

South African Poverty and Inequality Assessment

Discussion Note

(Draft for discussion only)

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1. Introduction and motivation

Reducing poverty and inequality has been the cornerstone of development policy in South Africa since the advent of democracy. Such goals gave impetus to the Reconstruction and Development Program (RDP), guiding government's policy framework in 1994; they are the inspiration behind the National Development Plan of 2012. The government's commitment to eliminate poverty is also reflected in fiscal policy: the equitable share formula, which is used to determine transfers to the different spheres of government, contains a poverty component as a redistributive measure.

South Africa has made significant strides towards enhancing the wellbeing of its citizens by reversing the adverse effects of apartheid and broadening opportunities for all. This has, however, been challenged by variable economic growth prospects which have specifically been quite modest in recent years. The relatively high and consistent growth experienced following the end of apartheid began to taper off when structural constraints and bottlenecks dampened growth; reaching a historical low in 2009 when the global financial crisis led to the country plunging into its first recession in 17 years. GDP growth rose to 3.6 percent in 2011. Persistent structural weaknesses and new vulnerabilities such as those observed in the mining sector over the past two years, compromised the economy's ability to sustain such growth, so that the growth reading was a paltry 1.9 percent in 2013, 1.5 percent in 2014, and the economy was projected to grow by only 1.4 percent in 2015.

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. These are reflected in what is broadly termed the social wage which basically refers to the redistributive elements of the government budget. Notable gains have been made as a result of these interventions: these measures have been argued to be the drivers of the observed reduction in poverty in South Africa, with recent statistics showing that the poverty headcount rate reduced significantly between 2006 and 2011. However and despite its upper middle income status, the country still faces persistent socio-economic challenges which the South African government describes as its triple challenge (poverty, unemployment and inequality), a triple epidemic (malnutrition, HIV/AIDS, tuberculosis), and a triple burden of malnutrition (under-nutrition, hidden hunger and over-nutrition).

The persistence of these challenges, 22 years after the advent of democracy, calls for a comprehensive assessment of trends, dynamics, policy, impact and monitoring. This is especially pertinent given that the last comprehensive national poverty and inequality assessment was published in 1998 and commissioned by the Government of South Africa with assistance from the UK Department for International Development, UNDP, World Bank and the Dutch Government. The proposed Poverty and Inequality Assessment will document South Africa's progress in reducing poverty from 1994 to 2015. It aims to contribute towards South Africa's realization of its national targets of eliminating extreme poverty and reducing inequality. This is important given that although South Africa has achieved significant transformation in terms of improving access to services, education, health care and economic opportunities, the reduction of the prevalence and depth of poverty has met the aspirations of neither the government nor South Africans. This is despite the recognized success of fiscal policies for redistribution through a social wage of free basic services and access to facilities, expenditure on health and education that exceeds that of many similar countries, and the provision of comprehensive social protection. The co-existence of apparently sound policy, significant government expenditure but slender returns in terms of impact suggests the potential that greater efficiencies can be achieved.

The objectives of the proposed Poverty and Inequality Assessment are twofold:

- **First, the proposed report aims to contribute to an enhanced understanding of how the government can achieve greater efficiencies in its efforts to tackle the problem of**

poverty and inequality. This way, the report will contribute to policy dialogues towards the attainment of the NDP vision of eliminating poverty and reducing inequality. The Assessment will do this not only by providing poverty trends but also by examining the drivers of changes in poverty and inequality since the end of apartheid in 1994; investigating the extent to which economic growth has been pro-poor; and dissecting and proposing possible solutions to the challenges that South Africa faces in the fight against poverty and inequality. In addition, a forward looking forecasting exercise will be undertaken and is envisaged to inform policy discussions, formulation and planning.

- **Second, in April 2013, the World Bank set two goals to end extreme poverty and promote shared prosperity (World Bank, 2013).** This implies a focus not only on the pace of economic growth but also on its pattern. Promotion of shared prosperity means working towards increasing the incomes and welfare of the poor. For the World Bank, monitoring progress made towards shared prosperity implies measuring and tracking the income or consumption growth amongst a country's bottom 40 percent. It is an indicator of economic growth with equity and inclusion and can thus be used to measure the impact of policies targeted at reducing poverty and inequality. Growth is said to lack inclusiveness if the income or expenditure growth of the bottom 40 percent is consistently lower than the average income or consumption growth of the total population. The objective to "foster income growth of the bottom 40 percent of the population" includes most of those categorized by two of the national poverty lines used in South Africa even though levels of extreme poverty as defined by the World Bank are comparatively low. The proposed Assessment will both guide the Bank's future transformational engagement with South Africa and provide a peer reviewed and independent assessment of the policy/implementation nexus that can be used by the South African government and civil society.

Overall, the assessment will identify key knowledge and policy gaps and provide new analysis that addresses selected gaps or complements existing work on these topics. It will build on substantial existing work and knowledge base that includes large sample surveys, panel data, detailed evaluations and impact assessments, as well as qualitative studies undertaken by South African universities. Data from the recently completed Living Conditions Survey 2015 by Statistics South Africa create an opportunity for providing an up to date picture on poverty and inequality in the country. Data from the four waves of the National Income Dynamics Study (NIDS) permit the analysis of poverty dynamics. The Assessment will feed into national planning and poverty monitoring activities. This discussion paper outlines the context for the Assessment, provides suggestions for the content of the report, the process to be followed in its preparation, and identifies existing key studies and possible data sources.

2. Historical and socio-economic context

The specificity of the South Africa situation remains relevant after more than twenty years of democracy. The four decades of apartheid legislation built on a century of the earlier policies of the Colonial and Union government directed at the extraction of cheap labor and racially based differentiation. To achieve this goal, and to contain mounting resistance to the apartheid government, a range of institutions and legislation were introduced, many of which regulated the livelihoods available to the African population. Wilson and Ramphela (1989:204, 230) conclude that such policies of deliberate impoverishment distinguished the experience and dynamics of poverty in South Africa and constituted an "assault upon the poor". As such, apartheid, and the legislation and institutions through which this ideology was implemented, operated to produce structures of privilege and extreme inequality that still slow progress towards the reduction of poverty.

The concept that separate land areas should be set aside for Africans in South Africa predates the founding of a modern economy in South Africa and continues to shape the geography of poverty in South Africa. This evolved from the policies followed by early white

settler governments who set aside land initially known as ‘native reserves’ and later as Homelands. This was institutionally formalized by the Union Government in 1913 with the passing of the Land Act. At that time, it was never seriously envisaged that the African population should remain limited to the land that had been set aside for their use. However, with the victory of the National Party in 1948, the segregationist views of this party were translated into the policy of apartheid and a wide range of legislation was introduced between 1949 and 1959 to balkanize South Africa into a number of ethnic based territories or Homelands, each with some measure of nominal political independence.

Existing over-crowding and deprivation in these areas was exacerbated by the policies that followed. The enforcement of segregation meant that large numbers of people were forcibly removed from ‘Black Spots’ into the Homelands. In addition to forced removals, the introduction of ‘Betterment Planning’ during the 1960s and 1970s resulted in many communities losing their access to land within the Homelands. Although Betterment Planning was put forward as a strategy through which previously dispersed residential patterns would be consolidated into residential, arable, and grazing land, the land was often never reallocated after the consolidation process, housing stock was lost, restrictions were placed on livestock ownership, and services were not delivered. The social conditions in the former Homeland areas of South Africa that resulted from these policies are widely known and have been well documented. By 1993, 68 percent of Africans were poor and Africans made up 94 percent of those categorized as being poor, almost 75 percent of the poor were found in the rural areas of South Africa, and over 70 percent of rural African households existed in conditions which could be described as inadequate or intolerable in terms of access to housing and essential services (PIR, 1997). The lasting result has been the persistence of sharp inequalities and differentiated access to privilege despite more than two decades of democratic government and the adoption of a plethora of transformative and redistributive policies.

South Africa showed fast economic growth in the past two decades, but has been slow since the 2009 global economic crisis. The South African economy recorded positive economic growth in the period 1994-2012. An average annualized growth rate in real GDP from 1994 to 2012 was 3.3 percent. The economy’s most successful growth spurt was during the 3-year period 2005-2007, as annualized real GDP growth rates exceeded 5 percent in each consecutive year. However; the economy suffered from the consequences of the global financial crisis only in the 2008-2009 period. The recession, despite being short-lived, has had significant labor market consequences which the South African economy is still trying to recover from. Growth, however, has been slow in recent years and is expected to remain low, recovering to 1.7 percent in 2016 and 1.9 percent in 2017 (almost zero in per capita terms). Given the weak recovery since the 2009 crisis, little progress is expected in reducing the triple challenges of high unemployment, poverty, and inequality. The acceleration in growth is services-driven. Agriculture growth remains relatively weak, while the extractive and metals sectors struggle in the face of lower mineral prices, rising production costs, labor unrest and planned retrenchments.

The economy underwent structural transformation during the post-1994 period with a decline in primary sectors while tertiary sectors expanded. The share of mining in GDP declined steadily from 11 percent in 1994, to 5 percent in 2012. Manufacturing has remained stagnant (19 percent of real GDP in 1994, 17 percent in 2012). The key growth engine was financial and business services sector (17 percent in 1994, 24 percent in 2012).

Employment growth trends broadly followed GDP growth trends in the post-2000 period, though employment growth was generally lower than GDP growth. GDP growth rates would have to accelerate to much higher levels in order to deal adequately with South Africa’s poverty and unemployment problems. Low growth translates into little progress on the triple challenges of high unemployment, deep poverty, and wide inequality. Lack of a dynamic, job-generating and competitive manufacturing sector remains one of the key growth challenges (the

middle income country average is at 21.2 percent of GDP, 22.5 percent for upper middle-income economies). The labor market is the main transmission channel from growth to poverty and inequality outcomes. Output employment elasticity of about 0.69 between 2000 and 2008 stands in sharp contrast to the post crisis period (2008-2012) with negative elasticity of -0.16 percent (average annual GDP growth of 1.9 percent, employment declined by 0.3 percent) (Bhorat, 2013). There was a profound impact of the recession on the labor market: from a peak in employment of almost 14.1 million in 2008Q4, the economy lost more than 1 million jobs, and by 2010Q3 employment had returned to the 2006 level. The employment has never fully recovered.

High unemployment remains the key challenge facing South Africa and the country struggles to generate sufficient jobs. Unemployment had reached 25 percent in 2015Q2 and 32.9 percent by the broad measure including discouraged workers. The rate of youth unemployment (ages 15-24) stood at close to 50 percent and long term unemployment for more than a year accounts for two-thirds of the unemployed. The unemployment rate for unskilled workers has been increasing as employers are seeking higher skilled workers, and the youth unemployment rate stands at 37 percent. The current environment of weak growth is not favorable for private sector job creation—agricultural growth is weak and extractives and mineral sectors continues to struggle causing further jobs losses in these sectors.

Poverty fell during the 2000s but remained stagnant in recent years. Most studies confirm that the prevalence of poverty continued to increase in South Africa between 1993 and 2000, and declined slightly between 2000 and 2011 (Stats SA, 2002, 2014; Ozler, 2007; Leibbrandt et al., 2010). Together with population growth, this has led to a rise in the number of people categorized as poor with the increase being most striking in urban areas (Leibbrandt et al., 2010:36). The revised national poverty lines leave 36.9 percent of the population below the lower bound poverty line (R.501 per month). Close to 20 million people remain poor in South Africa. Over 10 million children (56 percent) live in poor households—defined as living below the lower bound national poverty line (as proposed by the NDP), with 73 percent of children under five living in these households. The profile of poverty and prospects for achieving poverty reduction in South Africa are also influenced by the underlying population structure and its dynamics. Important demographic drivers of poverty include rapid urbanization, premature adult mortality largely due to HIV/AIDS, and an unrealized demographic dividend.

The Gini coefficient of consumption of 0.65 makes South Africa one of the world's most unequal countries in the world. The level of inequality is the most significant socio-economic factor accounting for these differences in poverty levels. Stats SA (2014) report the Gini coefficient to be 0.65 based on expenditure data (per capita excluding taxes) and 0.69 based on income data (per capita including salaries, wages and social grants) in 2011. The implication is that the poorest 20 percent of the South African population consume less than 3 percent of total expenditure compared to the wealthiest 20 percent who consume 65 percent. There has been virtually no change since 2006 with the wealthiest group giving up a meagre 3 percent of total consumption to the middle 60 percent.

The population is growing and mortality is fallings. South African population has increased from 44.8 million in 2001 to 54.96 million in 2015 (Stats SA, 2015). The number of children (people younger than 18 years of age) has remained constant in South Africa at around 18.6 million between 2003 and 2014, and has reduced as a proportion of the population to its current 36 percent of the total population of 54 million (Hall and Sambu, 2014:91). While fertility rates have declined, the population growth rate has slowed only modestly from 1.99 for the period 1996-2001 to 1.44 for the period 2001-2011. This is despite the likely impact of the HIV/AIDS epidemic on adult mortality where the age standardized death rate for women increased from 601/100,000 to 1,453/100,000 between 1997 and 2004, and for men increased from 946/100,000 to 1,671/100,000 (Stats SA, 2006). Introduction of a substantial anti-retroviral therapy (ART) program has dramatically improved these mortality rates, and life expectancy at

birth is again increasing from a low of just 50.1 years in 2006, among the 30 worst in the world and similar to that of low-income countries such as Uganda or Chad (UNDP, 2008).

Dependency ratios are falling yet demonstrate worrying trends for labor dynamics. While the ratio between those in the economically inactive age groups compared to those in the economically active age group (15-53) has declined, with a smaller share of the population being dependent due to their age (children or elders), the economic dependency rate has remained stagnant and recently declined. This means that although an increasing share of the population is adult and potentially economically active, a decreasing share is actually economically active. Consequently, the increasing consumption needs are not matched with the capacity to meet those needs.

The South African population remains young. According to the 2011 Census 29.2 percent of the population is younger than 15 years of age. This is changing and a growing number of youths has emerged who are exiting school and entering the labor market (Stats SA, 2012). As already noted, fertility rates have declined and this trend has been consistent for three decades. South Africa's rates are currently the lowest in sub-Saharan Africa. Without an increase in the overall size of the population that would otherwise follow, the odds of achieving a sustainable reduction in poverty have increased; this may have been offset by a relative rise in dependency shown between 2001 and 2006, some of which has been due to AIDS related mortality. The epidemic has also changed the structure of households with rapid movement between households as members attempt to cope with illness and death, and the growth of complex family structures with older household heads, missing generations, and children living without their biological parents. Together with sluggish growth in employment, these factors have offset a potential demographic dividend in which a young labor force is absorbed into a growing economy.

Declining household size has also been an important implication on the achievement of poverty reduction goals. This has been an unforeseen consequence of the ending of apartheid legislation. Laws limiting the movement and settlement opportunities of the African population compelled household members to share dwellings. This maintained extended family structures longer than would have been the case given the level of development in South Africa. The removal of these laws, together with the large scale provision of housing, allowed households to fragment resulting in a rapid decline in household size and over-crowding. However this has also limited the impact of policy on housing and essential services backlogs as average household size fell from 4.5 in 1996 to 3.4 in 2011 (Stats SA, 2012b:27). The number of households has increased by 29 percent between 2001 and 2011 that has created significant fiscal challenges for provincial and municipal governments charged with addressing service and housing backlogs. Finally, South Africa continues to experience rapid urbanization with 53.7 percent of the population living in urban areas in 1996 rising to 54.4 percent in 2001 and 67.7 percent in 2011. The implication is that poverty in South Africa is increasingly becoming an urban phenomenon, although it is likely to remain most severe in rural areas.

Internal and international migration is an important phenomenon characterizing the South African economy. Census data reveals that there have been important changes in the spatial distribution of the population between South Africa's nine provinces (Stats SA, 2012a). According to the 2011 Census, Gauteng is now the province that housed the largest percentage of the population, at 23.7 percent of the population. The percentage of the population living in KwaZulu-Natal, the most populous province in 2001 has decreased slightly to 19.8 percent in 2011 from 21.1 percent in 1996. Even with this decrease in the population percentage, KwaZulu-Natal is still home to the second largest population percentage in the country. Eastern Cape showed a marked decline in its population (from 15.1 percent in 1996 to 12.7 percent in 2011). The implication is that KwaZulu-Natal and the Eastern Cape are tending towards becoming migrant-sending regions, while Gauteng and the Western Cape have become

migrant-receiving regions. In addition, South Africa is host to a significant amount of migrants from other mainly African countries seeking better economic opportunities.

3. Links to previous and existing work

Given this legacy and the current context, it is not surprising that the reduction of poverty and hunger, the delivery of essential services and the provision of decent work has been a consistent theme of successive South African governments since 1994. Indeed, the Reconstruction and Development Program (RDP) prepared in 1993 as the in-coming government's manifesto singles out the reduction of poverty in all its dimensions as the central concern for the post-apartheid era. However the macroeconomic environment has conditioned the economic possibilities for achieving this and for the most part, this has been characterized by listless economic growth, the management of public debt and dealing with inflationary pressures. The South African government's response to periods of poor economic performance has thus been constrained both by international economic trends as well as by inherited fiscal realities. In line with the fiscally cautious macroeconomic stance taken by the Growth, Employment and Redistribution Strategy (GEAR), government contained growth in public expenditure and reduced its public-sector borrowing requirement from 9.3 percent of Gross Domestic Product (GDP) in 1993/4 to just 0.3 percent in 2005/6, a modest surplus in 2006/7 and 2007/8. This ushered in a period of more relaxed fiscal management, which together with the global financial crisis and weak domestic growth, has translated into a budget deficit that has exceeded 4 percent annually since 2009/10.

The most recent planning documents, the NDP and Vision for 2030, are anchored by two fundamental objectives: the elimination of poverty and reduction of inequality, and the recognition that South Africa faces a triple challenge of poverty, inequality and unemployment.

Despite these constraints, an array of strategies for poverty reduction has been introduced since 1994, with additional significant programs planned for the future. These include:

- **National economic and development policy frameworks**, specifically the Reconstruction and Development Program (RDP); the National Growth and Development Strategy (NGDS), the Growth, Employment and Redistribution strategy (GEAR); the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), the New Growth Path (NGP), and most recently the National Development Plan (NDP);
- **Anti-poverty strategies**, such as the Poverty Alleviation Fund, the Presidential Poverty Nodes and the War on Poverty Campaign;
- **The general move towards comprehensive social protection and developmental welfare**, including a non-contributory Old Age Pension (OAP), Disability Grants, Child, Foster Care Grants and Grant-in-Aid, with the means tested, but unconditional Child Support Grant (CSG) being the fastest growing form of assistance;
- **Free primary health care**, vitamin supplementation, food fortification and the largest antiretroviral treatment (ART) program in the world, as well as the planned introduction of a National Health Insurance program and a National Food Security and Nutrition Strategy;
- **Public-works programs** aimed at promoting building assets, maintenance, environmental conservation and job-creation. These include the Extended Public Works Program (EPWP), the Working for Water Program, the LandCare Program and recently the upscaling of the Community Works Program (CWP);
- **Major infrastructure programs**, with a focus on the national housing program and the provision of basic services through policies and strategies that include the Consolidated Municipal Infrastructure Program, Rural Infrastructure Strategy, Community Water

Supply and Sanitation, Electricity Basic Support Services Tariff Strategy, Free Basic Services Coordination and municipal indigent programs;

- **Disaster relief strategies** to provide short-term cash or in-kind transfers. These include the Social Relief of Distress Grant, Disaster Relief Fund, Refugee Relief Fund, the Special Program for Food Security and in-kind transfers through the National Food Emergency Fund;
- **Second-generation spatial integration strategies** including the Rural Development Program and the Urban Renewal Strategy.

There have been several important assessments of these policies and their impact on poverty in South Africa since the 1996/7 poverty assessment (known as the Poverty and Inequality Report and the Participatory Poverty Appraisal). These include nationally sponsored studies such as the 15 Year review documents that included the Health Systems Trust report on Income Poverty Alleviation Programs (Friedman and Bhengu, 2008), the 20 Year Review documents, the diagnostics process undertaken by the country's National Planning Commission (NPC) in 2012 in preparation for the NDP, annual Development Indicators reports released by the Office of the Presidency, the Country Millennium Development Reports, and a series of reports released by Statistics South Africa following the quinannual Income and Expenditure Surveys (IES) and the Living Conditions Survey (LCS) of 2008. Internationally supported studies include the OECD report on poverty and inequality in 2010 undertaken in collaboration with the University of Cape Town. Studies have also been undertaken by national and international civil society, including the Speak Out on Poverty Hearings organized by the South African Human Rights Commission (SAHRC), the Commission on Gender Equality (CGE), the South African NGO Coalition (SANGOCO) and the South African Council of Churches in 1998, the Institute for Justice and Reconciliation (2006) 'Access Poverty Scorecard' and more recently, a series of thematic studies undertaken by the Strategies for Poverty and Inequality Institute (SPII) including on the Basic Needs Basket and socio-economic rights, and the Oxfam report on hunger and malnutrition released in 2014.

A policy angle was generally missing in the recent studies. These studies have generally focused on descriptive analyzes of levels and trends, sometimes considering a suite of possible causes largely determined by the nature of the study, and rarely looking at existing and intended poverty reduction policy.

5. Data sources

Several surveys are available for the Poverty and Inequality Assessment:

Income and Expenditure Surveys (IES). Statistics South Africa (Stats SA), the official statistics agency of South Africa, is the major source of the data to be used in the Assessment. Stats SA conducts three sample surveys each with a sample size of some 25 000 households that gather data of relevance to child malnutrition. These are the annual General Household Survey (GHS), the Income and Expenditure Survey, undertaken every five years and the Living Conditions Survey (LCS) that is also undertaken every five years. The first of these surveys gathers information on self-reported health and hunger, as well as some questions on episodes of illness. The second has detailed information on expenditure patterns collected using a diary method, and categorized using the Classification of Individual Consumption by Purpose (COICOP), and the last has both expenditure patterns and socio-economic information on living conditions and deprivation. In addition to these surveys, the Community Survey is a mid-censal survey with a sample size of 300 000 households, and a Census is undertaken each decade. Finally, the Medical Research Council, DoH and Stats SA are planning a Demographic and Health Survey (DHS) for 2016. If this survey does take place, and is released into the public domain, it will form part of the secondary data analysis. DHS have been undertaken in the past, but only the 1998 survey is regarded as being reliable.

Pros for using IES, GHS and LCS: they are the main source of representative consumption and income, and living conditions data. Representative up to sub-national level.

Cons for using IES, GHS, and LCS: they do not capture labor characteristics (such as sector of employment). Lack of panel data.

The National Income Dynamics Study (NIDS) surveys. The NIDS is a panel study with a nationally representative sample of over 28 000 individuals in 7 300 households across the country. The survey has since been repeated with these same household members every two years with wave four currently in field. NIDS examines the livelihoods of individuals and households over time. It also provides information about how households cope with positive or negative shocks. Other themes relevant to child food insecurity include changes in poverty and well-being; household composition and structure; fertility and mortality; migration; labor market participation and economic activity, health and education. The data are in the public domain.

Pros for using NIDS: it is a good source of country representative consumption and income data. Panel survey.

Cons for using NIDS: the survey is not representative at sub-national level.

Quarterly Labor Force Surveys (QLFS). The QLFS is a household-based sample survey conducted to collect data on the labor market activities of individuals aged 15 years and above who live in South Africa.

Pros for using QLFS: good source of representative labor data (national and sub-national).

Cons for using QLFS: does not collect incomes or consumption

Demographic Surveys. There are two demographic surveillance sites in South Africa: Agincourt located in rural Mpumalanga; and the Africa Centre located in the Hlabisa district of KwaZulu-Natal, which includes formal and informal settlements as well as rural. Both collect longitudinal data. The Agincourt Health and Socio-Demographic Surveillance System (HDSS) has undertaken demographic surveillance in the Bushbuckridge district since 1992 when the area had a population of 58 000 people. This forms the baseline for annual data collection. The Africa Centre's Demographic Information Systems (ACDIS) started in 1998, with the first wave of data collection conducted at the beginning of 2000. The Africa Centre DSA has a monitored population of about 90 000, about 25 000 of them non-resident. There are 11 000 households included in the study. These data are not in the public domain but access can be requested.

Pros for using these surveys: they are a detailed source of local area representative demographic data especially related to the impact of HIV/AIDS. Panel surveys.

Cons for using these surveys: only selected regions are included and there are weak consumption/income variables.

SANHANES-1 is a cross-sectional survey undertaken in 2011 and has a realized sample of 6 306 households and 25 532 individuals. SANHANES-1 also sought to recruit and establish a cohort of 5 000 households to be followed up in subsequent waves of data collection. The survey gathered the standard socio-economic variables but included a clinical examination that collected blood, and as well as anthropometric measures. Dietary intake was also collected. Re-analyzing the earlier NFCS 1999 is another possibility since these data have extended information on migration history of mothers, grandmothers and children which provide info on whether children were with mothers or not. These data will soon be in the public domain.

Pros for using this survey: it provides bio-markers and is thus a good source of detailed health, food security and nutrition data. Nationally representative.

Cons for using this survey: The data is not yet in the public domain. Not representative at the sub-national level.

The National Youth Risk Behavior Survey is a cross sectional national prevalence study, comprising learners in grades 8, 9, 10 and 11. A sample of 1200 learners in each province was selected from 23 schools in each province, and on average 2 classes per school were selected in the second stage sampling. Access to these data can be requested.

Pros for using this survey: It focuses on youth. Nationally representative.

Cons for using this survey: Not yet in the public domain. Not representative at the sub-national level.

Suggestions for discussion:

- The study will utilize different data sources. The main poverty analysis will be based on the IES surveys, complemented by the NIDS (for chronic poverty and poverty dynamics analysis). Labor related section will utilize NIDS and QLFS data. Other data sources could be considered for selected areas of the analysis.

6. Outline of the report and its content

The report will be comprised of four major parts and an executive summary. The parts will be comprised of different chapters. Below is the proposed outline.

Part 1: The nature of poverty and inequality in South Africa

An appraisal of different methodologies used for poverty measurement, in South Africa. A description of the trends and analysis of the nature and features of all dimensions of poverty, incorporating non-income dimensions, and including poverty profiles and dynamics. This analysis will extend to the use of such evidence in pro-poor policy formulation.

- A. Methodology for measuring poverty in South Africa
- B. Poverty and inequality over time
- C. Profile of the poor
- D. Challenges of inequality
- E. Income mobility and chronic poverty
- F. Non-income dimensions of poverty

Part 2: Determinants and causes of poverty

An analysis of the determinants of poverty changes, highlighting how the productivity of different economic sectors and different social welfare programs contributed to observed poverty changes.

Part 3: Challenges of poverty reduction

South Africa faces a number of challenges in reducing poverty and promoting shared prosperity. While all of them are important, the report will aim to identify the main barriers to and opportunities for progress in these areas with a view to highlighting policy priorities. The areas that could be analyzed include, but are not limited to:

- A. High inequality, small middle class, vulnerability and polarization
- B. Labor market challenges
 - a. Analysis of labor market deficiencies focusing on SMEs and informal economy
 - b. Role of migration in labor market
 - c. Declining employment in the mining sector
 - d. Role of labor market institutions and minimum wage
- C. Maximizing the return on social protection and delivering on the social wage

- D. Improving the performance, access and returns to education
- E. Health, HIV AIDS and non-communicable diseases
- F. Economic geography of poverty
- G. Agriculture, food security and nutrition

Part 4: Reforming policies for alleviating poverty

A discussion on possible policy reforms that might support further poverty and inequality reduction. This will be supported by development of projections illustrating the likely scenarios for poverty reduction based on current, hoped for and worst case scenarios.

6.1. Part 1: The nature of the poverty in South Africa

A. Methodology for measuring poverty in South Africa

Since the 1996/7 Poverty and Inequality Report, there have been frequent updates on macro-poverty trends, in terms of money-metric poverty as well as in terms of access to services and other non-income indicators of poverty. In 2012, Stats SA published a suite of three national poverty lines to be used for poverty measurement in the country. These have since been accepted by the South African Cabinet and used in most official studies of poverty. The food poverty line (FPL) is the level of consumption below which individuals are unable to purchase sufficient food to provide them with an adequate diet. Those below this line are either consuming insufficient calories for their nourishment, or must change their consumption patterns from those preferred by low-income households. The lower-bound poverty line (LBPL) includes nonfood items, but requires that individuals sacrifice food in order to obtain these. Individuals can purchase both adequate food and non-food items at the upper-bound poverty line (UBPL).

Some work has been undertaken to reformulate South Africa's poverty lines (cf Tregenna 2011; Budlender et al, 2015), some of which has a significant impact on the level of the poverty line. For example, Budlender et al (2015)'s proposed upper bound poverty line would work out at PPP\$7.27 per day (at the ICP's 2011 PPP for South Africa of 4.774) implying that 63 percent of South Africa's population would be categorized as living in absolute poverty. While the prevalence of poverty changes significantly, the impact on the poverty gap are modest and even at the UBPL, the poverty gap is relatively small, at around 3 percent of GDP and is less than 0.5 percent for the FPL. This suggests that a quite modest redistribution of South Africa's wealth could significantly reduce poverty irrespective of how poverty is measured. Furthermore, given the adoption by the NDP of the LBPL, and the use of the UBPL by the Presidency in its Development Indicators Report, it seems unlikely that further refinement will have much effect on any targeting policy adopted by government either in terms of geography, demography or socio-economic group. Analysis in the Poverty Assessment would be usefully focused on resolving the trends in the prevalence and severity of poverty.²

A final issue is the way in which poverty statistics have been used for policy development and in the implementation of policy. Although the measurement of poverty is well established globally and in South Africa, it continues to be the subject of a politicized debate in which measurement is sometimes seen as obfuscation, the thresholds as unacceptably conservative,

² Some technical issues concerning the poverty line are still unresolved and merit further investigation. These include 1) Assessment of the recommendations of Budlender et al concerning the upper bound poverty, adopting an alternative methodology such as Noble's et al's recommendation of a democratic poverty line and assessment of Tregenna's concerns about which adjustment should be used to take account of prices 3) Development of appropriate adult equivalent scales and economies of scale parameter for poverty measurement 4) Evaluation of the Stats SA rebasing methodology to take account of better data and changing consumption patterns. It is important to emphasize that the report will be using the official poverty methodology that will be developed in collaboration with Stats SA.

and the division of society into poor and non-poor as being of questionable use. Poverty measures are also associated with contentious political choices such as the nature and level of support provided by public policy, how minimum wages are determined or as an administrative threshold beyond which eligibility for public funds is withdrawn. The result is that measures may be regarded with suspicion by policy-makers and civil society alike, and researchers retreat into defensive positions around their measure of choice (Du Toit, 2005).

Suggestions for discussion:

- What are appropriate measures of poverty in the context of extreme inequality?
- What are appropriate adult equivalence scales and economies of scale in the South African context?
- Is there evidence that poverty measurement has had an impact on policy development, the allocation of resources, and implementation?

B. Poverty and inequality trends

This section will include a review of two decade long trends in income distributions focusing on economic growth and its inclusiveness in South Africa. The analysis will use the newly available IES 2015 and NIDS 2015 survey data and look at the main changes which occurred since the beginning of and mid-2000s. The analysis will include growth incidence analysis, poverty and inequality decomposition, factors affecting poverty and inequality, and correlates of poverty.

Most studies agree that that there has been only modest progress in terms of the reduction of money-metric poverty, but that considerable gains have been made in terms of access to a broad suite of non-monetary indicators relating to access to services and facilities, as well as in terms of access to household durables (Bhorat et al, 2006). It is also apparent that there has been a decline in self-reported hunger, although most indicators of malnutrition (stunting, wasting, under-weight, micro-nutrient deficiencies, and over-weight/obesity) show either modest improvement, or have worsened. Health related indicators also show little progress, largely due to the HIV/AIDS epidemic, and for part of the period, life expectancy actually declined, infant, under-five and maternal mortality rose, and disability adjusted life years (DALYs) declined. All studies show that there has been an increase in both aggregate inequality and inequality within each race group (van der Berg et al., 2005; Ozler, 2007; Leibbrandt et al, 2010; Tregenna, 2011). Finally, whatever poverty line is used, and at any period, Africans are poorer than Coloureds, who in turn are poorer than Indians, who are poorer than whites³.

Suggestions for discussion:

- Has income inequality in South Africa been rising or falling over time? What has happened to wealth inequality over time?
- What is the impact or role of inequality on poverty reduction?
- What has been the distributional effect of growth? Has growth been pro-poor? To what extent to has prosperity been shared? (Growth incidence analysis and low elasticity to growth)
- How does South Africa compare to other countries? (South Africa as the most unequal country in the world)

^{3/} To ensure compatibility with South Africa's official statistics, we have made use of the racial categorization preferred by Statistics South Africa. Thus 'Africans' refer to black South Africans of indigenous descent, 'whites' refer to white South Africans of European descent, Indian refers to South Africans of Asian descent, and 'coloureds' refer to South African's of mixed ancestry including those descended from the Malay and Khoi populations.

- Why have socio-economic and health indicators shown little progress although rates of self-reported hunger and money-metric poverty have declined?
- Why has it been so difficult to achieve greater redistribution? From whom has the redistribution that has occurred been taken, and who has benefitted?

C. Profile of the poor

Exploring the heterogeneity of poverty beyond the basic categorization of race and urban/rural, and identifying whether some groups face poverty traps that will require more emphatic action by government is critical. The chapter will highlight the salient characteristics of overall poverty and of the living conditions of the many poor along a variety of dimensions, including gender, regions, economic activity, education, and other household characteristics. The methodology for this chapter will be largely descriptive, and standard for poverty profiles. The chapter will also describe inequality and its change, across time, gender, regional and occupation groupings.

Suggestions for discussion:

- Who are the poor in South Africa? How does poverty vary across population groups?
- Where are pockets of deep poverty? Which population groups should policy focus on (e.g. miners, smallholder farmers, children, the disabled, etc.)?
- What is the extent, characteristics and determinants of child poverty and what opportunities exist for improved measurement and use in policy development and implementation?

D. Challenges of income inequality

Academic studies investigating the evolution of income inequality in post-apartheid South Africa agree that disparities remain extremely high by international standards, with the post-tax, post-transfer income Gini-coefficient being above 0.65 for every nationally representative survey since 1993 (see inter alia Leibbrandt et al. (2010), van der Berg et al. (2008) and Özler (2007)). Aggregate inequality measures have generally shown an increase in inequality over the post-apartheid years up to 2008, followed by a modest decline in subsequent years up to 2012. It is clear that the steady growth in average real incomes has not been accompanied by a fall in SA's historically high inequality.

Studies find polarization of the income distribution in South Africa. Bhorat et al (2014) analyzed the nature of economic growth during 1995-2005 period. The study finds a decline in aggregate levels of poverty, but increasing levels of inequality. While all South Africans have benefitted from positive economic growth, individuals at the top end of the distribution gained most from the post-apartheid growth dividend. The growth model provides substantial income support to the poor through the social grant program, whilst offering few returns to those in the middle of the distribution (social transfers have offset potentially greater increases in income inequality especially for those living in African households and in rural areas).

Another finding that is common to all studies of income inequality is that the racial component of inequality has changed somewhat over the past 20 years. While the income gap between racial groups has narrowed, within-group inequality increased and has become more of a contributor to overall inequality than inequality between racial groups. However, this trend seems to have come to a hold in recent years. Data from 2008 to 2012 suggest that both the income gap between and within racial groups have narrowed. In 2012, according to the Theil Index, inter-group gaps made up about 35 percent of South Africa's income disparity. Although this figure is far lower than the 1993 rate of 61 percent, it is still much higher than in many other societies.

There is an agreement in the literature that income from the labor market has been by far the most important contributor to overall inequality. Decompositions of the Gini coefficient by income source (see inter alia Leibbrandt et al. (2001), Bhorat et al. (2000), and Leibbrandt et al. (2010)) find that, across all years, wage income (including self-employment income) has a dominant share of income (around 70 percent) but makes an even larger contribution to inequality (around 85 percent). The labor markets played dominant role in driving inequality, accounting for 70 percent of the total income Gini coefficient.

Suggestions for discussion:

- What explains intra-race inequality? “[...] increasing intra-African earnings inequality dictates the evolution of aggregate income inequality in the country (Leibbrandt et al., 2012).” (p.322)
- What is the role of segmentation of the labor market into union and non-union sectors?⁴
- Skill biased technical progress has been identified around the world as the cause for sharply rising wage premiums for educated labor. Has there been a trend reversal in recent years and what were the drivers?

E. Income mobility, chronic poverty and economic vulnerability

There is no consensus among researchers on the role and extent of income mobility in South Africa. Finn and Leibbrandt (2013) assess the extent of absolute and relative mobility in the first three waves of NIDS data and reveal how equalizing or disequalizing this mobility has been. They find that overall there was a lot of absolute and relative mobility. For just a small fraction, incomes remained flat over this time horizon. However, Lechtenfeld and Zoch (2014) question whether income mobility in South Africa over the last decade has indeed been as impressive as currently thought. They employ an instrumental variables approach using two different instruments to quantify measurement error in the NIDS and KIDS datasets. Overall, income mobility appears much smaller than previously thought, while chronic poverty remains substantial and transitory poverty is still very limited in South Africa.

This chapter of the report will revise issues of income mobility and analyze chronic poverty, economic vulnerability, and a middle class in South Africa based on the available panel data (NIDS). This section will discuss the chronic poor and vulnerable, explore pockets of chronic poverty, define the scope of the chronic poverty, transient poverty, and economic vulnerability in South Africa based on the newly available data and look at the changes over time. The report will utilize panel data components defining chronic poverty and vulnerability⁵. It will explore how chronic poverty has evolved since the beginning of the reforms and why the changes in the chronic poverty and vulnerability occurred. The report will shed light on how changes in prices, jobs, income, and social protection efficiency impacted the chronic poverty and economic vulnerability during that period. It will analyze the impact of the economic changes on the size and characteristics of the poor and vulnerable.

Proposed Methodology: Jalan and Ravallion method defining chronic poverty will be used in this section. Using a time series of consumptions at household survey level, we will

⁴ Unions have both compressionary and dis-equalizing effects on wages. The dis-equalizing effect dominates the compressionary effect, suggesting that unions have a net effect of increasing wage inequality among African men in South Africa (Ntuli & Kwenda 2014).

⁵ Using inter-temporal households' consumption we will define the scope of chronic and transient poverty in South Africa and will shed light on economic vulnerability. Chronic poverty will be defined based on the inter-temporal households' consumption, where chronically poor will be set as permanently poor households. Transient poverty will be defined in case of households poor in only some of the periods. Economic vulnerability will be defined based on probability model to fall in poverty.

measure the extent of transient poverty as the amount of poverty ascribed to variability of consumptions over time. Chronic poverty is measured by the amount of poverty in the distribution of time-mean consumptions. We have then investigated the household correlates of each component separately using regression methods. We will analyze the determinants of chronic and transient poverty using data from a nationally representative data. The differences in the characteristics of the chronic and transient poverty groups will be estimated.

This chapter will define the scope of economic vulnerability and middle class and their characteristics. Polarization and middle class have recently come to the center of policy debate in middle-income countries. The role of the strong middle class is central in inclusive growth and development. The report will define the scope of the vulnerability and middle class in South Africa and follow its evolution over time.

Proposed methodology. The methodology developed by Luis F. Lopez-Calva and Eduardo Ortiz-Juarez will be used for this section. The method utilizes vulnerable-to-poverty approach which defines the middle class in absolute terms as those households with income or consumption in a specific and comparable range. The method proposes an empirical methodology to define and analyze the middle class based on the notion of vulnerability to poverty. Following a regression-based approach this method exploits panel data to estimate the amount of comparable income, associated with a low probability of falling into poverty— which depicts the beginning of the middle class (lower threshold). NIDS panel data will be used for this analysis

Suggestions for discussion:

- What is the scope of income mobility in South Africa?
- Structural and chronic poverty revisited: Is there new evidence from NIDS? What is the scope of chronic poverty in South Africa?
- Economic vulnerability and polarization. Is the middle class better off or worse than eight years ago?

F. Non-income dimension of poverty

Poverty is multidimensional phenomenon. In this regard, the challenge with the use of money metric measures (consumption and/or income) is that they fail to capture aspects of poverty that are related to commodities not typically transacted in the market. For example, education or health outcomes have intrinsic values beyond their costs while the welfare loss from unemployment is potentially associated not only with the observed income loss but also with a lower perception of the quality of life and human dignity. Health, nutrition, education, physical security, voice, justice, and capacity and opportunity to improve one's life are also essential dimensions of poverty and wellbeing (World Bank, 2010).

Therefore, this section will complement the analysis by exploring the non-income dimensions of poverty. This way, the sub-section will make it possible to examine whether changes in wellbeing revealed by money metric measures are supported by changes in non-income dimensions of poverty. The choice of non-income indicators will be guided by availability of data and is envisaged to include housing conditions, access to piped water, electricity, flush toilets, education, household physical asset ownership, and food security indicators. Further, the choice of indicators will also draw from the work Statistics SA has done on the development of a Multidimensional Poverty Index for South Africa.

Overall, the analysis will help identify gaps in access to basic services in South Africa. The analysis will thus highlight the multiplicity of deprivations that the poor face thereby giving more insight into additional deprivations.

Suggestions for discussion:

- Are changes in wellbeing revealed by money metric measures supported by changes in non-income dimensions of poverty?
- What is the relationship between subjective poverty, money-metric measures and non-income dimensions of poverty?
- What is the extent of inequality in access to services in South Africa (education, water and sanitation, health, electricity etc.)?

6.2. Part 2: Determinants and causes of poverty and inequality

The proposed work under this sub-section will examine the drivers of poverty reduction through techniques such as decomposition analysis, regression analysis making use of both cross-section and panel data from many different nationally representative data sources. In investigating the drivers, the proposed work will seek to understand why poverty has shown a more tangible reduction while inequality has remained stubbornly high. An explanation will be sought the mix of policies that on the one hand target economic growth and those that target redistribution on the other hand. In pursuing the explanation, sufficient link will be drawn to the possibility of persistently high inequality being at the root of slow growth in South Africa.

Slow growth is one of the key factors explaining poverty stagnation in South Africa. Empirical research has shown that poverty decreased significantly over the last 10 years in South Africa, while inequality remains stubbornly high. Changes in poverty and inequality could be driven by many possible factors. To start with, though economic growth prospects have been slowing in recent years, relatively high and consistent economic growth following the end of apartheid in 1994 up to around 2011 supported poverty reduction. Decomposition of changes in incidence of poverty between 2006 and 2011 – based on an analysis of Income and Expenditure surveys for 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.

Another possible explanation to observed changes in poverty and inequality is substantial government spending on improvements in the social protection system and in the social wage. The social wage refers to the redistributive elements of the government budget. It 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 this targeting that has contributed to the observed reduction in poverty over time.

While the fiscal system has been acknowledged as central to poverty and inequality reduction, 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. World Bank (2014) argue that in the long term, a sustainable driver of poverty and inequality would be job creation. The unemployment rate has recently been above 25 percent while unemployment around the youth (15-24 years) is higher than 50 percent. Given the challenge with entrepreneurship, access to labor income earning opportunities is of course related to unemployment and the role of the informal sector, while inequality of labor income itself depends on the distribution of skills, and the distribution of returns to skills. The structural reasons for persistence of income poverty and inequality in South Africa thus boil down to (i) inequality in skills, primarily education, (ii) inequalities in

the returns to skills, (iii) unemployment and (iv) low productivity and low labor income in the self-employed informal sector (Bhorat 2013).

Given this background, this sub-section will seek to answer the following research questions:

- What factors (regional, community, household, and individual level) have been important sources of poverty reduction and welfare improvements?
- What type of growth and investments in public goods drove poverty reduction and welfare improvements?

6.3. Part 3: Challenges of poverty reduction

A. High inequality as an obstacle for the fast poverty reduction

South Africa displays strikingly high and persistent inequality for an upper middle-income country. While GDP growth has averaged a credible 3.2 percent a year since 1995, it has been highly uneven in its distribution. In large part, inequality in South Africa is an enduring legacy of the apartheid system, which denied the non-whites the chance to accumulate capital in any form— land, finance, skills, education, or social networks. Even though social assistance grants have had a moderating influence on inequality, an income Gini of about 0.70 in 2008 makes South Africa one of the most unequal countries in the world. The high and persistent patterns of inequality predictably polarize the political and economic debate in the country, with consensus being especially hard to achieve on the questions of what notions of equality (or equity) should guide policy, and how? Consensus, however, is easier to reach on the need to promote inclusive growth and equality of opportunity—the principle that predetermined circumstances such as gender, ethnicity, and location of birth or family origins should not play a role in determining an individual’s chance of success in life.

The need for more ‘inclusive growth’ has been recognized in South Africa. Growth is less likely to be sustainable with high and growing inequalities, and also the inequality can hamper growth. The growth achieved in the past several years demonstrates that South Africa has learnt how to bring about growth, but it is yet to achieve comparable success in inclusiveness. Unfortunately, there is no simple recipe for enhancing inclusive growth and shared prosperity. The challenge, therefore, is to develop policies making growth more inclusive by finding ways to boost the incomes of the bottom 40 percent.

Tregenna (2010) argues that even at the highest projected growth rates, South Africa will not halve poverty either in terms of the poverty ratio or the poverty gap without adopting measures to bring about further redistribution. She concludes that poverty reduction will not be achieved by growth alone. Her modelling of the distribution effect on poverty reduction make a convincing case that while growth is important, redistribution is essential. To date, the poverty elasticity of growth (the rate of pro-poor growth) has been disappointing but it is possible that simply using the headcount of money-metric poverty underestimates the progress that has been achieved. Adjusting for the social wage would be worth exploring since access to services and facilities have made up a good deal of South Africa’s poverty reduction policy.

One area of opportunity, for example, innovative programs for poverty reduction lies in the rapid uptake of new information and communication technologies (ICT). In 2013, approximately 148 mobile cellular subscriptions per 100 people were reached (Presidency, 2014). ICT has been found to have a complex association with poverty, both offering opportunities for poverty reduction, but also for further exclusion through a widening digital divide. The linkages in South Africa have not been well researched although there is some evidence to suggest that the relationship is generally positive, but that there are structural and institutional constraints that need to be addressed.

Suggestions for discussion:

- To what extent is the size of the middle class, income polarization and high inequality an obstacle for poverty reduction?
- What are the opportunities for innovation for poverty reduction? Is there a risk of new forms of inequality through a ‘digital divide’?

B. The labor market challenges

Low labor force participation and the lack of access to employment contribute towards both the persistence of poverty in South Africa and to rising inequality. This is due both to rising unemployment and rising earnings inequality. The poorest income groups have the lowest absorption rates (percentage of working age population who are employed), and this appears to have worsened for the bottom three deciles between 1993 and 2008. Furthermore, labor force participation rates have increased faster than the share of employed in the working-age population, largely due to improvements in child survival that began during the late 1980’s and a demographic bulge that has not resulted in a concurrent demographic dividend.

High proportion of the population in South Africa is not working and predominantly poor. The employment-to-population ratio measures the proportion of the country’s working-age population that is employed. The ratio is used to evaluate the ability of the economy to create jobs and therefore is used in conjunction with the unemployment rate. In general, a ratio above 70 percent of the working-age population is considered to be high, whereas a ratio below 50 percent is considered to be low. The employment to population ratio has remained at around 41-45 percent of the working age population since 2001. In 2014, using Stats SA’s narrow definition of unemployment, the unemployment rate was 25 percent. Leibbrandt et al (2010) report that the share of households in South Africa with no link to the labor market increased sharply from 30 percent in 1997 to 42 percent in 2008. In addition to this, employment in subsistence agriculture and the urban informal economy, important safety nets in most developing countries, is relatively low in South Africa at around 10 percent of the total employed.

The target of the South African government is to cut unemployment by at least half to a maximum of 14 percent in 2020. However it is not evident that this target can be met given that gains in employment have been modest. Further, it is worrying that employment continues to have a gendered and generational distribution. Women have far lower employment prospects than men at around 37 percent of women of working age in employment compared to 50 percent of men. Youth (15-24 years) unemployment is persistently much higher than all of the older age groups and has been consistently around 50 percent. Finally, employment does not necessarily bring about poverty reduction: some 35 percent of those who are employed live in households living below any of the poverty lines. Leibbrandt et al (2010) note that there has been a drop in returns to an education level of less than Grade 12.

a. Analysis of labor market deficiencies focusing on SMEs and informal economy

This section will analyze labor market issues in South Africa associated with lack of productive employment and low wages that lead to poverty. The analysis will be based on the information available in the NIDS and LFS surveys. This section will analyze employment, sectorial movement and changes over time, the unemployment rates and wages. The analysis will distinguish between self- or wage-employed, and further looks at employment by sector, size of firm, rural/urban, formal/informal, and other relevant characteristics. The analysis will also look at constraints to certain sectors with opportunities for productive employment, constraints affecting the ability to gain employment in these sectors, and constraints affecting labor mobility across sectors and regions. The analysis will focus on SMEs and informal economy challenges, covering sources of high unemployment and youth unemployment issues.

There is no consensus on the causes of high unemployment in South Africa and an additional research is required. Some South African researchers find that unemployment is structural, as there is a mismatch between the skills demanded by employers for the available jobs and the skills supplied by the labor force seeking work. As there is an increase of demand for highly-skilled workers with the adoption of capital-intensive and technologically more advanced production processes, most of the unemployed are unskilled and not well educated (Yu 2012). Other authors have associated unemployment in South Africa with slow job creation and lack of demand –“South Africa has plenty of skills but a shortage of jobs”.

Another aspect that will be analyzed in this section is youth unemployment and transition from school to work. Finding work is challenging for many youths, either due to lack of the appropriate skills demanded by the modern economy or a confrontation with labor market rigidities. What are the factors influencing these outcomes for the youths who have dropped out of schools and are stuck in unemployment? Programs providing support to youth in their transition to work include technical and vocational education and training programs targeting at-risk youth and lifelong learning.

Proposed methodology. Panel data will be used to define transition matrices of changes in labor status of each individual. We will use a dynamic multi-nominal logit panel data model, explaining the labor market transitions. Similarly, wage information will shed light on the evolution of sector earnings premiums over the survey period, as well as the sensitivity of inter-sectoral mobility to earnings gaps. Use of panel data techniques allows determination of the factors impacting individuals' ability to find jobs, remain long term in the unemployment status or to get out of the labor force. The simulated probabilities of transitions for individuals in different market conditions and for different individuals in the same period will be compared. A separate panel regression analysis will be done on the changes in the incomes of the population.

b. Role of migration in the labor market

South Africa has been a migrant-receiving country for many decades. The majority of those migrants were, and are, from neighboring countries within the Southern African region. And, until 1994, South Africa was also an important destination for (white) immigrants from Europe. The most significant changes in the last twenty years have been the virtual cessation of immigration from Europe and a dramatic increase in the numbers of skilled migrants leaving South Africa for overseas destinations. South Africa has continued to receive migrants from neighboring countries, but in progressively greater numbers. Migrant streams have also become far more diverse. For example, South Africa has begun to receive migrants from developing countries further afield, including the rest of Africa and Asia (Jonathan Crush and Vincent William).

The impact of immigration on the economies of destination countries goes beyond a pure increase in labor supply. Immigrants bring a different set of work skills, which may complement those of domestic workers and increase productivity (Hunt and Gauthier-Loiselle, 2010). They tend to be young and less risk averse, two traits that are conducive for innovation. By contributing directly to the labor force, immigrants potentially play an important role in generating human capital externalities, as widely recognized in the endogenous growth literature (Friedberg and Hunt, 1995). Finally, immigration fosters competition and encourages specialization of natives towards communication-intensive tasks, leading to increased long-run productivity (Peri and Sparber, 2009). Nevertheless, immigration might have negative effects by crowding out fixed factors of production such as capital.

Proposed methodology. The empirical literature on immigration has generally focused on its impact on the labor market outcomes of the native population. There are two econometric approaches used to estimate immigration effects: spatial correlation and skill cell. The spatial correlation approach explores the immigration impact on wages and employment of

the native population by using data on the geographic distribution of immigrants in a destination country. These studies, including LaLonde and Topel (1991), Altonji and Card (1990,1991), Borjas, Freeman, and Katz (1997), and others, find only a modest impact of immigration on the variables of interest in the U.S. The skill cell method studies the immigration impact on labor market outcomes using national level data as applied in studies by Borjas (2003, 2006), Ottaviano and Peri (2008), and others group labor inputs into skill cells based on education and experience, assuming there is no mobility across these groups.

c. Declining employment in the mining sector

The performance of South Africa's mining sector has been poor in recent years. Specifically, the recent plunge in commodity prices has seen the sector shedding jobs which has contributed to low economic growth. In fact the plunge in commodity prices coincided with prolonged strikes in the sector, rising wage demands and energy (electricity) constraints which had adverse effects on the performance of the sector.

Yet, the sector has, along with agriculture, been a critical source of jobs for unskilled and semi-skilled labor in South Africa. It employs a large number of vulnerable workers. In addition, because the sector has historically relied on rural labor not just from South Africa but from other countries in Southern Africa, the importance of mining in livelihoods is a regional matter. The challenges affecting the sector go beyond the employees themselves, affecting their dependents.

Of policy interest is to understand the extent to which the declining role of mining in South Africa's economy is likely to impact rural unemployment and poverty given that this will reduce the level of remittances received by households that depend on mine remittances for survival. Understanding the specific risks and vulnerabilities that mine workers face is key to coming up with initiatives that could enhance the role of mining in poverty and inequality reduction and/or cushion mine workers from the challenges the sector is experiencing.

Further, the impact of the mining sector challenges are likely to go beyond the labor/earnings effect, having also implications on the fiscal space and subsequently on the government's ability to finance social protection and the social wage.

d. Role of labor market institutions and minimum wage

The motivation for this section is to analyze the extent to which labor regulation is a binding constraint for the development of the South African labor market. The main question that will be explored in this note is whether and to what extent the observed increase in wage inequality and unemployment in South Africa is attributable to non-market forces such as minimum wage regulations and collective agreements.

Unemployment in South Africa is exceptionally high and is the country's most pressing challenge. A consensus among the researchers and policymakers is that high unemployment is at least partially caused by South Africa's labor market institutions and regulations. There have been significant changes in the sectoral composition of the economy and employment over the past three decades with a rapid rise in employment in tertiary sectors and services, while there has been a fall in employment in manufacturing, agriculture and construction. These trends have driven and reflect a shift towards a more capital- and skills-intensive economy, with fewer new low-skill jobs being created. Millions of unskilled people are without work and their future depends on the country's ability to absorb and create a conducive labor environment.

It is not clear whether South Africa has achieved an appropriate balance between worker protection and labor-market flexibility. It is evident that a lot of changes in the labor market are not set competitively, having adverse impact on the economy (Bhorat et al., 2014). Conditions of employment for a large portion of the South African workforce are determined

centrally or according to sectoral collective agreements, rather than at the firm level. Therefore, wages do not necessarily reflect the productivity of individual firms.

Recent evidence suggests an adverse impact of the regulations on employment, but additional research is needed to assess the long term impact. There is research on measuring the impact of minimum wages on employment, poverty and income distribution in South Africa. Unpublished papers by Hertz (2005, 2006) and Dinkelman and Ranchhod (2010) examine the impact of the legislation on a number of observables in this sector. Immediate and significant increases in earnings are reported after the introduction of the law in both studies. The results suggest that employment was not adversely affected by the law, even though wages rose. However, in a more recent study by Borat et al (2012) the authors found adverse impact of the minimum wage on employment within the agriculture sector. The results suggest a significant reduction in employment in agriculture resulting from the minimum wage, and an increase in wages on average. A key caveat to the study is that the data covers a relatively short period of time after the introduction of the law (2000-2007). As authors suggest “In the longer term, as the agricultural sector responds to this legislation, the effects observed here may change. Future studies may find valuable insight in examining the fluctuating nature of agricultural employment to see how employers respond to the legislation over time both at the extensive and intensive margin”.

Proposed methodology. The section will update on the analysis carried out by Borat et al (2012). Difference-in-difference analysis originally proposed by Borat et al will be utilized. Having detailed information about the reforms in labor market regulations (i.e. information in terms of industries and timing of changes in minimum wages), a difference-in-difference approach can be used to study the impact of the relaxation of labor market regulations on wage inequality. In other words, the exogenous variation induced over time (before/after the change in regulations) and across industries can be exploited to study the causal impact of labor market regulations on inequality.

Suggestions for discussion:

- What opportunities exist to increase the contribution of the informal economy to poverty reduction?
- What are the options for improving the pro-poor efficiency of employment through public works?
- What are the sources of the high unemployment in South Africa – demand or supply factors?
- What is the role of internal and international migration in South African labor market?
- What are the drivers of employment in mining? What are the direct and indirect socio-economic impacts of job losses in the mining sector?
- How can the mining sector’s contribution to poverty reduction be enhanced?
- Poverty and policy for the reduction of poverty among full-time and seasonal mine workers.
- What, if any, are the medium term impacts of minimum wage legislation on employment?
- How and to what extent is trade union bargaining power impacting the South African economy?

C. Maximizing the return on social protection and delivering on the social wage

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. These are reflected in substantial government spending on improvements in the social protection system and what is broadly termed the social wage which basically refers to the redistributive elements of the government budget. The subsection will highlight the challenges associated with these components of the fiscal system and investigate ways in which these challenges can be overcome to support faster poverty and inequality reduction while ensuring sustainability.

a. Maximizing on the return on social protection

Although initially seen as a short-term measure to address poverty, social grants have become an increasingly important source of livelihood in South Africa. Social protection now represents the single largest poverty reduction strategy of the country in terms of coverage and resources. There has been a dramatic increase in the number of beneficiaries in receipt of social grants from 2.6 million in 1994 to over 16 million people by 2014 (Presidency, 2014). For the beneficiaries, the social protection program and high levels of unemployment mean that two thirds of income to the bottom quintile comes from social assistance, largely from the Child Support Grant.

The key legislations governing this system include:

- The Constitution of the Republic of South Africa, (Act No 108 of 1996), provides for everyone to have the right to access to social security. This includes, if they are unable to support themselves and their dependents, appropriate social assistance and obliges the state to take reasonable legislative and other measures within its available resources to achieve the progressive realization of these rights.
- The South African Social Security Agency Act, 2004 (Act No. 9 of 2004) gives legislative authority for the establishment of SASSA an agent for the administration and payment of social assistance to provide for the prospective administration and payment of social security by the Agency and the provision of services related thereto; and to provide for matters connected therewith.
- The Social Assistance Act, 2004 (Act No. 13 of 2004) gives legislative authority for the transfer of the social assistance function to SASSA. The Act provides for the rendering of social assistance to persons. It provides for the mechanism for the rendering of such assistance and the establishment of an inspectorate for social assistance and for matters connected therewith.

Although the Old Age Pension (OAP) was established during the apartheid era, the introduction in 1998 of a Child Support Grant (CSG) for children younger than seven years is especially noteworthy. The coverage of this grant has now been expanded to older children in later years and now reaches 11.7 million children. Grant payments have risen from 2.9 percent of GDP and now amount to 3.1 percent, which is almost three times higher than the median spending of 1.4 percent of GDP across developing and transition economies (Presidency, 2014; Leibbrandt et al, 2010: 53). This has prompted concerns over the sustainability of the social assistance system given the high level of unemployment. However; after a steep increase following the introduction of the Child Support Grant, the cost of the social grants as a percentage of GDP has remained stable since 2011. Nonetheless, World Bank (2014) argue that in the long term, a sustainable driver of poverty and inequality would be job creation. Almost all studies assessing the impact of South Africa's social protection programs have concluded that the grants have had a positive effect on a range of outcomes beyond boosting the incomes of their targets. These include school attendance rates, health status and nutritional outcomes.

Several studies have suggested that further increasing the value of the grants will not be sufficient to address poor performance in terms of child welfare, the vulnerability of older people and women in general, mental health and other forms of social distress. In addition, according to Census 2011, 3.4 percent of the population of South Africa is living with disabilities, many of whom are vulnerable to poverty. Developmental social welfare has always been intended as the instrument with which to tackle these issues and has not yet received sufficient critical attention. Questions include the reach and effectiveness of social workers and of other forms of community outreach, the extent and adequacy of support in schools, and the inclusion of disabled people in society and the economy.

Suggestions for discussion:

- What are the coverage gaps in social protection, particularly in terms of child and youth poverty, mental health as well as those who are poor and living with disability?
- How efficient is social protection in South Africa as an instrument for reducing extreme poverty?
- How efficient is social protection in South Africa in achieving graduation from all forms of poverty?
- How sustainable is South Africa's social protection system given the low growth environment?
- What is the role of social workers and other frontline care workers in poverty reduction?

b. Delivering the social wage

The South African government's overarching policy for poverty reduction is through the provision of a 'social wage' package intended to reduce the cost of living of the poor (Government of South Africa, 2007). This includes free clinic-based primary health care for all, compulsory education for all those aged seven to thirteen years, and subsidies on housing, electricity, water, sanitation, solid waste removal and transportation for those who are categorized as indigent and thus qualify. The social wage includes the social protection system that predates the democratic era and which has been significantly expanded.

Close to 60 percent of government spending is allocated to the social wage and expenditure on these services has more than doubled in real terms over the past decade. As a percentage of GDP, spending on the social wage has risen from 13 percent to 19 percent (National Treasury, 2013:

83). Van der Berg & Burger (2002:10-11) show that the share of social spending allocated to the African population increased from 51 percent in the immediate transition period to reach 80 percent as early as 1997. The World Bank noted that South Africa spent more than other countries on its social programs, with this expenditure successfully lifting around 3.6 million individuals out of poverty (based on US\$2.5 a day on a purchasing power parity basis) and reducing the Gini coefficient from 0.76 to 0.596 in 2011. Taxes and social spending have succeeded in closing the gap between the rich and the poor from a situation where the richest decile earns over 1 000 times more than the poorest decile, to where the richest decile earns about 66 times more in 2011.

There has been a doubling in per capita health spending over this period, the provision of free basic education to the poorest 60 percent of learners and the construction of 1.4 million free homes. Between 2003 and 2014, an additional 4.1 million households have been accommodated in formal dwellings. The government subsidy housing program contributed

some 1 367 870 formal houses between 2004 and 2014. However concerned around quality, the model of housing construction that has been adopted, and the persistence of large informal settlements remain concerns. It is evident that housing backlogs remain a concern, while increasingly frequent service delivery protests point to the need for improved service provision, and critically, the maintenance of those services that are in place.

Despite this, over 3.2 million households still have no access to sanitation, and the maintenance of some sanitation systems adopted in South Africa has been singled out in many service delivery protests. Although the link between access to sanitation and diarrhea has not been established, it has been estimated that there are over 60 000 cases of childhood diarrhea per month and approximately 7 000 child diarrheal deaths in the same year (Stats SA, 2010). Chronic and repeated microbial infections of the gut such as helicobacter pylori or intestinal worms (Soil-Transmitted Helminths – STH) are also a concern and have been linked to environmental enteropathy and reduced ability to absorb nutrients from food that has been consumed. Although dated, research has indicated that anything between 50 percent and 90 percent of children attending primary schools may be infected (Fincham & Dhansay, 2006).

The failure to successfully implement apparently sound policy to deliver the social wage has retarded the ability of government to achieve its goal of poverty reduction. Reasons that have been put forward for this include the lack of capacity, especially in rural municipalities; poor logistic management in terms of the delivery of inputs such as schoolbooks, vitamin supplements and cement; corruption, collusion and cronyism; political interference; and finally the use of public administration models that are unsuitable in the South African context. This chapter will thus need to examine South Africa’s model of decentralized government, including the original design and the manner in which it has been implemented, adapted and used.

Suggestions for discussion:

- How can cities contribute towards poverty reduction?
- What are the risks and impact of fragile local government on poverty in South Africa?
- What is the impact of fiscal decentralization on poverty reduction? This relates to the adequacy and operation of funding flows to local government for poverty reduction.
- What are the alternative models the government can adopt to improve the efficiency of delivering housing to the poor?
- What explains the fact that social protection and social wage related government interventions have had a disproportionate focus on reducing levels of poverty while the targeting on reducing inequality has not been as aggressive?

D. Improving the performance, access and returns to education

Spending on education is significant, but the results are disappointing. Given the political, social and economic importance that has been given to education, South Africa has introduced a range of new policies and strategies since 1994 and currently spends around 5 percent of its GDP on education and the education system compares favorably with other middle-income countries in terms of most input measures. The National Norms and Standards for School Funding introduced in 2000 and amended in 2006, classifies the poorest three quintiles of schools as “no-fee schools”. These schools receive additional non-personnel funding to compensate for the loss of income.

Only a limited range of output measures have improved. There has been an improvement in the delivery of education to the majority of South Africans. The mean enrolment has risen substantially for Africans and near-parity has been achieved between boys and girls enrolled in public schools. Nonetheless there are still large racial discrepancies in the proportions

completing secondary schooling. Census data show that while grade enrolment is high overall, from the age of eight about 95 percent of children are attending school, irrespective of sex, there are racial differences. Among 13 year olds, 54 percent of Africans had completed at least grade six as their highest level of education compared to 88 percent of whites (Statistics South Africa, 2005:52–3). The African disadvantage in schooling is the result not primarily of students dropping out of school early, but rather of a slower rate of grade advancement that begins in early grades. This is of concern since repetition rates are a powerful indicator of the performance of an education system. Further repeating a grade is a demotivating and negative experience for a child, as well as a drain on household resources. A large number of repeaters in a grade also means there will be many children older than the norm for the class, which may cause both educational and social problems. Of concern is that the gross enrolment rate for boys shows a decline in the number of males participating in the secondary school education compared to primary school education. Also of concern is that there has also been a steady decline in the number of learners passing Mathematics and Physical Science at the level of Matric. Related to this, South Africa consistently performs badly in all international comparison in terms of the results achieved by learners in mathematics, literacy and science. South Africa also performs badly in terms of enrolment in post-school education. Less than 10 percent attain at least 15 years of education, some 30 percentage points below the norm for middle-income countries.

Notable challenges in South Africa’s education system include the fact that education quality remains poor overall and uneven across regions and population groups, which largely reflects the country’s historical legacy. Although private returns to schooling are shown to be large, especially at the tertiary level, they have been shown to be significantly lower for Black Africans relative to the national average, which may be linked to differences in school quality and persistent discrimination. Recently the issues of affordability of tertiary education has been brought to the fore via the *#feesmustfall* campaign in which University students led a national protest for free tertiary education.

Improving governance of education through for example improved teacher accountability will help increase cost-efficiency. To facilitate the role of the labor markets in poverty reduction, there is need to put in place policies and initiatives to correct the skill supply and demand mismatch.

Suggestions for discussion:

- What are the determinants of learning outcomes across different population groups and across geographical areas?
- Further education and schooling: What are the outcomes for learners completing high school or dropping out in secondary school, in terms of the higher education landscape? What are the key constraints faced by learners in trying to enter post-schooling institutions?
- Labor market implication of educational attainment: To what extent does educational attainment or school performance of pupils from previously disadvantaged communities (including rural areas) contributes to their probability of penetrating the formal labor market?
- The pupil and household determinants of learning outcomes: How do factors such as the learner’s gender, ethnicity, origin, family income, parents’ education and so on link to the learner’s school performance?
- The school and teacher determinants of learning outcomes: Do accountability arrangements such as community participation, principal-teacher management teams help improve outcomes in previously disadvantaged schools? What are the roles of

resources constraints (e.g. lack of equipment) and teaching capacity constraints (e.g. lack of teacher training) in learning outcomes?

- What are the implications of *#feesmustfall* for poor students in higher education in South Africa?

E. Health, HIV AIDS and non-communicable diseases

Health remains both an outcome of poverty, and a cause. South Africa accounts for 17 percent of the global burden of HIV, with 6.4 million people living with the disease. Total HIV prevalence has stabilized at around 10 percent of the population since 2011 while that for pregnant women attending antenatal care in the public sector is currently around 29 percent. Although declining, AIDS still accounted for an estimated 30 percent of total deaths in 2014, with just over 3 million people dying of AIDs between 2002 and 2014 (Stats SA, 2015). SANAC (2014:6) reports that in 2012, there were 6.5 million South Africans living with HIV (12.2 percent of the total population) and with more than 2.5 million people on ART, South Africa has the largest such program in the world.

Progress has been made in the field of HIV/AIDS with the successful roll out of ART and a highly successful prevention of mother-to-child transmission program. Nonetheless the very high prevalence, and the co-infection rate with TB result in health outcomes that are far worse than any other middle-income country. This is particular to the health of children and women. Increasing prevalence of NCD, largely due to poor nutritional choices, further compounds the situation. Nationally, the prevalence of diabetes increased from 5.5 to 9.0 percent for people over 30 years of age between 1998 and 2013. This represented about 2 million diabetes cases.

Donors currently provide roughly 25 percent of the overall response to HIV/AIDS, with the United States the most important contributor, followed by the Global Fund to Fight AIDS, Tuberculosis and Malaria. Annual U.S. funding under the PEPFAR program is scheduled to fall from \$484 million in 2013 to \$260 million by 2017. Assessing where this reduction will impact is important since the United States only supports 35 000 of the approximately 3 million South Africans on ART.

A number of health policy changes contribute towards progress in the achievement of poverty reduction. These include the provision of free health-care for pregnant women and children aged less than six years, shifting the method of health care from a curative to a preventative approach as well legislation concerning health insurance and the termination of pregnancy. There has also been improvement in the provision of health services and facilities.

Suggestions for discussion:

- The contribution of NCD to poverty in South Africa: what is the extent of the burden of premature mortality due to NCD borne by the poor and what are the consequences?
- What the direct and indirect economic and social impacts of HIV/AIDS on households?
- What are the implications of the scaling back of USA's PEPFAR funding for HIV from 2016?
- How can the contribution of community health workers to the health system for poverty reduction be improved?

F. Economic geography of poverty

The South African geo-spatial form appears to be permanently scarred by the legacy of apartheid. Spatial representations of most forms of deprivation consistently reveal the former Homeland areas to be the poorest, and potentially characterized by spatial poverty traps. This is especially noticeable in the small area multi-dimensional indicator study undertaken by Stats

SA. Accounting for these differences in poverty across regions, when aggregating regions into the nine official provinces is likely to understate the extreme poverty of some districts. Lower levels of analysis may in fact be more useful, and point to the transfers that are necessary from which area, to which area.

Numerous policy documents have attempted to address the economic geography of South Africa. The Integrated Growth and Development Policy for Agriculture, Forestry and Fisheries (IGDP) outlines appropriate responses to the challenges facing the agrarian economy of South Africa. The Agricultural Policy Action Plan (APAP) seeks to translate the high-level responses offered in the IGDP, into tangible, concrete steps. It identifies a number of focused actions for the next five years. Aligning itself with the New Growth Path (NGP), the National Development Plan (NDP) and Industrial Policy Action Plan (IPAP), APAP seeks to assist in the achievement of Outcome 4, Decent Employment through Inclusive Growth, and that of Outcome 7, Comprehensive Rural Development and Food Security.

Suggestions for discussion:

- What have been the determinants of spatial economic growth and development? How have different policies contributed to observed spatial differences?
- What has been the implication of these spatial differences on variations in poverty and inequality across space?
- Has there been some kind of ‘convergence’, in terms of poverty and inequality, across provinces/regions?
- Are there spatially determined poverty traps from which some are unable to escape?

G. Agriculture, food security and nutrition

South Africa’s agriculture sector’s contribution to the total economy’s gross value-added has been declining over time: it averaged 4.8 percent in the 1950s, 3.8 percent in the 1960s, 3.1 percent in the 1980s and 1990s and 2.7 percent in the 2000s. Similarly, employment in the sector has been falling: falling by 27 percent between 1993 and 2007. In 2010, the sector lost a further 5.1 percent of jobs (Department of Agriculture Fisheries and Forestry, 2011). Given the empirical fact that economic development is inversely related to the share of agriculture in total GDP, the persistent decline is in part a reflection of the country’s stage of development. It is also partly a reflection of the challenges faced by the sector which suggest the potential for the agricultural sector to contribute to overall economic growth and to poverty and hunger reduction has not been fully tapped. It is important, however, to note that although the sector’s direct contribution to total GDP has been declining, the sector has strong linkages with the rest of the economy, and thus continues to support economic growth and poverty reduction.

The falling employment in the agriculture sector is driven by an imperative to become globally competitive and the accompanying process of mechanization which has led to a growing demand for skilled labor. In addition, there is a shift towards casualization of employment in agriculture. This is of concern, given the centrality of agriculture to rural employment and livelihoods. This means the declining agricultural employment indicates a growth model that is ‘socially inefficient’ (Lipton, 2010). Some of the challenges affecting the sector include rising input costs (energy, labor, transport and fertilizer); low government support to the sector; inadequate private investment in agriculture; reduced competitiveness; degradation of the environment and natural resources (specifically land and water degradation); climate change; and real and perceived policy uncertainty surrounding the land reform process in particular.

The land reform program has not achieved the ambitious targets that were set by the RDP, and apartheid era policies continue to shape both the urban and rural landscapes,

and are particularly evident in the ownership of land. Commercial farmland remains highly concentrated, either in the hands of white farmers or increasingly in the hand of corporate owners. The NGP has set a target of increasing the smallholder sector by 300 000 households, ensuring 145 000 additional jobs in agro-processing, and upgrading conditions for 660 000 farm workers. However, the strategy through which this is to be achieved is not apparent, and most policy relating to agriculture appears to favor large-scale capital-intensive production.

This has direct implication on food security in the country. Although South Africa is considered to be food secure (DAFF, 2011) at national level, the country paradoxically continues to face significant challenges in ensuring food security particularly at household level (Aliber & Hart, (2009), Altman et al. (2009), HSRC, (2009). This is in spite of the fact that the right to access to sufficient food is embedded in sections 26 and 27 of the South African Constitution of 1996.

The SANHANES-1 (the first South African National Health and Nutrition Examination Survey) survey provides a comprehensive snapshot of food security and nutrition in South Africa. A few key statistics from the survey include the following:

- Overall 45.6 percent of the population was food secure in 2011.
- The largest percentage of participants who experienced hunger was located in rural formal (37.0 percent) and urban informal (32.4 percent) localities. This is important as it reflects both a rural and urban dimension.
- By province, the prevalence of hunger was the lowest in the Western Cape (16.4 percent) and Gauteng (19.2 percent) with the Eastern Cape and Limpopo being the only two provinces with hunger prevalence higher than 30.0 percent.
- Black Africans had the highest prevalence of food insecurity (30.3 percent), followed by the Colored population (13.1 percent) (Shisana et al. 2014).

Factors that have empirically been found to be associated with increased levels of food insecurity in South Africa include, among others, low incomes; a relatively high dependence on wages and remittances; lack of access to productivity enhancing assets (e.g. land, housing, etc.) particularly by poor people; limited contribution of subsistence agriculture to household food needs which results in households being heavily dependent on purchased food which in turn entails high exposure to inflation and price shocks. The prevalence of hunger varies spatially and tends to be more widespread in rural than urban areas. Within urban areas, hunger tends to be more prevalent in informal settlements.

South Africa is undergoing a ‘nutrition transition’ where stunting, wasting and under-nutrition in young children is occurring alongside increasing levels of obesity and overweight in older children and adults (McLachlan & Landman 2013). The increase in obesity is raising health concerns around a concurrent increase in non-communicable diseases with the issue being most acute amongst black women (Shisana et al. 2014; McLachlan & Landman 2013). This increase in overweight/obesity needs to be seen in light of the steady increase in the per capita food supply of fat, protein, and total calories in South Africa whilst salt intake is also in excess of recommended levels (Hofman & Tollman 2013). Malnutrition, in all its forms, has repercussions on the capability of people to live a full life, work, care for their children, be productive, and improve their living conditions.

The low prevalence of exclusive breast feeding and early weaning are other factors that are thought to contribute towards poor nutritional outcomes. South Africa has one of the lowest exclusive breast feeding rates in the world, and in 2003, research showed that only 8 percent of children younger than 6 months were exclusively breastfed while 20 percent were never breastfed (DoH, 2007).

The framing of a response to these issues of food insecurity and malnutrition at the national government level has been grounded in three key strategies and programs: The Integrated Food Security Strategy (IFSS), Integrated Nutrition Program (INP), and National School Nutrition Program (NSNP). The National Policy on Food and Nutrition Security (NPFNS) gazette in 2014 aims to provide a broad framework for the fulfilment of the Constitutional mandates for food security and to “serve as a guide to national, provincial and local government in working towards food and nutrition security at every level” (NPFNS, 2014,5). Furthermore, it aims to “maximize synergy between the different strategies and programs of government and civil society” (NPFNS, 2014:5). The policy rests on five pillars:

- Availability of improved nutritional safety nets,
- Improved nutrition education,
- Alignment of investment in agriculture towards local economic development,
- Improved market participation of the emerging agricultural sector, and
- Risk management.

The Roadmap for Nutrition in South Africa (2013 – 2017) seeks to direct nutrition-related activities in the health sector to the achievement of the sector’s four focus areas, which are: increasing life expectancy; decreasing maternal and child mortality; combating HIV and AIDS and decreasing the burden of disease from tuberculosis; and strengthening health system effectiveness.

Supporting agriculture and rural development to boost food production and nutrition will be a core priority of this section. High food prices are the norm in South Africa. When faced with high food prices, many poor families cope by pulling their children out of school, less nutritious food, which can have severe life-long effects on the social, physical, and mental well-being. Malnutrition contributes to infant, child, and maternal illness; decreased learning capacity; lower productivity, and higher mortality. The chapter will analyze the problem and will explore policies such as restoring degraded farmland to breeding more resilient and nutritious crops or to improving storage and supply chains for reducing food losses.

Suggestions for discussion

- How can the youth be encouraged to participate in agriculture?
- What are the drivers of employment in agriculture?
- How can agriculture’s contribution to poverty reduction be enhanced?
- What are the impacts of climate change on the rural poor? How can these impacts be mitigated?
- Poverty and policy for the reduction of poverty among full-time and seasonal farmworkers
- Re-energizing South Africa land reform for poverty reduction.
- What is the status of nutrition and child development and what policies can improve this?
- What is the profile of the food insecure and how does it differ from the profile of the income/consumption poor?
- What are the determinants of food insecurity and nutrition and how do they vary spatially?

- How does the household poverty status affect the food security and nutrition of the household?
- What are the future prospects for food security in South Africa?

6.4. Part 4: Reforming policies for alleviating poverty

This section will include a discussion of possible policy reforms that might support further reduction of poverty and inequality. Key recommendations will be developed based on the core areas discussed in Part 3. Labor, education, social protection and health issues will be the focus of the discussion. A forward looking econometric model will be estimated analyzing the distributional impact of the proposed policies. The recommendations and South Africa's poverty reduction and employment generation strategies will be assessed, with particular reference to the current National Development Plan.

The overall focus of the NGP is on job creation⁶, with a secondary focus on improvement of inequality levels; reduction of poverty; and others. The National Development Plan: Vision 2030 is aimed at creating about 11 million net new jobs over this period and thus reducing the rate of unemployment to about 6 percent by 2030. This should be attained at the same time as the labor participation rate has increased from the current 41 percent of the working-age population to 61 percent. Economic sectors identified as having potential for job creation are: infrastructure development; agriculture and rural development with a focus on agro-processing; mining; manufacturing; green economy; tourism; and the informal sector.

Proposed methodology. A microsimulation model will be developed to assess the distributional impact of the policy recommendations. Special attention could be given to how wage differentials according to firm size (in light of the fact that the National Development Plan stresses employment creation in small firms). All this could also be framed in the context of SDG 8 (growth and employment/productive growth). This will be supported by development of projections illustrating the likely scenarios for poverty reduction based on current, hoped for, and worst case scenarios.

Example of the policy interventions and scenario that could be analyzed:

- **Baseline scenario:** Continue along current trajectory without any major improvements to the policy environment and with poor global economic conditions.
- **Solid Minerals scenario:** In a better global environment and with good performance on infrastructure programs, the growth rate is much better and more people are employed. However, investment flows mainly to the most profitable activities which are capital intensive, in mining, energy, chemical and metals. As a result, most of the jobs are created in low-paid domestically oriented services such as retail and business and personal services.
- **Diversified scenario:** More substantial investments strengthening the municipal infrastructure and services, education systems, and generating better access to capital for new and expanding firms.
- **SME Boost scenario:** A large percentage of the jobs will be created in domestic-oriented activities and in the service sector. 90 percent of jobs will be created in small and expanding firms. The economy will be more enabling of business entry and expansion, with an eye on credit and market access. By 2030, the share of SME in output will grow substantially. Regulatory reform and support will boost mass entrepreneurship. Export growth, with

⁶ Recent policy statements have placed a major new emphasis on an 'employment intensive' growth path. These include the 2010–13 Budgets, the Department of Trade and Industry's (2010) Industrial Policy Action Plan, the Department of Economic Development's (RSA, 2010) New Growth Path Strategy (NGP) until 2020 and, most recently, the National Planning Commission's (2011) National Development Plan (NDP) until 2030.

appropriate linkages to the domestic economy, will be critical to boosting growth and employment, with SME's being the main employment creators.

- **Land reforms scenario:** Economic participation in rural areas will rise from 29 to 40 percent as a result of reformed land tenure, support to farmers, expanded social services, higher agricultural output, mining social investment, and tourism.
- **Public employment scenario:** Public employment programs are an essential element of any employment strategy. Up to 1 million opportunities will be created annually by 2015, mostly through community-based services. As market based employment expands, these opportunities can be reduced.

Suggestions for discussion

- How can the country accelerate growth and make it more labor absorbing?
- How can employment intensive growth that has become a centerpiece of government policy be created?

7. Process

The proposed Poverty and Inequality Assessment will be a collaborative effort in which the World Bank works closely with a multidisciplinary team comprising South African and international researchers. The report will be written in close collaboration with South African government counterparts will be involved in order to ensure the assessment responds principally to the country's policy needs and priorities. In particular, the Assessment will be made in partnership with Statistics South African, and the National Planning Commission at the Department of Planning, Monitoring and Evaluation in the Office of the President. Established in 2010, the National Planning Commission is tasked with developing a long term vision and strategic plan for South Africa, and rallying the nation around that vision. Consultation and collaborative involvement with other departments such as the National Treasury, Social Development, Labor, Basic Education, Higher Education and Training, Education, and Economic Department will be made.

Given that the primary objective of the Assessment will be to provide evidence to inform policy, the report, will thus, not be too technical in its inclination. Rather, the focus will be on summarizing emerging results, and making clear policy conclusions and recommendations. Technical notes and methodological abstracts will be summarized in the annexes. An executive summary will be included, telling a compelling story about inclusiveness of growth in South Africa and bringing together the policy recommendations.

8. Other – timeline, team composition, budget

The report will be completed by December 31st 2016. The timeline, deliverables, team composition and budget will be decided following the workshops in South Africa.

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