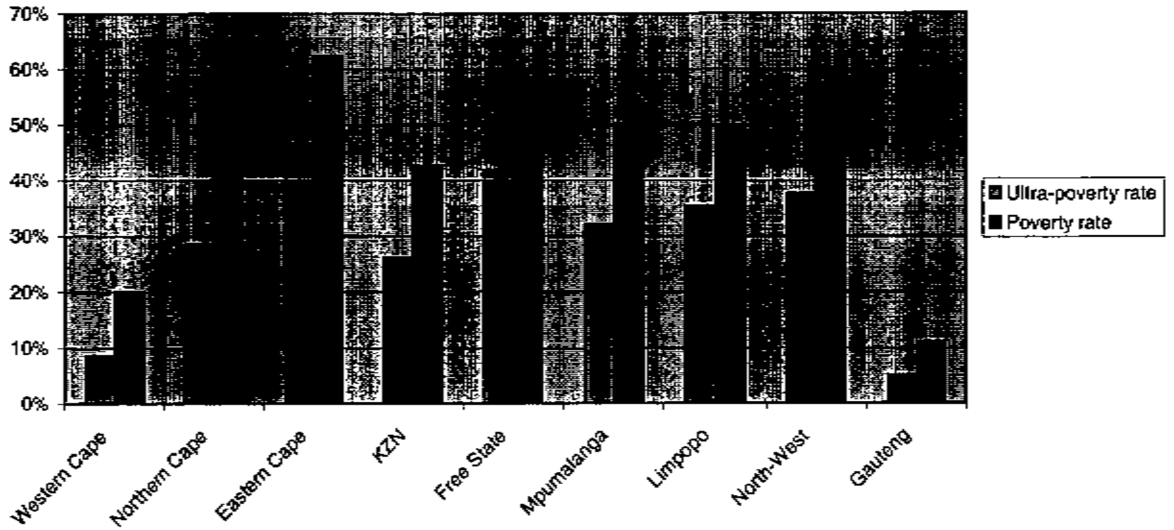


Figure 1b: Provincial poverty shares

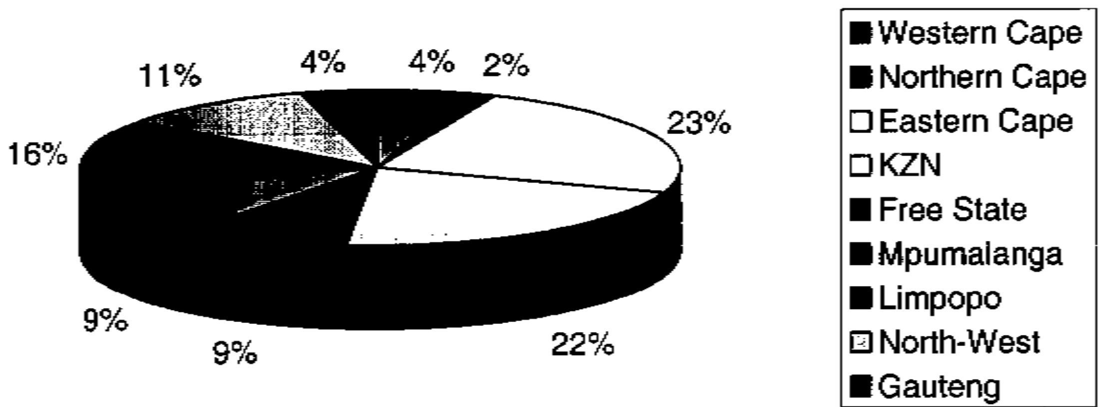


Figure 2a Poverty rates by average educational attainment of adult household members

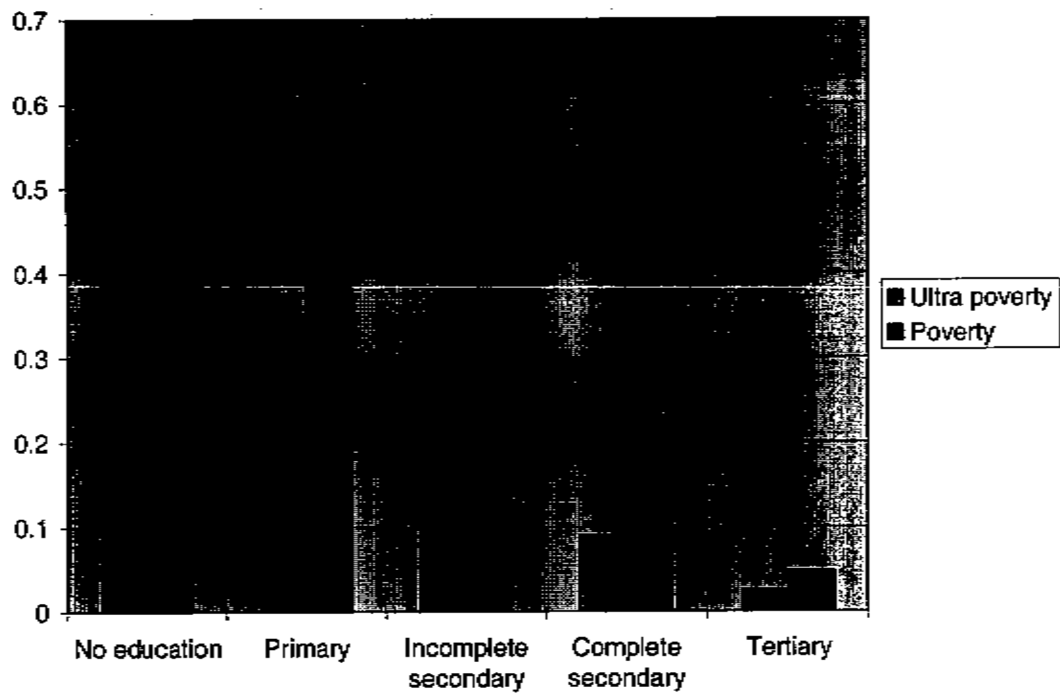


Fig 2b Poverty shares by average educational attainment of adult household members

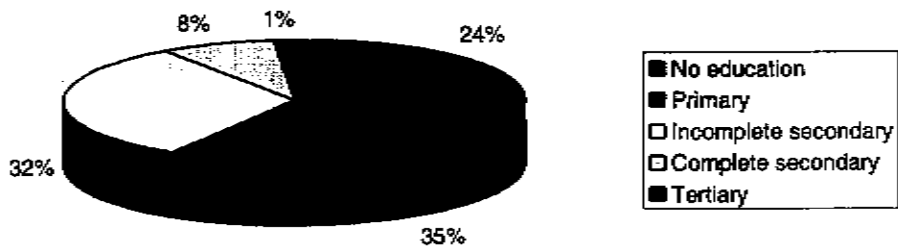


Table 1: Infant and child mortality rates

Background characteristic	Neonatal Mortality	Post-neonatal Mortality	Infant Mortality	Child Mortality	Under-5 Mortality
Residence					
Urban	16.4	16.2	32.6	11.0	43.2
Non-urban	22.0	30.1	52.2	20.1	71.2
Province					
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
Education					
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
Population Group					
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	*	*	*	*	*
Sex of child					
Male	23.7	25.4	49.0	17.7	65.9
Female	14.6	20.7	35.3	13.0	47.9
Mother's Age at Birth					
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)

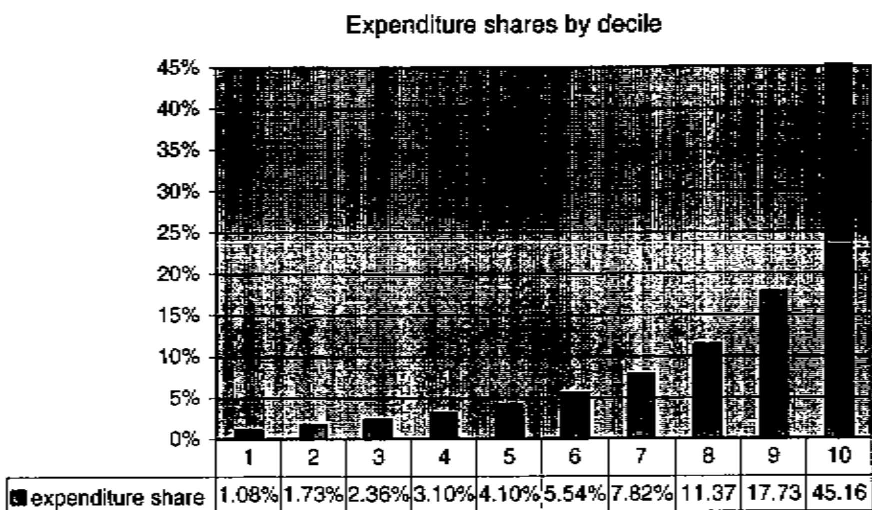
Source: *1998 SA Demographic & Health Survey Preliminary Report, 1999.*

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 (%)

Unemployment Rates	**Ultra-poor**	**Poor**	**Non-poor**	**All**
(Broad) unemployment rates by:				
Race				
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
Gender				
Female	65.9	59.1	25.3	37.4
Male	51.6	44.0	12.9	22.4
Location				
Rural	56.3	48.8	22.4	36.7
Urban	65.7	57.5	16.8	24.0
Total broad unemployment rate	58.7	51.5	18.4	29.3
Total narrow unemployment rate	34.9	30.6	11.0	16.4
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 4



	1	2	3	4	5	6	7	8	9	10
expenditure share	1.08%	1.73%	2.36%	3.10%	4.10%	5.54%	7.82%	11.37	17.73	45.16