

Testing the means test: Social assistance in the time of COVID-19

Executive Summary

The COVID-19 pandemic forced the South African government to rely more heavily on its system of social assistance, especially social grants, to offset the negative income shocks experienced by the poor. Existing grant payments were temporarily increased for six months, and a new COVID-19 Social Relief of Distress (SRD) Grant was introduced to cover unemployed individuals who are omitted from the pre-existing social safety net. The social grant system uses means-testing as a tool to accurately target the most vulnerable individuals and mitigate leakages to those who are ineligible. An issue of central concern is to what extent the current means-testing approach is sufficient to ensure that the eligible poor are covered by social grants and that leakages are minimised.

Previous research shows that the social grant system in South Africa is progressive and has a range of direct and indirect positive impacts on recipients and their households. Notably, the upper bound limit for the means-tests for all grants is above even the highest international poverty line for an upper middle-income country. Therefore, the possibility of poor individuals being excluded is low. Grant coverage is also substantial. This was crucial during the first year of the COVID-19 pandemic. Taken together, the permanent grants and the SRD Grant ensured that approximately 80% of those who lost their job in 2020 lived in a household where some form of social assistance was received. Although there are some eligible individuals who do not currently receive a grant, South Africa's current system is relatively effective, and an alternative targeting mechanism does not appear to be warranted.

Background

The COVID-19 pandemic forced the South African government to rely more heavily on its system of social security, especially social grants, to offset the negative income shocks experienced by poor households and individuals.



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To this end, existing grant payments were temporarily increased for six months, from May to October 2020, and a new COVID-19 SRD Grant was introduced to cover unemployed individuals who currently fall outside the pre-existing social safety net. In total, South Africa's permanent social grant system is estimated to cover 18 million people, which is equivalent to almost one in every three South Africans (SASSA, 2020). This coverage increased to 24 million by December 2020 when the temporary COVID-19 Grant is included.

At present, almost all social grants in the country rely on a relatively simple means test as a targeting device to determine who is eligible for assistance. To some extent, the negative impacts of COVID-19 have necessitated a reconsideration of poverty and vulnerability, as previously non-poor South Africans experienced severe income shocks, or a permanent loss of their livelihoods (Bhorat, Oosthuizen & Stanwix, 2020). It is therefore important to understand how well the existing grant system covers vulnerable South Africans, and whether the current means-testing approach ensures that the poorest receive grants with no significant leakage to those who are ineligible. Furthermore, it is important to understand how the grant system was temporarily adjusted to reach households and individuals impacted by the pandemic, as well as how well targeted this effort has been.

Research findings

The existing academic literature shows that spending on social grants in South Africa is relatively well targeted towards the poor, a fact that can largely be attributed to the use of means testing as a targeting device (Van der Berg, 2014). The means-test thresholds vary across the various grant types and, in some cases, includes both an income and an asset threshold. To examine the relative progressivity of social grants, the three largest grants are examined: the Child Support Grant (CSG), the Older Persons' Grant (OPG) and the Disability Grant (DG). These three grants account for approximately 97% of all grants distributed in the country.

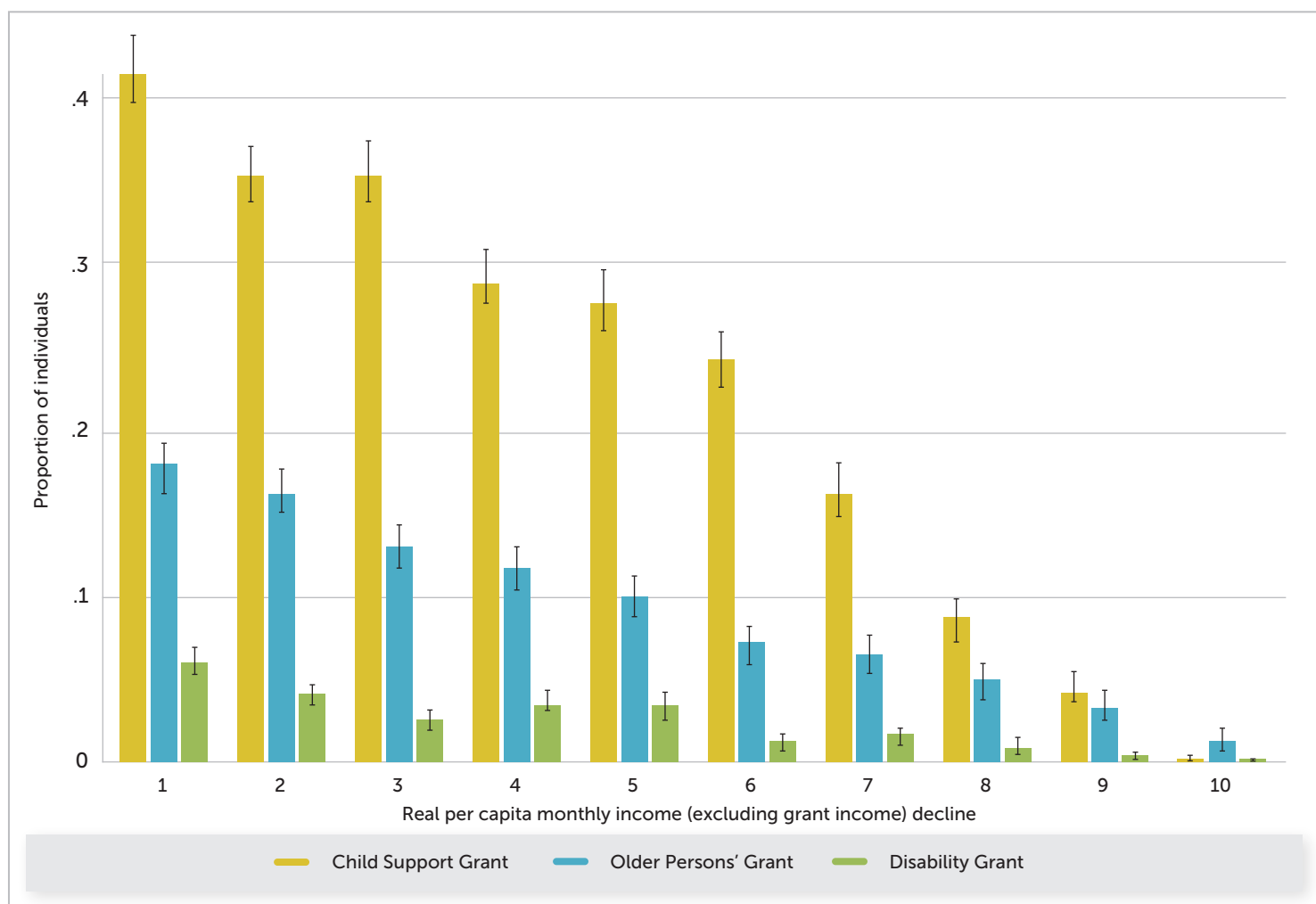
1. Grants are progressive

The levels of progressivity of all three grants are very similar, and they are all pro-poor. In Figure 1, it is clear that, in all cases, poorer households receive a disproportionately higher share of transfers. If one takes the CSG as an example, coverage among the poorest households is substantial, with 40% of individuals in the poorest 10% of households reporting receipt on behalf of a child or children. In addition, about 80% of total CSG recipients live in the poorest 50% of households.

2. The possibility of exclusion error is relatively low

There are no instances of people who are classified as poor, according to the standard income poverty measures that are applied, but who are excluded from receiving a grant under the existing means-tests. Indeed, the means-tests are all set above even the highest income poverty line used by the World Bank – the upper middle-income (UMI) poverty line. However, the poverty line that one selects leads to very different conclusions about the level of inclusion error, i.e. the proportion of 'non-poor' grant recipients is higher.

Figure 1: Pre-transfer grant receipt, by household income decile



Authors' own calculations.

Source: NIDS Wave 5 (2017).

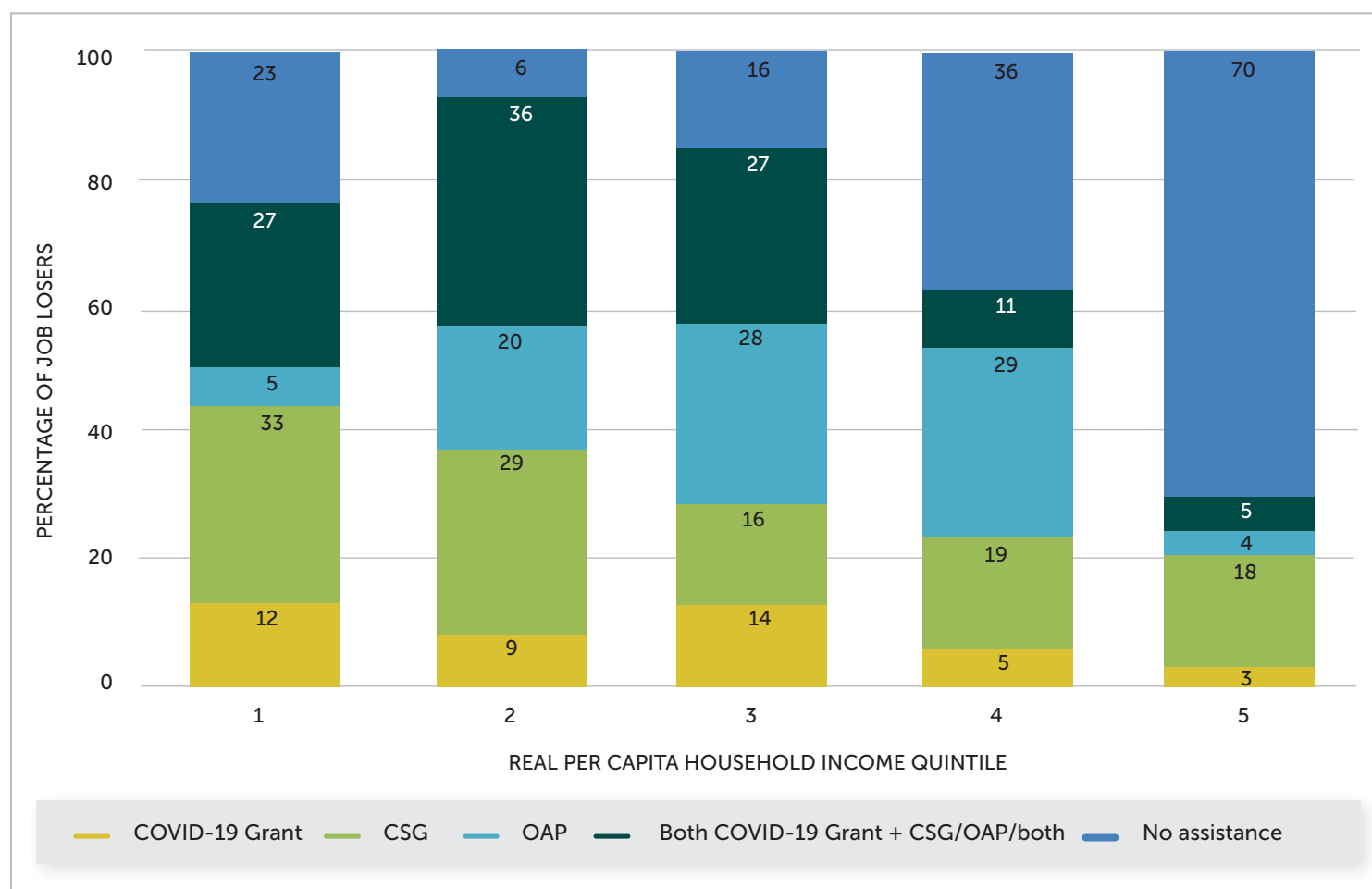
Notes: [1] All estimates weighted using relevant post-stratification sampling weight. [2] 95% confidence intervals presented as capped spikes. [3] CSG receipt here refers to receipt by a primary caregiver who receives the grant on behalf of the child/children.

3. The role of social assistance during the COVID-19 crisis

Before the onset of the pandemic, South Africa's social assistance system did not extend to cover prime-aged, able-bodied individuals who, in theory, would be able to support themselves through the labour market. This gap in the country's social safety net was partially addressed through the introduction of the new COVID-19 SRD Grant. At the same time, existing grants were temporarily increased.

The COVID-19 SRD Grant was set at R350 per person and was aimed at unemployed people who did not receive any other form of government assistance, and brought millions of previously unreachable individuals – mostly non-employed young men – into the system. In both absolute and relative terms, the distribution of the COVID-19 Grant was progressive. Overall, this expanded social assistance package managed to reach most of the people whose employment was impacted by the pandemic. About 80% of those who had lost their jobs in 2020 lived in a household that received some form of social assistance. Importantly, within the sample of job losers, some groups can be classified as being more vulnerable where this considers unemployment in relative terms. Social assistance coverage appears to have been better for women, those who were in less-skilled employment, those of lower incomes, and people in rural areas. This relatively wide-reaching support also appears to be relatively progressive.

As shown in Figure 2, nearly 80% of people in the poorest quintile of households received support, in contrast to 30% of those in the richest quintile.



Source: Commission’s calculations; National Income Dynamics Study-Coronavirus Rapid Mobile Survey (NIDS-CRAM), Waves 2 and 3 (2020).

Figure 2: Household-level social assistance coverage among job losers: October 2020

It also appears that the introduction of the COVID-19 Grant significantly reduced the prevalence of poverty and the degree of household income inequality. Using Statistics South Africa’s food poverty line as a poverty measure, poverty is estimated to have declined by 2 percentage points. Considering household income inequality, the SRD Grant reduced inequality by between 1.3% and 6.3%, depending on the inequality measure used.

4. Examining an alternative means-test

In an ideal scenario, social grants would be able to achieve perfect beneficiary targeting using a chosen poverty line as a benchmark. Only the poor would receive transfers, and no poor individual would be excluded from receiving transfers. However, in practice, several imperfect targeting methods are deployed to reach the poor with varying levels of efficacy. Means-based testing is already established and functioning well in South Africa as a targeting strategy. Adjusting this approach to reduce administrative costs by, for example, removing targeting to allow for self-targeting, is unlikely to be feasible given the country’s fiscal constraints. In addition, based on the evidence above, which suggests that South Africa’s current system is relatively effective, other alternative targeting mechanisms do not appear to be warranted at present.

Conclusion and recommendations

The role that social assistance plays in South Africa is significant both in terms of its coverage and the positive impacts it has on households and individuals. The COVID-19 crisis resulted in adjustments to the social assistance package offered by the state, with temporary grant top-ups, and the introduction of the COVID-19 SRD Grant. Under the current targeting regime, there is no evidence of significant exclusion error in the grant system, where the means-test prevents those who are poor from accessing a grant income. There are, however, many working-age individuals who are poor and are not covered by a permanent social grant. This is further evidenced by the large take-up of the COVID-19 SRD Grant.

In addition, the existing means-testing system does not appear to include a significant number of non-eligible recipients. As a result, there is no obvious reason to adopt a more complex targeting approach. However, some individuals who are classified as poor do not currently receive any grant income, but the reasons for this are not clear.

In response to the COVID-19 crisis, the grant system was used as a way to channel additional funds to poor households and mitigate some of the negative economic impacts of the pandemic. The analysis shows that the distribution of income relief through the grant system during the pandemic has been relatively pro-poor. However, one notable concern of the SRD Grant is that it disproportionately benefitted unemployed men, despite women representing a greater share of the unemployed. This gap is likely explained by the Grant's eligibility criterion that recipients of other grants are not eligible – most of whom are women.

The Commission makes the following recommendations:

1. The Minister of Finance, in the Division of Revenue, should continue monitoring the outcome of the existing social grant system that appears to be effective and pro-poor. The social grant system was used effectively to protect vulnerable households from some of the negative effects of COVID-19 in the short term.
2. The Minister of Social Development, with the Minister of Finance, should investigate the reasons for persons who are eligible to receive an income grant not receiving it, and develop and implement appropriate remedial action.
3. On the COVID-19 SRD Grant being a precursor to a Basic Income Grant (BIG): The experience of the COVID-19 lockdown and the implementation of the SRD Grant have provided some impetus for the discussion of a BIG. The current iteration of the debate is still new, but the Minister of Finance should consider the fiscal impact of such a grant.

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