

The effects of social grants on household behaviour and expenditure patterns

Executive Summary

The South African social grant system is widely successful due to its far-reaching ability to reduce poverty. The effectiveness of grant systems is considered on poverty and inequality reduction, but rarely on applied methods such as consumption. By observing the changes in household consumption behaviour and expenditure patterns, this research investigates the dynamic impact of social grants on recipients, while measuring the effect on the fiscus. Over 30% of South Africans receive a social grant monthly. Regardless of the strain it poses on the fiscus, the demand for social grants is increasing rapidly due to the struggling economic conditions present in the country.

Research findings suggest that recipient household consumption increases positively with grant receipt, especially concerning food and healthcare items. Grant recipients tend to spend less on education, but this is associated with increased reliance on publicly funded education. Considering goods that are not conducive to the welfare of the grant recipient, such as alcohol and tobacco, results are positive, yet statistically insignificant in controlled models, suggesting that alcohol and tobacco consumption may increase with grant receipt.

Still, the occurrence is not uniform across all recipients. Improving consumption is an immediate and tangible policy intention of social grants. It is encouraging that the current social grant programme provides sustained increases in consumption among grant recipients, simultaneously assisting with stabilising household incomes and consumption.



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Background

The Bill of Rights is the cornerstone of democracy in South Africa. It encapsulates the rights of all citizens and emphasises democratic values of equality, human dignity and freedom. Social grants constitute one channel through which the Bill of Rights can be achieved. South Africa’s social grant system has expanded immensely since 1994, yet a large proportion of the country is still impoverished. Moreover, grants are often the primary source of income in low-income households.

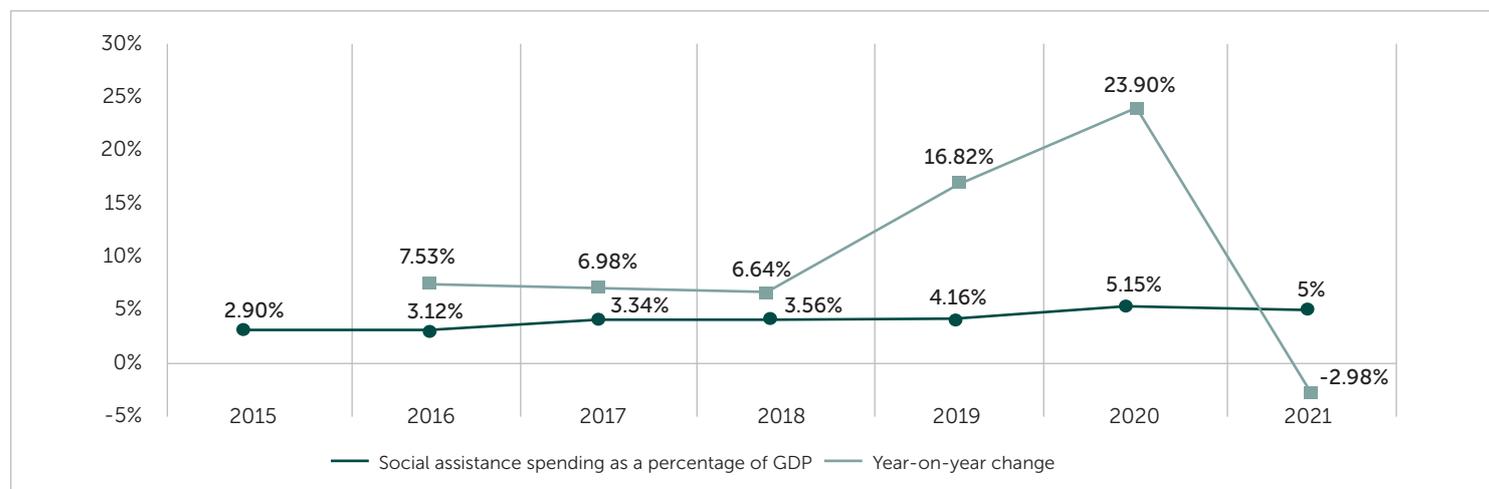
The decisions of individuals and households on how they use their incomes affect their ability to participate in the economy. This research evaluates whether social grants facilitate the inclusion of disenfranchised individuals into the economy and their effect on the fiscal envelope.

Research findings

1. The demand for social grants is rising

As of August 2021, 18 559 537 individuals were receiving monthly grants in the South African Social Security Agency (SASSA) network¹. The three largest grants in circulation are the Child Support Grant (CSG), the Older Persons Grant (OPG) and the Disability Grant (DG). The receipt of the CSG is considered widely successful as there are almost 13 million children in South Africa in the system, with approximately 22 million children in total². This means that nearly 60% of all children in South Africa are recipients of the CSG of R480 per month.

Figure 1: Social assistance spending as a percentage of GDP



Source: Commission’s calculations (based on National Treasury Vote 19: Department of Social Development, 2018, 2022)

Social assistance spending in South Africa, viewed as a percentage of gross domestic product, has increased annually since 2015. Notably, the year-on-year change has superseded the inflation rate range (between 3 and 6%) until 2021, suggesting that the state is providing more grants to needy citizens. Social assistance is intended to intervene where the labour market fails to allow all citizens to participate actively in the economy. The remnants of apartheid that manifest as structural economic issues in South Africa warrant social grants as an intervention.

¹ SASSA. (2021). Report on Social Assistance - March 2021. Pretoria: SASSA.

² Statistics South Africa. (2020). Mid-year Population Estimates. Pretoria: Stats SA.

2. Consumption is increasing among child support grant recipients

In 2010, the CSG was made eligible for all children 17 years and younger whose primary caregivers fall under the means test. Therefore, 2010 is considered the base year of estimation in this research paper. The difference-in-difference (DiD) estimates regarding the consumption of grant recipients are promising. Table 1 observes four models of DiD. All four models are positive and statistically significant at 1%. The positive coefficients associated with income align with the consensus that increased income will increase consumption. Furthermore, the literature supports the negative and statistically significant coefficients of male grant recipients on household consumption. This suggests that female recipients have higher welfare outcomes.

Table 1: Difference-in-difference estimates of CSG recipients

	(1)	(2)	(3)	(4)
Treatment	-1587.728*** (71.644)	-1612.743*** (99.130)	-1747.497*** (101.107)	-1838.978*** (101.298)
Post	-2145.385*** (30.220)	-2807.185*** (34.943)	-2809.951*** (34.937)	-2793.544*** (34.927)
Treatment x Post	815.273*** (78.462)	932.741*** (118.555)	944.213*** (118.544)	937.636*** (118.463)
Income		0.171*** (0.001)	0.171*** (0.001)	0.170*** (0.001)
Male			-255.040*** (37.837)	-244.946*** (37.819)
Age				12.233*** (0.972)
Constant	5084.574***	5066.849***	5207.122***	4883.260***
N	330831	113192	113192	113192
R ²	0.022	0.207	0.208	0.209

Note: Standard errors in parentheses * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Source: Commission using NIDS Waves 1 to 5

Increased spending on food, accompanied by added investment in healthcare, education and welfare-improving assets, is imperative in ensuring sustained economic development. The research finds that spending on food and healthcare has increased with receiving the CSG, while spending on education has decreased. Decreases in education spending are associated with increased reliance on the government for education. With regard to sin products such as alcohol and tobacco, DiD equations suggest that alcohol and tobacco consumption have increased with the expansion of the CSG. The estimates are only statistically significant at the 10% significance level when no control variables are considered. In models that use control variables, the results are insignificant. This suggests that alcohol and tobacco consumption may increase with grant receipt, but the occurrence is not uniform across all recipients.

Conclusion and recommendations

The South African CSG successfully facilitates the inclusion of disenfranchised individuals into the economy. The research findings suggest that CSGs reduce poverty and inequality in South Africa and increase the consumption of the poor. Improving consumption is an immediate and tangible policy intention of social grants. It is encouraging that the current social grant programme provides sustained increases in consumption among grant recipients, simultaneously assisting with stabilising household incomes and consumption. The social grant system is undergoing immense year-on-year expansion, thus increasing the national budget demand. Social grants are fundamental in ensuring that the constitutional rights of citizens are met. Still, the limited fiscal scope of the government limits the ability of policies to attain optimal welfare outcomes. The government should reassess the current fiscal structure and reduce financial leakages to offer more funds to its social assistance programme.

The Commission recommends that:

1. *The amount of the CSG is recalculated.*

Currently, the amount of the CSG is not calculated using a specific metric or policy intended amount. The Commission recommends that the method of calculating the CSG be reconsidered to accommodate the basic needs of children. However, noting the current strain on the budget, the Commission recommends that the CSG increases at the inflation rate until a more optimal grant amount is determined.

2. *Partnering with the private sector to support child support policy intentions.*

The government can engage with the private sector regarding the policy outcomes of the CSG and how it benefits the economy and social wellbeing of citizens as their customers. The private sector may improve the consumer behaviour of grant recipients to purchase goods aligned with policy intentions and mitigate inefficiencies associated with unconditional cash transfers.

3. *Integrating social grants into existing social development programmes.*

The World Bank released a South African social assistance programmes and systems review in October 2021. Its recommendations to improve the existing system and maximise benefits include integrating social grants with existing developmental goals. The Commission supports this recommendation as it is a means to improve expenditure efficiency and maximise social outcomes without further spending.

4. *An in-depth investigation into the current social grant network.*

An extensive investigation into all grants within the network would inform the current discourse on social development. The Commission recommends that the Minister of Social Development commences an extensive investigation into the existing social security network.

Enquiries:

Chen W. Tseng

Chen.Tseng@ffc.co.za

Lauren Stevens

Lauren.Stevens@ffc.co.za

Financial and Fiscal Commission

Montrose Place (2nd Floor), Bekker Street
Waterfall Park, Vorna Valley, Midrand

Private Bag X69, Halfway House, 1685

www.ffc.co.za

Midrand Office Telephone: +27 (0) 11 207 2300

Cape Town Office Telephone: +27 (0) 21 487 3780