

# Poverty and Inequality in South Africa Sharing the Cake

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## **Abstract**

This chapter argues that fighting poverty in South Africa would benefit from an approach that takes into consideration the complex linkages between inequality and poverty and integrates both distributional and poverty reduction goals. Income and Expenditure Surveys are used to illustrate changes in poverty and inequality in the country between 2006 and 2011 and to demonstrate that poverty and inequality reduction do not always go hand-in-hand. While South Africa is shown to have made notable progress in terms of aggregate poverty reduction, with sharper declines recorded in rural areas, this has not been accompanied by an equally substantial reduction in inequality. In fact, reducing inequality has proven to be ‘sticky’, increasing in some areas where the greatest inroads into poverty reduction were made thus dampening the otherwise steady progress in poverty reduction in those areas. Rural areas, in particular, experienced a rise in inequality despite a sharper fall in poverty levels compared to urban areas. South Africa needs to pursue policies that target a simultaneous reduction in poverty and inequality.

# 1 Introduction

Reducing poverty and inequality has been at the core of development policy in South Africa since the advent of democracy. It was the cornerstone of the Reconstruction and Development Program (RDP) which guided the government's policy framework in 1994 and is the driver of the National Development Plan of 2012 which seeks to eliminate poverty and reduce inequality. The government has continuously strengthened the country's policy frameworks and institutions to support economic growth as a broad measure on which all initiatives and policies to reduce poverty and inequality are anchored.

Economic growth prospects have, however, been variable. The country experienced rising economic growth from 1994, reaching a peak of 5.6 percent in 2006 as a result of a booming world economy and prudent macroeconomic policies. Such growth began to taper off when structural constraints and bottlenecks dampened growth; it came to a head when the global financial crisis hit in 2009, plunging the economy into its first recession in 17 years. Even though growth rose to 3.6 percent in 2011, persistent structural weaknesses together with new vulnerabilities such as those observed in the mining sector over the past two years, compromised the economy's ability to sustain recovery, so that the growth reading in 2013 was a paltry 1.9 percent and is only projected to grow by 1.7 percent in 2014. There are substantial inequalities in terms of economic growth prospects and performance across provinces. Gauteng is the largest province with respect to contribution to economic growth, followed by the Western Cape, then KwaZulu-Natal. These three provinces are responsible for an estimated 60 percent of economic activity in the country.

The economic gains made since the end of apartheid have enabled the government to use a variety of mechanisms through which it aims to reduce poverty and inequality. This is reflected in fiscal policy, such as through social transfers, public works programmes and equitable sharing of revenue. Overall, poverty and inequality reduction measures are reflected in what is broadly termed the social wage which basically refers to the redistributive elements of the government budget. The social wage seeks to increase access to basic services by previously marginalized communities through social spending on provision of free basic services (mainly water, sanitation, electricity, and refuse removal), and social protection mainly in the form of social grants, primary health care, education (specifically no-fee paying schools), enhancing access to productive assets by the poor (e.g. housing and land) as well as job creation through the Expanded Public Works Program (EPWP). The social wage is responsible for an estimated 60 percent of government spending, and it is the accurate targeting that has contributed to the observed reduction in poverty over time. In 2014, an estimated 16 million people will have social assistance contributing to their monthly incomes (National Treasury, 2014).

The growth of social assistance is government's way of "sharing the cake" i.e., measures taken by the government to address income and opportunity distributive ills borne out of segregative policies of the previous regime. These measures have been argued to be drivers of the observed reduction in poverty in South Africa, with the latest statistics showing that poverty headcount reduced significantly between 2006 and 2011. However, questions of socio-economic empowerment of the poor need to be carefully considered in order to avoid the creation of a permanent dependency culture as well as a perpetuation of inequalities among South Africans.

Interestingly, the reduction in poverty occurred against the backdrop of sluggish economic growth and an unwaveringly high inequality gap. This points to the need to better understand the empirical relationship between growth, poverty and inequality in South Africa. In particular, high inequality could have slowed poverty reduction during this period. As the pro-poor growth framework argues, while sustained economic growth is fundamental to poverty reduction (Dollar and Kraay, 2002), poverty reduction has been empirically shown to be fastest in situations where income growth is accompanied by falling inequality (Bourguignon, 2004; Son and Kakwani 2006). Ravallion (2007) shows that economic growth does not lead to higher incomes of the poor in countries with high inequality.

Accordingly, this chapter argues that in terms of policy, South Africa needs to pursue policies that target the reduction in poverty and the reduction in inequality simultaneously. The underlying explanation for observed poverty reduction is sought in the mix of policies and government interventions that, on the one hand, target economic growth and those that target redistribution on the other hand. In pursuing the explanation, link is drawn to the possibility of persistently high inequality being at the root of slow economic growth and slow poverty reduction in South Africa. A link is also drawn to the possibility that the observed changes in poverty may be sub-optimal given the direct and indirect friction to poverty-reducing impacts of growth that are caused by inequality.

The rest of the chapter is organised as follows: Section 2 provides an overview of the state of poverty and inequality in South Africa, paying particular attention to changes between 2006 and 2011. This is followed by a synopsis of the interventions that have been implemented by government to fight poverty and inequality in Section 3. This section also provides a brief discussion on the sustainability of these interventions given a low growth environment the country is currently experiencing. Concluding remarks and recommendations are given in Section 4.

## **2 The state of poverty and inequality in South Africa**

### **2.1 Methodology**

Three national poverty lines calculated by Statistics South Africa (2014) were used to investigate poverty profiles at national and provincial levels as well as across specific population groups.<sup>1</sup> The *food poverty line*, which recognizes that all human beings have a basic minimum nutritional requirement, i.e. the daily recommended dietary requirement demarcated by age, gender, and occupation was set at R210 per month in 2005/06 using March 2006 prices; it was inflation-adjusted to R321 per month in 2010/11.

The *lower-bound poverty line* is based on households that sacrifice some of their basic food requirements in order to meet their non-food needs. Therefore the minimum amount set on non-food basic needs is added to the food line. It was R300 per month in March 2006 prices and inflation-adjusted to R443 per month in 2010/11.

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<sup>1</sup> There is currently no consensus on an official national poverty line in South Africa.

The *upper-bound poverty line* is based on households whose food expenditure is very close to the food line. For these households, in addition to the basic food requirements that are measured by the food poverty line, there are certain basic non-food items that they need. This line was R431 per month in March 2006 prices and inflation-adjusted to R620 per month in 2010/11. Although three poverty measures were used in the estimations and analysis, the ensuing discussion focuses on the *lower-bound poverty line* to facilitate the flow of the discussion.

The analysis used data from the Income and Expenditure Surveys (IES) for 2005/06 and 2010/11<sup>2</sup> to illustrate changes in poverty between the two time periods. The IES was chosen for the analysis over other surveys because, in addition to collecting detailed income and expenditure information, it is conducted at 5-year intervals, allowing comparison of outcomes over time.

The welfare indicator used in the analysis was per capita consumption expenditure. This is based on aggregate household consumption expenditure, which is the annual value of a household's total spending on goods and services acquired, including imputed values for own produced items. When computing poverty indicators, "lumpy, durable goods" were excluded to reduce their biasing factor in the monthly estimates. These were then restored in the aggregate consumption measure when computing the inequality indicators.<sup>3</sup>

## **2.2 Changes in poverty between 2006 and 2011**

### ***South Africa made substantial progress in reducing headline national poverty, with rural areas experiencing faster poverty reduction than urban areas***

A notable decline in consumption poverty was observed between 2006 and 2011 (Figure 1). Although the changes are not proportional across different poverty lines, this is consistent across all three poverty measures. All measures indicate a decline of no less than 6 percentage points in the national poverty headcount ratio. The lower bound poverty line gives a 10 percentage point reduction from 42.2 percent in 2006 to 32.2 percent in 2011. In absolute terms and given an estimated population of about 50.6 million in 2011, the results suggest that close to 16.3 million were poor at the lower bound poverty line in that year. This implies that 3.9 million people escaped poverty at this poverty line since 2006<sup>4</sup>. Figure 1 shows that rural poverty decreased by 13.3 percentage points compared to a slower decline of 6.5 percentage points in urban poverty.<sup>5</sup>

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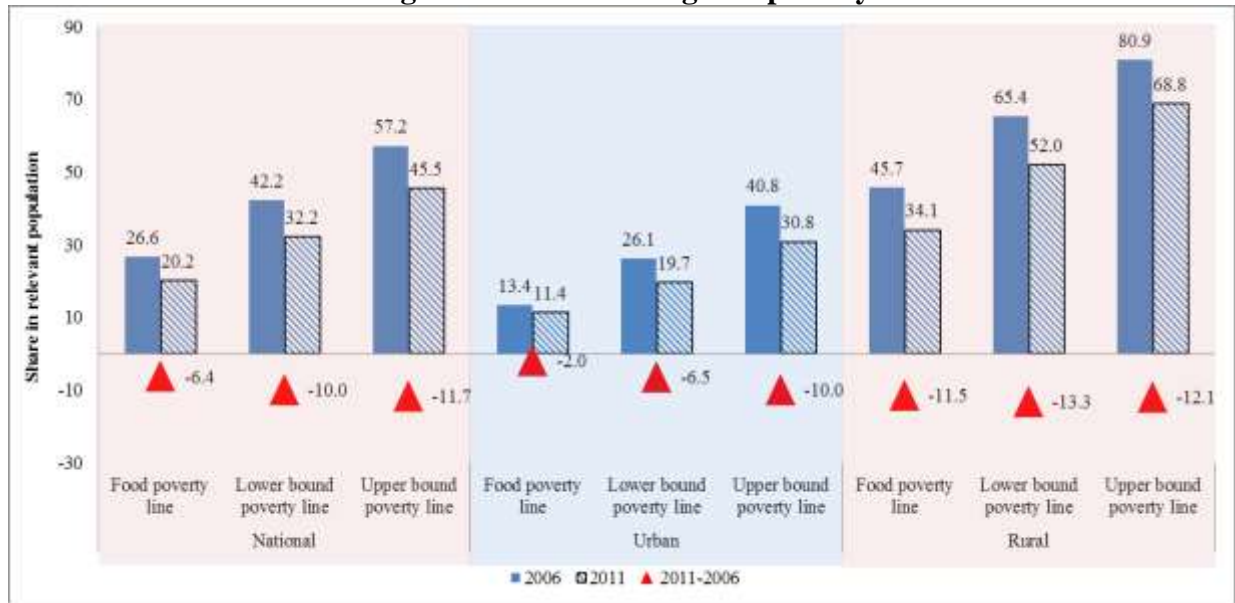
<sup>2</sup> Henceforth, 2006 will be used to refer to the 2005/06 survey year while 2011 will refer to the 2010/11 survey year.

<sup>3</sup> The analysis was carried out using ADePT Software, which uses an automated system to analyse data from micro-level surveys such as household and labour force surveys. It was developed by the World Bank.

<sup>4</sup> The estimated population in 2006 was 47.7 million.

<sup>5</sup> Consistent with this, real expenditure was found to have increased by 34.1 percent between 2006 and 2011. A sharper increase of 45.5 percent was observed in rural areas compared with an increase of 28.6 percent in urban areas.

**Figure 1: Overall changes in poverty**



Source: Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

The depth and severity of poverty also declined between 2006 and 2011. The poverty gap fell by 4.7 percentage points from 16.4 in 2006 to 11.7 in 2011 (Table 1). The poverty gap is computed by adding up all the differences between the poor's consumption expenditure and the poverty line (the shortfalls) and dividing the total by the population. This means that the cost of eliminating poverty by increasing consumption expenditure of the poor at least to the poverty line, declined in 2011 compared to the situation in 2006. The severity of poverty, which is measured using the squared poverty gap<sup>6</sup> and reflects the degree of inequality among the poor themselves reduced from 8.3 percent in 2006 to 5.8 percent in 2011, suggesting that inequality in the distribution of expenditures among the poor reduced during the period under review.

**Table 1: Changes in the depth and severity of poverty**

	Poverty Gap			Squared Poverty Gap		
	2006	2011	2011-2006	2006	2011	2011-2006
<b>Food poverty line</b>						
Urban	3.6	3.2	-0.4	1.5	1.3	-0.1
Rural	15.6	11.1	-4.5	7.3	5.0	-2.2
<b>Total</b>	<b>8.5</b>	<b>6.3</b>	<b>-2.3</b>	<b>3.8</b>	<b>2.8</b>	<b>-1.1</b>

<sup>6</sup> The squared poverty gap takes into account not only the poverty gap, but also the inequality among the poor by placing more weight on households that are further away from the poverty line. A transfer from a poor to a less poor person raises the squared poverty gap while a transfer from a poor to a poorer reduces it.

<b>Lower bound poverty line</b>						
Urban	8.5	6.5	-2.0	3.8	3.0	-0.8
Rural	27.8	20.0	-7.8	14.9	10.1	-4.8
<b>Total</b>	<b>16.4</b>	<b>11.7</b>	<b>-4.7</b>	<b>8.3</b>	<b>5.8</b>	<b>-2.6</b>
<b>Upper bound poverty line</b>						
Urban	16.2	11.9	-4.3	8.4	6.1	-2.2
Rural	42.0	31.8	-10.2	25.6	18.1	-7.5
<b>Total</b>	<b>26.8</b>	<b>19.6</b>	<b>-7.1</b>	<b>15.4</b>	<b>10.8</b>	<b>-4.7</b>

Source: Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

Figure 1 and Table 1 show that the decrease in the level, depth and severity of poverty between 2006 and 2011 was sharper in rural areas compared to urban areas. Despite more favourable progress in poverty reduction, rural areas remain the regions of highest poverty concentration. In 2006, 63.4 percent of the poor were in rural areas. This reduced marginally to 62.5 percent in 2011. The observed decline in rural poverty could also be due to rural-urban migration: the share of the rural population in total population fell by 2.3 percentage points from 40.9 percent in 2006 to 38.6 percent in 2011. This is in addition to real reduction in poverty levels nationally which was also experienced in urban areas.

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

All provinces experienced a reduction in poverty between 2006 and 2011. The province that recorded the highest reduction in poverty levels is the Northern Cape, falling by 17.9 percentage points. Though registering improvements between 2006 and 2011, the depth of poverty (measured using the poverty gap) in 2011 was highest in Limpopo followed by Eastern Cape and then KwaZulu-Natal. The three provinces also topped the list in terms of the degree of inequality among the poor (severity of poverty): the squared poverty gap measures are relatively high at 9.8 percent, 8.3 percent and 7.8 percent, respectively.

**Table 2: Changes in the levels, depth and severity of poverty, at provincial level**

	Poverty headcount			Poverty Gap			Squared Poverty Gap			Economic growth
	2006	2011	2011-2006	2006	2011	2011-2006	2006	2011	2011-2006	Average 2006-2011
Western Cape	22.3	14.7	-7.6	7.1	3.9	-3.1	3.2	1.6	-1.6	3.7
Eastern Cape	55.9	44.9	-10.9	21.3	16.7	-4.6	10.6	8.3	-2.3	3.2
Northern Cape	49.8	31.9	-17.9	19.4	10.7	-8.8	9.9	4.8	-5.1	1.9
Free State	36.3	28.5	-7.8	11.8	10.1	-1.7	5.2	4.7	-0.5	2.5
KwaZulu-Natal	54.7	41.7	-13.1	23.9	15.9	-8	13	7.8	-5.2	3.5
North West	44	37	-6.9	17.1	13.8	-3.3	8.7	6.8	-1.8	2.3
Gauteng	18	12.7	-5.3	5.1	4	-1.1	2.1	1.9	-0.2	3.8
Mpumalanga	50.8	36	-14.8	20.1	12.4	-7.7	10.4	5.8	-4.6	2.5
Limpopo	57.5	48.7	-8.8	23.8	19.2	-4.6	12.3	9.8	-2.5	2.5

<b>Total</b>	<b>42.2</b>	<b>32.2</b>	<b>-10</b>	<b>16.4</b>	<b>11.7</b>	<b>-4.7</b>	<b>8.3</b>	<b>5.8</b>	<b>-2.6</b>	<b>3.3</b>
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*Source:* Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

*Note:* Changes in poverty are calculated at the lower bound poverty line.

This seems to corroborate the lack of poverty convergence as discussed in Ravallion (2009). Gauteng, the largest province by economic performance posted the highest average growth rate over the period under discussion, yet the rate of poverty reduction was the least; but this could also be a low base effect. The Northern Cape experienced the highest reduction in poverty, as it had a high base effect, but it recorded the least growth. Table 2 shows that while economic growth is an important factor in poverty reduction, it alone, cannot be responsible for reducing poverty. The remarkable reduction in poverty in the Northern Cape could be in part due to outward migration: the share of the population living in the Northern Cape dropped by 0.6 percentage points from 2.4 percent in 2006 (Table 3).

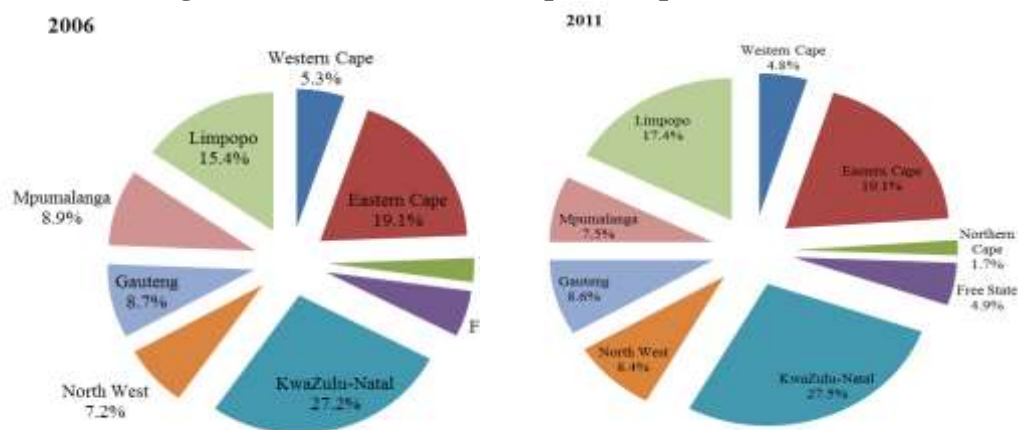
**Table 3: Distribution of population across provinces**

	<b>2006</b>	<b>2011</b>	<b>2011-2006</b>
Western Cape	10.0	10.5	0.4
Eastern Cape	14.4	13.7	-0.7
Northern Cape	2.4	1.8	-0.6
Free State	6.3	5.5	-0.8
KwaZulu-Natal	20.9	21.2	0.3
North West	7.0	7.3	0.4
Gauteng	20.3	21.8	1.5
Mpumalanga	7.4	6.7	-0.7
Limpopo	11.3	11.5	0.2

*Source:* Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

Decomposing poverty reduction to find the relative contributions by province reveals that the reduction in the poverty headcount ratio between 2006 and 2011 was driven largely by the drop in poverty in KwaZulu-Natal. 27.3 percent of the reduction in the national headcount ratio was due to gains in KwaZulu-Natal. The province's contribution to aggregate poverty reduction is due to both substantial declines in its poverty headcount ratio, and the magnitude of its share of national population. About 5.4 percent of the decline in the national headcount ratio can be attributed to population shifts between various provinces. People most likely moved out of high-poverty into low-poverty provinces and the growth in the population of Gauteng could be a reflection of this (Table 3). Despite being the driver of aggregate poverty reduction, KwaZulu-Natal is home to the largest share of the poor in South Africa; it was responsible for 27.5 percent of the poor in 2011 lived in KwaZulu-Natal, a slight increase from 27.2 in 2006 (Figure 2). This reflects partly the relatively high proportion of the population residing in KwaZulu-Natal, which increased slightly from 20.9 to 21.2 percent between 2006 and 2011 (Table 3). In addition, as seen in Table A1 in appendix, female-headed households, blacks and coloured, and those with lower levels of education have a higher likelihood of being poor

**Figure 2: Distribution of the poor, at provincial level**



*Source:* Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

*Note:* Changes are calculated at the lower bound poverty line.

A probit regression on the probability of being poor at the lower bound poverty line was estimated to find correlates of the probability of being poor. Results are reported in Table 4. The results are conditional in that they report the percentage change in the probability of being poor following a unit change in a given characteristic, *ceteris paribus*. The models were estimated for the pooled sample as well as separately for 2006 and 2011, controlling for all the characteristics of the household head as well as the household itself.

The probability of being poor is shown to fall with the age of the household head while being a male headed household is associated with a 4.3 percent decrease in the probability of being poor. This advantage was slightly higher in 2006 (4.8 percent) than in 2011 (4.0 percent).

A statistically significant association between the education of the household head and the household's probability of being poor is revealed. Raising the household head's level of educational attainment from no schooling to having completed primary education is associated with a 8.2 percent reduction in the probability of being poor. The corresponding figures for 2006 and 2011 are 9.6 and 5.8 percent, respectively. The benefits associated with education of the head of household are highest where the household head has completed secondary school. In this case, the probability of being poor is lower by 25.9 percent. Overall, returns to education are indicated to have declined between 2006 and 2011: the coefficients for educational attainment are higher in 2006 than in 2011.

Household size is positively correlated with the probability of being poor. The relationship between household size and the probability of being poor is, however, not linear. The probability of being poor does not rise or fall monotonically with household size.

Racial differences exist with regards to the probability of being poor, with blacks and coloureds associated with a higher probability of being poor than whites. Coloureds are particularly at a disadvantage. Having a coloured household head is associated with a 42.8 percent higher probability of being poor than those whose head of households is white.



**Table 4: Probability of being poor**

	Pooled	2006	2011
Gender of household head (1=male, 0=female)	-0.043*** (0.004)	-0.048*** (0.007)	-0.040*** (0.005)
Age of household head	-0.0041*** (0.0002)	-0.004*** (0.0003)	-0.003*** (0.0002)
Primary school	-0.082*** (0.005)	-0.096*** (0.009)	-0.058*** (0.006)
Secondary school	-0.259*** (0.007)	-0.297*** (0.01)	-0.199*** (0.009)
University	-0.203*** (0.003)	-0.268*** (0.007)	-0.154*** (0.004)
Household size	0.194*** (0.0539)	0.211*** -0.062	0.077*** (0.007)
Square of household size	-0.004*** (0.0001)	-0.006*** (0.0003)	-0.003*** (0.0002)
Number of children in the household (0-14 years)	-0.074 (0.054)	-0.05 (0.061)	0.014* (0.006)
Number of adults in the household (15-64 years)	-0.104 (0.054)	-0.0933 (0.061)	-0.0061 (0.006)
Number of elderly in the household (>64 years)	-0.081 (0.054)	-0.0535 (0.062)	
African/Black	0.256*** (0.009)	0.348*** (0.018)	0.188*** (0.010)
Coloured	0.428*** (0.039)	0.499*** (0.056)	0.337*** (0.051)
Indian/Asian	-0.039 (0.039)	-0.026 (0.073)	-0.043 (0.044)
Eastern Cape	0.145*** (0.012)	0.157*** (0.019)	0.143*** (0.016)
Northern Cape	0.143*** (0.013)	0.122*** (0.019)	0.153*** (0.02)
Free State	0.061*** (0.012)	0.042* (0.020)	0.083*** (0.016)
KwaZulu-Natal	0.132*** (0.012)	0.141*** (0.018)	0.101*** (0.015)
North West	0.095*** (0.013)	0.096*** (0.021)	0.112*** (0.017)
Gauteng	-0.036*** (0.010)	-0.072*** (0.016)	-0.003 (0.012)
Mpumalanga	0.0661*** (0.012)	0.0796*** (0.021)	0.069*** (0.015)
Limpopo	0.115*** (0.013)	0.085*** (0.02)	0.149*** (0.017)
Number of observations	45,891	20908	24,983
Pseudo R2	0.298	0.329	0.265

Source: Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

Notes: Dependent variable is dummy taking the value of one if household classified as poor using the lower bound poverty line and zero otherwise. Marginal effects reported. Standard errors in parentheses and significance levels: \*\*\*p<0.01, \*\*p<0.05, p<0.10

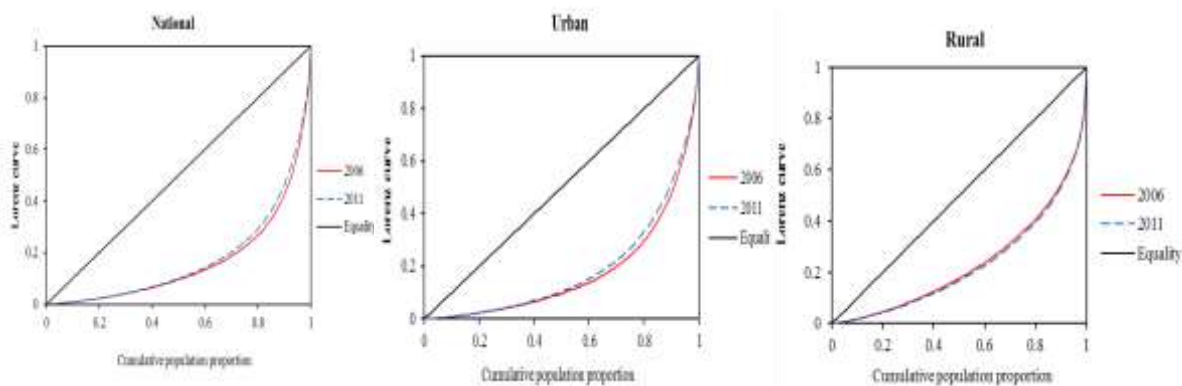
All provinces, except Gauteng, have statistically higher probability of being poorer than the Western Cape. This is most pronounced for the Eastern Cape and the Northern Cape which are shown to be respectively associated with 14.8 and 14.3 percent higher probability than the Western Cape.

### 2.3 Changes in inequality between 2006 and 2011

#### *Less progress was made in reducing high levels of inequality nationally*

The Gini coefficient declined slightly from 0.673 to 0.652 between 2006 and 2011<sup>7</sup> The reduction in consumption inequality is illustrated in the Lorenz curve<sup>8</sup> (Figure 3). Despite a sharper increase in average inflation-adjusted household expenditure in rural areas, inequality rose from 0.532 in 2006 to 0.547 in 2011 while it fell slightly from 0.649 to 0.623 in urban areas. The implication is that the bottom percentiles of the urban population experienced an increase in total consumption in 2011 compared to 2006 while consumption shrank for the bottom percentiles of the rural population.

**Figure 3: Lorenz curves, national, urban and rural areas**



*Source:* Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

At provincial level, the inequality picture is mixed. The Western Cape recorded the highest reduction in the Gini coefficient, falling by 8.5 from 67.4 to 58.9 (Table 5). Inequality increased in the Northern Cape, North West, and Limpopo provinces, putting a damper on overall inequality reduction. The increase was highest in North West (1.6 percent), the Northern Cape (0.6 percent) and Limpopo (0.1 percent). Reductions in headcount poverty nationally would have been greater had inequality not increased. Similarly, provinces such as the Western Cape whose poverty reduction was slow, registered substantial reductions in inequality. Fighting poverty

<sup>7</sup> The Gini coefficient varies between zero (complete equality) and 100 (complete inequality where one person has all the consumption and the rest have none).

<sup>8</sup> The Lorenz curve plots the cumulative percentage of total consumption against the cumulative percentage of the corresponding population ranked in increasing size of proportion. Total equality is said to exist along the 45 degree line while any deviation from this line indicates inequality: the further away the curve is from the 45 degree line, the higher the degree of inequality of distribution.

would benefit from an approach that takes into consideration the complex linkages between inequality and poverty in South Africa and integrates both distributional and poverty reduction goals.

**Table 5: Gini coefficient across provinces, (%)**

	2006	2011	2011-2006
Western Cape	67.4	58.9	-8.5
Eastern Cape	63.3	60.7	-2.6
Northern Cape	60.2	60.8	0.6
Free State	63.2	58.4	-4.7
KwaZulu-Natal	65.8	64.3	-1.5
North West	63.4	65.0	1.6
Gauteng	63.7	62.6	-1.1
Mpumalanga	65.0	63.4	-1.7
Limpopo	56.6	56.7	0.1
<b>Total</b>	<b>67.3</b>	<b>65.2</b>	<b>-2.1</b>

*Source:* Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

*Note:* Calculation of the Gini coefficient is based on total household consumption expenditure including lumpy purchases.

## 2.4 Drivers of changes in poverty and inequality

Ceteris paribus, reduced poverty could be due to increased consumption, reduced inequality as well as an interaction of these two elements. Table 6 decomposes poverty reduction into two components: a change in the average per capita consumption expenditure and a change in the distribution of consumption expenditure around the average (the redistribution component). Decomposition of changes in incidence of poverty between 2006 and 2011 suggests that growth in consumption was the driver of overall poverty reduction while the redistribution component of poverty reduction weighed on overall reduction in poverty.

**Table 6: Growth and redistribution decomposition of poverty change**

	Change in incidence of poverty					
	2006	2011	Actual change	Growth	Redistribution	Interaction
<b>Poverty Headcount Rate</b>						
Urban	26.1	19.7	-6.5	-9.2	1.8	1.0
Rural	65.4	52.0	-13.3	-21.2	4.9	2.9
<b>Total</b>	<b>42.2</b>	<b>32.2</b>	<b>-10.0</b>	<b>-13.1</b>	<b>1.5</b>	<b>1.6</b>
<b>Poverty Gap</b>						
Urban	8.5	6.5	-2.0	-3.7	1.9	-0.1
Rural	27.8	20.0	-7.8	-12.8	5.3	-0.3
<b>Total</b>	<b>16.4</b>	<b>11.7</b>	<b>-4.7</b>	<b>-6.7</b>	<b>2.1</b>	<b>0.0</b>
<b>Squared Poverty Gap</b>						
Urban	3.8	3.0	-0.8	-1.9	1.4	-0.3
Rural	14.9	10.1	-4.8	-7.9	4.3	-1.1

<b>Total</b>	<b>8.3</b>	<b>5.8</b>	<b>-2.6</b>	<b>-3.9</b>	<b>1.7</b>	<b>-0.4</b>
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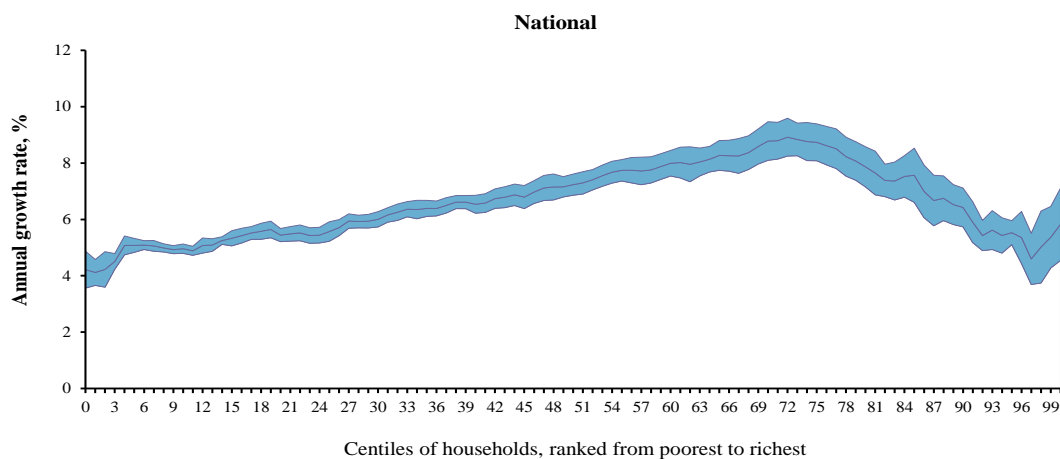
*Source:* Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2006/06 and 2011/11.

*Note:* Changes are calculated at the lower bound poverty line.

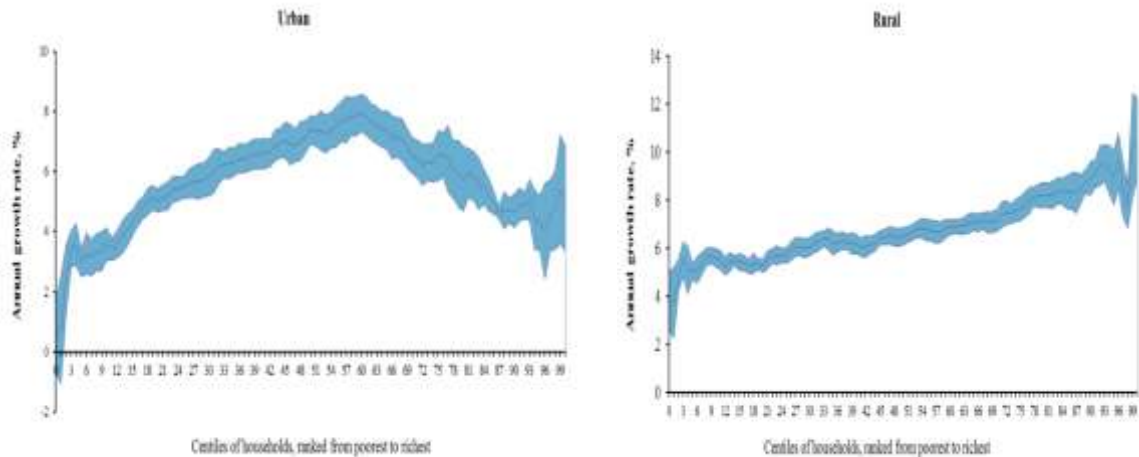
These results are corroborated by growth incidence curves which show that growth in South Africa between 2006 and 2011 was not equally shared among different income groups (Figure 4).<sup>9</sup> Growth incidence curves assist policy makers with the question of whether the expenditure of the poor may rise more or less quickly than that of the country overall when national income or expenditure rises. This is of interest in South Africa given the relatively high inequalities. In relative terms, Figure 4 shows that at the national level as well as in urban areas, the middle class benefited more from growth and redistribution of consumption between 2006 and 2011 while in rural areas, the rich benefited more than the poor.

In rural areas the rise in expenditure was slower for those at the bottom of the expenditure distribution curve than for those in the upper end of the curve. The relatively positive slope of the growth incidence curve in rural areas shows that as a percentage of their initial consumption level, the rural rich have seen a higher percentage increase in their consumption between 2006 and 2011. In urban areas, the poorest – the bottom one percent of the expenditure distribution – actually experienced annual reductions in consumption expenditure. At the national level, however, the picture is encouraging: all income groups experienced an increase in consumption expenditure. However, as highlighted in Table 5, Gini coefficients across provinces range between 57 and 65 percent. This is relatively high given that the policy objective is to ideally reduce them to as close to zero as possible. This implies that the increase in consumption expenditure observed among the poor at national level did not put a significant dent on inequality, which was starting from a relatively high base. This further highlights the complexity and non-linearity of the relationship between growth, poverty and inequality in South Africa.

**Figure 4: Growth incidence curves**



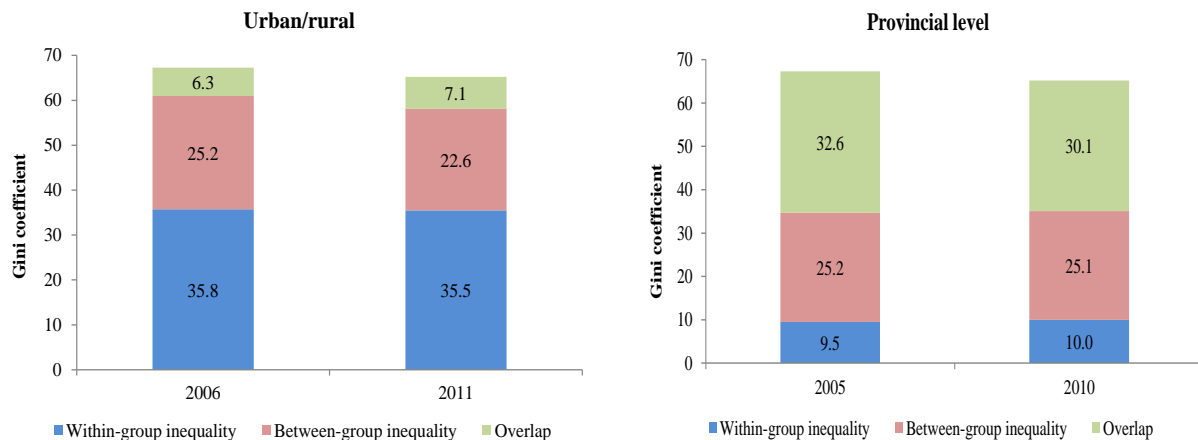
<sup>9</sup> A growth incidence curve divides expenditure data from the two surveys into centiles and graphs real expenditure per capita for each of the 100 centiles.



Source: Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2006/06 and 2011/11.

Decomposing sources of inequality helps policy makers in choosing the most appropriate ways to deal with the challenge of inequality. For example, if most inequality is due to disparities across regions, then a more holistic regional approach to development which places special attention to helping the poorer regions is needed. Figure 5 shows that close to 34.7 percent of inequality in 2011 was attributable to the urban-rural divide compared to around 54.4 percent which arose from differences within these broad areas. The component of inequality due to disparities between urban and rural areas declined between the two periods, suggesting some kind of ‘convergence’ between the two subnational regions. At provincial level disparities across provinces contributed 38.5 percent to inequality while 15.3 percent of inequality was attributable to differences within provinces.

**Figure 5: Decomposition of inequality measures**



Source: Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

### 3 Public Interventions and sustainability

As illustrated above, poverty has been observed to have decreased significantly over the last 10 years, while inequality remains stubbornly high. A possible explanation to this is that social wage related government interventions and initiatives have had a disproportionate focus on reducing levels of poverty while the targeting on reducing inequality has not been as aggressive. As a result poverty has come down substantially, while inequality remains unacceptably high.

#### 3.1 Selected public interventions to reduce poverty and inequality

##### Social Grants

A component of social protection that has expanded since 2000 is social assistance through social grants which includes, among others, the child support grant, old age grant, disability grant, foster care grant, and care dependency grant. Within Africa, South Africa has one of the biggest cash transfer systems. In 2012/13, 16 million, that is 31 percent of the population of the country, benefited from one form or another of the cash transfer systems (National Treasury (2013). The implementation of social assistance programmes has expanded tremendously from 1998 where there were 2.5 million beneficiaries to the present with more than 22 percent of South African households relying on social transfers as a main source of income. The expansion has been driven by the Child Support Grant (Table 7). Around 3.4 percent of GDP (translating into R120 billion) is currently being spent on social grants (The Presidency, 2014). The number of grant beneficiaries increased by 13.3 million from 2.7 to 16 million people between 1994 and 2014.

**Table 7: Amount spent per beneficiary (R per capita)**

Type of grant	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Compounded annual growth rate (%)
Child support	2,008	2,233	2,394	2,550	2,843	2,988	3,215	3,397	6.8
Old age	9,081	9,668	10,275	11,064	11,980	12,752	13,695	14,222	5.8
Disability	10,685	10,023	10,814	12,007	12,753	13,895	14,822	15,286	4.6
Foster care	6,385	7,119	7,707	8,265	9,068	9,414	9,669	10,361	6.2
Care dependency	9,717	10,200	11,098	12,075	12,052	13,120	14,276	14,561	5.2

Source: National Treasury

Poverty gains from an expansive social grant system, especially the child support grant, are well researched. For instance, in 2012, The Department of Social Development, SASSA and UNICEF did an impact assessment of the child support grant which shows 23 percent reduction in the incidence of poverty due to receipt of the grant. This is in addition to other positive developmental impacts including nutritional, educational and health outcomes.

The growth rate of social spending per capita averages about 5.3 percent over the six-year period. It can be argued that this growth in spending contributed to the observed reduction in poverty discussed in Section two. Bhorat *et al* (2014) argue the same in their investigation of the 1995-2005 period.

### **Expanded Public Works**

The Expanded Public Works Programme (EPWP) is a government initiative introduced in 2004 aimed at addressing unemployment and poverty alleviation in South Africa in the short to medium-term. The programme creates temporary work opportunities for unemployed people that were previously disadvantaged and that are relatively unskilled. The provision of productive employment is combined with relevant training, education or skills development with the intention of increasing the ability of the target group to earn an income once they leave the programme. This initiative is aimed at reorientation of existing public sector expenditure to bring significant numbers of those living in poverty and who are unemployed to productive work and is implemented by established government structures. The EPWP involves interventions in three sectors, namely: Social; Infrastructure and the Environmental and the Non-state sector. The government has so far spent more than R17 billion on EPWP projects nationwide and created more than 3 million (3502, 397) work opportunities in all sectors combined as at 30<sup>th</sup> March 2014 (Department of Public Works (2014)). This figure represents a significant injection of resources into poor people's pockets but the temporary nature and the cost of these work opportunities is still a cause for concern. The number of Full Time Equivalents generated is still very low and the cost of creating /hosting an EPWP opportunity is unacceptably high (McCutcheon and Parkins (2012) prompting debates into whether this is the best way to help those struggling to find employment.

### **Non-cash government interventions**

In addition to cash-based measures of reducing poverty and inequality, several other forms of pro-poor government interventions exist. These include public investments in water and sanitation, electricity, housing, education and primary health care. The concept of free basic services (FBS) arises from the need to provide services to poor populations that cannot really afford them. FBSs were introduced in 2000 to address asset and capability poverty. In practice FBS include subsidised and specified capped provision of water, sanitation, energy (Free Basic Energy & Free Basic Alternative Energy) and refuse removal. Funding for FBS is via the equitable share of nationally acquired revenues that is allocated to local government. This policy has resulted in increased access to sanitation; potable water, and electricity. However, challenges still exist in rural areas (The Presidency, 2014).

The government continues to place emphasis on improving access to education as part of enhancing life opportunities particularly for the poor. These efforts have seen an increase in both gross primary and secondary enrolment: gross secondary school rose from 51 percent in 1994 to 89 percent in 2012 (The Presidency, 2014). Gross primary enrolment was 98 percent in 2012. The introduction of no-fees schools has been instrumental in this improvement which by 2012 was benefiting 78 percent of learners in 80 percent of public schools. This was further complemented by the National School Nutrition Programme through which the provision of meals to children at school boosted regular and punctual attendance by learners.

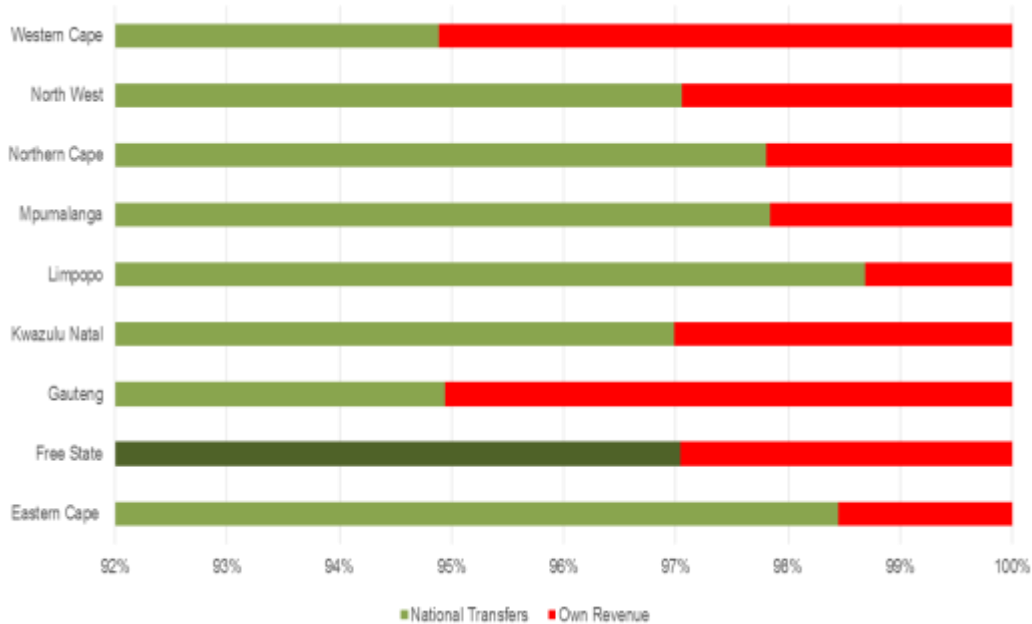
Ensuring access to primary healthcare has also been identified as a mechanism through which poverty and inequality could be reduced. There are no user fees for primary healthcare for all. As a result and coupled with increased government investment in healthcare infrastructure, access to primary healthcare services has increased tremendously. For example number of visits per year, increased by around 93 percent between 1998 and 2013 (The Presidency, 2014).

A program to enhance sustainable human settlements was also introduced in order to reduce inequality with respect to access to housing and shelter. The Social Housing Programme has been particularly instrumental in reducing poverty through asset building. Around 12.5 million people have benefited from subsidised housing since 1994, with 56 percent of all subsidies allocated to female-headed households (The Presidency, 2014).

### 3.2 Sustainability

The South African economy has been experiencing sluggish growth in recent years, growing at only 1.9% in 2013 and it is now projected to grow at 1.7% in 2014. The fiscal space has also been shrinking. For instance, the provincial tax base has been narrowing and own revenue collection has declined (Figure 6). Yet, it is provinces that have higher economic activity that tend to collect the bulk of revenues, meaning that the government would still need resources to redistribute to poorer provinces that do not have the capacity to raise their own revenue.

**Figure 6: Provincial revenue**



Source: National Treasury

Thus, the current low growth scenario and the accompanying deterioration of the fiscus raise questions regarding the sustainability of social wage oriented interventions against poverty and inequality. In an environment of subdued economic growth, there is subsequently very little to redistribute. The reduced redistributive powers of Government will mean that inequalities persist



and indeed progress towards poverty reduction might be halted or subdued. The question that arises is then: for how long can the fiscus sustain the social wage interventions in a low growth environment?

Another important aspect to address is whether the government has any exit strategies in place for people on social grants and other forms of the social wage. The EPWP, for example, has done much in mitigating income poverty related problems in intervention areas. The problem has been the low number of FTEs<sup>10</sup> created by the program leading to people falling back into indigency as soon as the project ends (Meth (2012), McCutcheon and Parkins (2012), KZN EPWP Evaluation Report 2014). There is a strong indication of the need for a variety of follow-on projects especially in the EPWP infrastructure sector that could take on the excess labour being shed by ending projects so that the levels of sustenance are maintained. In general, job creation and implementation of plans in the National Development Plan, for instance, will be some of the best ways of reducing both poverty and inequality simultaneously in South Africa. This however requires a government that is in charge.

#### **4 Reflections and concluding remarks**

Is a reduction in poverty necessarily accompanied by a reduction in inequality? Should the South African government interventions continue to target largely the reduction of poverty headcount ratios in the hope that as poverty decreases, inequality will follow suit? This chapter demonstrates that this strategy might not necessarily be best in terms of reducing poverty and inequality at the same time. It shows that while South Africa has made notable progress in terms of aggregate poverty reduction, with sharper declines recorded in rural compared to urban areas, this has not been accompanied by an equally substantial reduction in inequality. Reducing inequality has proven to be 'sticky' as the Gini coefficient fell slightly from 67.3 to 65.2. It increased in some areas such as rural areas where the greatest inroads into poverty reduction were made, thus dampening the otherwise steady progress in poverty reduction in those areas. This is consistent with van de Berg (2014) who demonstrated that poverty and inequality tend to diverge. In addition, Ravallion (2001) finds that growth does not necessarily affect poverty and inequality while Deneinger and Lyn (1996) show that economic growth has a much larger impact on poverty reduction but very little on inequality because income distributions do not change much over time.

In view of this, what are the policy implications and recommendations for interventions in the reduction of poverty and inequality especially in view of South Africa's recent low growth environment? An important follow up question is whether the priority for government policy should be reducing poverty or inequality or both. Further, as illustrated above, while government's social wage related interventions have contributed significantly to the reduction of poverty in the country, the dent it has made on inequality is minimal. The question arises as to which other interventions will reduce inequality and who is in charge of driving these. So what speaks to poverty and what speaks to inequality in the government's strategy to remedy the plight of the poor in the country? Is there a way to limit the benefits of growth to the rich and

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<sup>10</sup> FTE is a Full Time Equivalent. This is the number of days a person works on an EPWP that is equivalent to the number of days she would work on a full time job. This is estimated to be 230 days. So 230 days is 1 FTE.

enhance the benefits of growth to the poor, (Picketty, 2014)? Specifically, it is critical to ask who is accountable when poverty persists and when inequality remains unacceptably high and sticky.

These questions become even more relevant in the absence of interventions that are clearly targeted at reducing inequality. Certain schools of thought hold that inequality is a necessary evil for a country to develop; that it is the engine of free market economic societies; and therefore does not need any interventions to fight it as it is inequality itself that fuels aspiration and the desire for achievement (Fieldstein (1999) and Lewin (2010)). However, it could also be said that inequality drives much of the social unrest in South Africa, which has been witnessed in recent years. This has both a direct and indirect impact on dampening growth rates in the country, thereby accentuating poverty and inequality.

While the chapter does not attempt to provide answers to all these questions it highlights their importance and brings them to the forefront of the debate and future research on poverty and inequality interventions in the country. In sum, the analyses suggest fighting poverty would benefit from an approach that takes into consideration the complex linkages between inequality and poverty in South Africa and integrates both distributional and poverty reduction goals.

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## Appendix

**Table A.1: Headcount ratio by household's characteristics**

	Poverty Headcount Rate			Distribution of the Poor			Distribution of Population		
	2006	2011	2011-2006	2006	2011	2011-2006	2006	2011	2011-2006
<b>Gender of the household head</b>									
Male	33.7	24.4	-9.3	45.2	43.3	-1.8	56.5	57.0	0.5
Female	53.2	42.4	-10.8	54.8	56.7	1.8	43.5	43.0	-0.5
<b>Ethnicity of household head</b>									
African/Black	49.9	38.5	-11.4	93.9	95.0	1.0	79.5	79.3	-0.1
Coloured	27.5	17.3	-10.2	5.7	4.8	-0.9	8.8	9.0	0.2
Indian/Asian	4.2	0.8	-3.4	0.2	0.1	-0.2	2.5	2.5	0.0
White	0.3	0.4	0.1	0.1	0.1	0.1	9.2	9.2	0.0
<b>Household head's age</b>									
15-19	43.4	27.9	-15.5	0.7	0.4	-0.3	0.7	0.4	-0.3
20-24	33.3	29.3	-4.0	2.0	2.0	-0.1	2.6	2.2	-0.4
25-29	31.5	24.8	-6.7	4.6	4.6	0.0	6.2	6.0	-0.2
30-34	31.5	25.0	-6.5	7.4	7.1	-0.3	9.9	9.1	-0.7
35-39	33.1	27.3	-5.8	8.5	10.3	1.8	10.8	12.2	1.4
40-44	39.6	27.3	-12.3	10.7	9.9	-0.8	11.5	11.7	0.2
45-49	39.4	31.5	-8.0	11.0	11.7	0.7	11.8	12.0	0.2
50-54	45.2	33.3	-11.9	12.1	12.2	0.1	11.3	11.8	0.5
55-59	45.5	36.8	-8.7	9.4	11.5	2.1	8.8	10.1	1.3
60-64	48.1	35.2	-12.9	9.2	9.2	0.0	8.1	8.4	0.4
65+	55.6	41.9	-13.7	24.3	21.1	-3.2	18.5	16.2	-2.3
<b>Age Groups (individual level)</b>									
0-5	53.4	41.6	-11.8	13.7	13.4	-0.3	10.8	10.3	-0.5
6-14	54.0	40.6	-13.4	27.3	26.7	-0.6	21.3	21.1	-0.2
15-19	50.2	38.8	-11.4	12.4	12.3	-0.1	10.4	10.2	-0.2
20-24	42.8	35.3	-7.5	10.0	10.6	0.6	9.8	9.7	-0.2
25-29	34.2	27.8	-6.4	7.3	7.8	0.5	9.0	9.1	0.1
30-34	28.7	25.4	-3.4	5.5	6.3	0.8	8.1	8.0	-0.1
35-39	30.9	23.6	-7.3	4.4	5.2	0.8	6.0	7.1	1.1
40-44	32.2	21.8	-10.4	3.9	3.5	-0.5	5.1	5.1	0.0
45-49	30.1	23.1	-7.1	3.3	3.2	-0.1	4.7	4.5	-0.2
50-54	32.7	23.0	-9.7	3.0	2.9	-0.1	3.8	4.0	0.2
55-59	32.6	24.0	-8.6	2.4	2.5	0.1	3.1	3.3	0.2
60-64	33.0	23.1	-9.8	2.1	1.9	-0.2	2.7	2.7	0.0
65+	39.4	24.6	-14.8	4.7	3.8	-0.9	5.0	5.0	-0.1
<b>Education of the household head</b>									
No schooling	71.5	58.5	-13.0	31.5	24.9	-6.6	18.6	13.7	-4.9
Primary	58.0	48.0	-10.0	41.9	42.7	0.7	30.5	28.6	-1.9
Secondary	23.5	19.8	-3.8	26.5	32.3	5.7	47.6	52.5	4.9
University	0.3	1.1	0.8	0.0	0.2	0.2	3.3	5.2	1.9
<b>Education Level (individual level)</b>									
No schooling	56.6	43.7	-13.0	26.2	21.5	-4.7	19.5	15.8	-3.7
Primary	54.1	41.9	-12.2	42.0	41.6	-0.3	32.7	31.9	-0.8

Secondary	29.3	24.0	-5.2	31.8	36.8	5.0	45.8	49.2	3.4
University	0.9	0.9	0.1	0.0	0.1	0.1	1.9	3.0	1.1
<b>Number of children 0-6 years old</b>									
no children	29.0	21.4	-7.5	36.3	36.1	-0.2	52.8	54.2	1.4
1	51.2	39.1	-12.1	38.9	38.0	-0.9	32.0	31.3	-0.8
2	64.9	52.9	-12.0	16.8	18.6	1.8	10.9	11.3	0.4
3 or more children	80.1	71.9	-8.3	8.1	7.3	-0.8	4.2	3.2	-1.0
<b>Household size</b>									
1	4.5	3.2	-1.2	0.5	0.4	-0.1	5.1	4.5	-0.6
2	11.8	8.5	-3.2	2.6	2.4	-0.1	9.2	9.1	-0.1
3	22.3	14.2	-8.1	6.4	5.2	-1.2	12.2	11.9	-0.3
4	29.0	19.6	-9.4	11.8	10.4	-1.4	17.2	17.1	0.0
5	40.8	28.3	-12.4	14.2	13.7	-0.5	14.7	15.6	0.9
6	54.3	37.4	-16.9	14.3	13.5	-0.8	11.1	11.6	0.5
7 or more	69.2	57.7	-11.4	50.1	54.2	4.1	30.6	30.2	-0.3
<b>Total</b>	<b>42.2</b>	<b>32.2</b>	<b>-10.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

*Source:* Based on the ADePT Poverty and Inequality module using the Income and Expenditure Survey for 2005/06 and 2010/11.

*Note:* Changes are calculated at the lower bound poverty line.