

UNIVERSITY OF KWAZULU-NATAL

**The Effectiveness of Poverty Reduction Strategy in Post-Apartheid
South Africa**

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degree Master of Commerce in Economics**

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DECLARATION

I ...***Levisha Ramnath***... declare that

- (i) The research reported in this dissertation/thesis, except where otherwise indicated, is my original research.
- (ii) This dissertation/thesis has not been submitted for any degree or examination at any other university.
- (iii) This dissertation/thesis does not contain other person's data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
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ABSTRACT

South Africa's post-apartheid government has embarked on numerous poverty reduction strategies in order to address poverty and inequality in the country. However, these strategies have been largely ineffective. Government has spent billions of rands in poverty response which has been met with limited success. After 21 years of new governance, more than 50% of the population is still poor and inequality in the country is among the highest in the world, despite the numerous poverty reduction strategies being implemented (World Bank, 2014b). This dissertation looks at the effectiveness of poverty reduction strategies since 1994, from a qualitative rather than quantitative perspective. In order for poverty reduction strategies to be effective, they would have to tackle the root causes of poverty; namely the lack of education and marketable skills, poor health and unemployment (Taylor, 2011). This dissertation therefore critically reviews and evaluates the country's poverty reduction strategies by examining their impact on the main causes of poverty.

This critical review is done with the aim of highlighting possible limitations of these strategies, in order to improve poverty response in the future. These strategies include the Reconstruction and Development Programme (RDP), Growth Employment and Redistribution (GEAR), The Accelerated and Shared Growth Initiative of South Africa (ASGISA), The National Development Plan (NDP) and the Social Assistance System.

From this critical review it becomes evident that the main limitation in these strategies is that they do little to tackle the main cause of poverty, especially unemployment. They have instead focused more on providing social welfare to the poor.

This dissertation comprises of six chapters. Chapter one is an introductory chapter which outlines the background, rationale, objectives, research questions, methodology and structure of this dissertation. Chapter two outlines the literature on the definitions and measurement of poverty in South Africa. Chapter three covers the causes of poverty. Chapter four critically evaluates South Africa's poverty reduction strategies.

Chapter five covers poverty reduction successes the international front, where it highlights some useful lessons that South Africa can use in improving its poverty response in the future. Examples of these lessons include the importance of focusing on employment creation as well as creating a favourable climate for employment growth, in order to successfully reduce poverty.

Chapter six provides a summary of the main findings of this dissertation and provides policy recommendations based on the limitations and lessons learned from chapter five and six respectively. Some recommendations are that poverty reduction strategies in South Africa require more focus on employment creation and creating a favourable environment for employment growth. This includes; using accommodative monetary policy, increasing investment and entrepreneurship, increasing employer subsidies in the future and enhancing labour flexibility. It is also essential that there is strong implementation of strategies and good leadership, in order for these strategies to be more effective. In addition, there should be a move away from the heavy emphasis placed on the social assistance system so that government can make a deeper impact on poverty and create a more sustainable economy.

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LIST OF ACRONYMS

ASGISA	Accelerated and Shared Growth Initiative of South Africa
CPI	Consumer Price Index
DTI	Department of Trade and Industry
EPWP	Expanded Public Works Programme
FPL	Food Poverty Line
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
GNI	Gross National Income
HDI	Human Development Index
HDR	Human Development Report
IDASA	Institute for Democracy in South Africa
IDT	Independent Development Trust
JIPSA	Joint Initiative on Priority Skills Initiative
LBPL	Lower Bound Poverty Line
MPI	Multidimensional Poverty Index
NDP	National Development Plan
NPC	National Planning Commission
RDP	Reconstruction and Development Programme
SARB	South African Reserve Bank
SASSA	South African Social Security Agency
SETA	Sector Education and Training Authority
SMME	Small Medium and Micro Enterprises
TEA	Total Early-Stage Entrepreneurial Activity
UBPL	Upper Bound Poverty Line
UNICEF	United Nations Children's Fund

CHAPTER ONE

Introduction

1.1 Background to the Study

The Millennium Development Goal to halve extreme poverty around the globe by 2015 was accomplished as early as 2010 (The World Bank, 2015b). After this goal was reached, the World Bank set a new target which is to decrease extreme poverty of the world's population to below 3% by the year 2030.

Over the past few decades, the proportion of the world's population living below the international poverty line (\$1.25 per day using 2005 prices) decreased from 36% in 1990, to 14.5% in 2011 (The World Bank, 2015d). This decrease in global poverty was driven by relatively high economic growth rates in developing economies (UNDP, 2014). Fast growing emerging economies, such as China and India, were the largest contributors to the reduction in global poverty during this period (The World Bank, 2015b).

However, despite the rapid reduction in global poverty, it still remains a pressing issue in many regions of the globe. On a global scale, more than one billion individuals (predominantly in South Asia and Sub-Saharan Africa), are currently living in extreme poverty (The World Bank, 2015b). Furthermore, in low income countries, around 50% of the population still lives in extreme poverty conditions (The World Bank, 2015b).

High poverty rates are a major problem and have various negative consequences on society. It is arguably the most widespread and long-standing cause of suffering in any society (Johnson, 2014). The issue of poverty has also been closely related to inequality, which magnifies and complicates the poverty issue.

The magnitude and complexity of poverty is especially challenging in developing countries. Governments around the globe undertake various strategies to deal with this issue since poverty response is essential for the wellbeing of a country. Poverty reduction aids in achieving a more equal society as well as a more educated and skilled workforce. It can also contribute to a healthier society and overall improvements in living standards. In addition, the elimination of poverty is an essential prerequisite for the sustainable development of a country (UNDP, 2014).

1.2 Rationale/Problem Statement

South Africa's post-apartheid government has developed numerous poverty reduction strategies since 1994. Government has spent billions to respond to poverty and inequality in the country but this was met with limited success. South Africa is among the leading economies in Sub-Saharan Africa and is viewed by many as an industrialized and productive economy; however the majority of the population is poor (Sachs, 2007). After 21 years of democracy, more than 50% of the population is still poor, and income inequality is among the highest in the world (Statistics South Africa, 2014b). The effectiveness of South Africa's poverty reduction strategies is thus questionable. This dissertation aims to critically review these strategies, so as to highlight possible limitations; and thereby recommend a more effective way forward. These recommendations will also be strengthened by using poverty successes from the international front.

1.3 Objectives of the Study

The objectives of this dissertation can be broken down into the following parts:

1. To discuss the literature relating to the definitions and measurement of poverty.
2. To briefly discuss South Africa's history, the issue of chronic poverty, a profile of poverty in the country and the causes of poverty.

3. To critically review and evaluate South Africa's poverty reduction strategies since 1994, with the aim of highlighting possible limitations.
4. To outline some predominate and successful poverty reduction strategies applied in other countries, so as to draw attention to possible lessons that can be applied in South Africa.
5. To make recommendations to enhance future poverty reduction strategies based on its limitations in current strategies; and lessons learned from other countries.

1.4 Research Questions

- What is the definition of poverty?
- How is poverty measured in South Africa?
- Where is poverty concentrated in South Africa?
- What are the main causes of poverty in South Africa?
- What have been the main poverty reduction strategies in South Africa since 1994?
- What are the limitations of these strategies?
- What lessons can be learned from poverty reduction successes in the international front?
- How can poverty response in South Africa be more effective in the future?

1.5 Research Methodology

This dissertation takes form of a qualitative study using secondary data; whereby government policies, reports, websites, textbooks, research papers and journals relating to poverty reduction will be researched and consulted. This will be done in order to answer the research questions in this dissertation. Reports and papers published by the South African Reserve Bank (SARB), Statistics South Africa, the National Treasury, the South African Revenue Service, the World Bank, the International Monetary Fund (IMF) and United Nations Development Programme (UNDP) will be the major sources used to better understand and improve poverty reduction strategies in the country.

1.6 Structure of Dissertation

This dissertation consists of six chapters:

Chapter One: Introduction.

This chapter is an introductory chapter which outlines the background, rationale, objectives, research questions and methodology of this dissertation. It also provides the structure of this dissertation, showing a brief background of each chapter.

Chapter Two: Defining and Measuring Poverty.

This chapter outlines the literature relating to the definition and measurement of poverty. The concept of inequality and its measurement will also be included here, since it is closely related to the issue of poverty.

Chapter Three: Poverty in South Africa.

This chapter takes an in-depth look at poverty in South Africa by reviewing literature on its historical background; and the issue of chronic poverty, as it is closely related to the country's history. This chapter also provides a profile of where poverty is concentrated in South Africa, as well as the causes of poverty.

Chapter Four: Poverty Reduction Strategies.

This chapter includes a critical review and evaluation of the various poverty reduction strategies applied in South Africa since 1994. These include the RDP, GEAR, ASGISA, the NDP and the Social Assistance System. This chapter also highlights the limitations of these strategies.

Chapter Five: Poverty Reduction Successes in Other Countries.

This chapter outlines some poverty reduction successes on the international front with the aim of highlighting possible lessons/areas of improvement, in South Africa's poverty response.

Chapter Six: Conclusion.

Chapter six summarises the main findings of this dissertation; and provides policy recommendations for improved poverty reduction strategies, based on the limitations and lessons learned from chapter four and five respectively.

CHAPTER TWO

Defining and Measuring Poverty

2.1 Introduction

Poverty response requires that the poor be accurately defined and measured. Poverty is a broad concept and is multidimensional (UNDP, 2007; Stewart et al, 2003; UNDP, 2014). There are three broad perspectives to defining poverty (UNDP, 2014).

This chapter is made up of five sections. The first section provides an outline of the three broad perspectives in defining poverty. The second section outlines the various definitions of poverty which generally flow from one of the three perspectives. The third section covers the measurement of poverty. The measurement of poverty is divided into monetary measures and broad based measures, thus both will be included in this section. The fourth section defines and measures inequality. The last section concludes the chapter.

2.2 Different Perspectives to Defining Poverty

Poverty can be defined in terms of three different perspectives: the income perspective, the basic needs perspective and the capabilities perspective (Stewart et al, 2003; Mbuli, 2008).

2.2.1 The Income Perspective

The income perspective is compatible with the utility-maximising assumption commonly used in economics (Stewart, 1995; Mbuli, 2008). The assumption here is that, individuals aim to maximise their utility, and they do so by using their income for the consumption of goods and services (Parkin et al, 2010). Thus, their consumption reflects the marginal utility that individuals gain from goods and services (Kingdon & Knight, 2004).

An individual's wellbeing is measured here as the total consumption of that particular individual (where either expenditure or income data can be used as a proxy for consumption) (Stewart, 1995).

Consequently, under this perspective, an individual is said to be poor if he is earning an income that does not enable him to enjoy some minimum level of consumption (Stewart et al, 2003). The poverty line is used as a signpost for this minimum level of consumption (Kingdon & Knight, 2004).

2.2.2 The Basic Needs Perspective

The basic needs perspective is an extension of the income perspective (Kingdon & Knight, 2004; Mbuli, 2008). Here, wellbeing is measured by an individual's ability to meet their basic needs. Thus, it defines poverty as the lack of resources necessary to meet basic human needs.

Under this perspective, certain basic needs have to be supplied by governments in order to avoid poverty. Some examples of basic needs include; the need for job opportunities, sanitation and health care facilities (Stewart et al, 2003).

2.2.3 The Human Capability Perspective

Sen (1999) was the leading contributor to this perspective. This perspective uses the freedom to live a valued life, as a measure of wellbeing. Thus, poverty here is defined as a failure to achieve basic capabilities needed to live a valued life (Sen, 1999).

According to Sen (1999), wellbeing should be viewed as an increase in human capabilities rather than utility maximisation through consumption. An individual has basic capabilities if he can be healthy, live a long life, have sufficient shelter and clothing, be well nourished and can interact well with others in the community (Stewart et al, 2003; Mbuli, 2008).

2.3 Definitions of Poverty

There are many different definitions of poverty and there has been much debate over the correct definition. The various definitions of poverty generally stem from one of the three different perspectives discussed previously.

According to the UNDP (2000), there are four basic definitions of poverty. These are broken up into two broad groups, namely income poverty and human poverty.

2.3.1 Income Poverty

There are two types of income poverty, namely extreme poverty and relative poverty. Extreme poverty occurs when a person does not have the income needed to fulfill their basic nutritional needs; and this is typically defined in terms of minimum calorie needs (Martins, 2007). This definition of poverty has the advantage of being internationally comparable (UNDP, 2010).

Relative poverty, on the other hand, occurs when a person does not have the income needed to satisfy necessary food, and non-food requirements, (such as clothing and shelter) (Martins, 2007). This definition of poverty has an element of subjectivity (Hulme & Shepherd, 2003). This means that what may be viewed as poverty to one person, may not necessarily be viewed as poverty to another person. For example, leather shoes may not generally be viewed as a necessity to most; however if all people in a certain community own leather shoes and if a particular person does not, then he will consider himself poor. This may not be the case if he lived in a different community. Thus, under this definition of poverty, people compare what they lack in relation to what other people in their community have (Stewart et al, 2003).

Extreme and relative definitions of poverty usually create different policy implications. Extreme poverty definition is more common in developed countries (Madden, 2000; UNDP, 2010).

2.3.2 Human Poverty

There are also two types of human poverty. The first type is where a person does not have access to basic human needs, and, therefore may suffer from malnutrition, poor health, shortened life span, illness from preventable diseases and illiteracy (UNDP, 2000).

The second type of human poverty is where a person does not have access to infrastructure, goods and services (UNDP, 2000). Infrastructure may include access to clean water, sanitation, communication, energy, access to education which is needed to sustain basic human capabilities (Stewart et al, 2003).

As seen from the various perspectives to defining poverty, and the various definitions, it is evident that poverty can have many dimensions to it (income, basic needs, basic capabilities). Different poverty studies in South Africa, makes use of different definitions of poverty, and hence this results in a multitude of poverty reduction policy recommendations. However, poverty literature generally tends to focus on income poverty rather than on human poverty (UNDP, 2000; The World Bank, 2015c). The majority of international and South African studies have limited their definition poverty to income poverty since these are easier to evaluate and measure (i.e. definitions following the income perspective).

2.4 The Measurement of Poverty

The Living Conditions Survey and the Income and Expenditure Survey which are carried out by Statistics South Africa, are the two key contributors toward monitoring poverty and inequality in the country over time (Statistics South Africa, 2015b). Similar to the various definitions of poverty, which generally follow one of the three perspectives, so too, does the measurement of poverty (Stewart et al, 2003). There are two broad schools of thought in the literature with regard to the measurement of poverty.

One school measures poverty mainly in monetary terms (income perspective), while the other takes a broader perspective (basic needs and basic capabilities) (May, 1998; Stewart, 1995; Mbuli, 2008). These two schools of thought have led to two approaches to the measurement of poverty; namely the monetary approach and the broad based approach.

2.4.1 The Monetary Approach

There are three steps needed to compute a poverty measure under this approach (Ravallion, 1998; Mbuli, 2008).

- i. Step one is to decide on an indicator of wellbeing. Consumption or income can be used as an indicator of wellbeing under this approach (Deaton, 1997).
- ii. Step two is to select a poverty line (a limit below which an individual or household will be regarded as poor).
- iii. Step three is to set a poverty measure to be used for measuring the whole population.

Step two: Selecting a Poverty Line

According to Ravallion (1998), there are two main methods used to derive poverty lines. The first method determines the amount of money needed to meet the minimum food needs of an individual. Thus, this method determines the cost of a food bundle required to meet an individual's daily calorie intake.

The second method used to derive a poverty line is the internationally accepted, cost of basic needs approach. This method derives a consumption bundle that includes both food and non-food consumption, necessary for an individual to escape poverty.

Poverty lines vary across countries and thus the measurement of poverty also varies across countries (Mbuli, 2008). Statistics South Africa (2015a) proposed three poverty lines to capture the different degrees of poverty in the country namely; the food poverty line (FPL), the lower bound poverty line (LBPL) and the upper bound poverty line (UBPL). The FPL represents the rand value below which a person is unable to obtain enough food to provide him with the minimum per capita per day energy requirement for good health (approximately 2 100 kilocalories). The main difference between the LBPL and UBPL is that the former includes important food and non-food consumption. The UBPL, on the other hand, includes additions for non-essential non-food items (Statistics South Africa, 2015a; Mbuli, 2008).

These poverty lines can help one distinguish between extreme poverty (below the FPL); lower bound poverty (below the LBPL) and upper bound poverty (below the UBPL). These poverty lines are updated annually using the Consumer Price Index (CPI) (measures changes in the price of a basket of goods/services) (Statistics South Africa, 2015a). However, Statistics South Africa (2015b) recently released a pilot study based on the Income and Expenditure Survey 2010/2011, in which it used the cost of basic needs approach for the calculation and rebasing of national poverty lines, in order to make it more accurate and appropriate. Since consumption patterns change over time; South Africa's poverty lines therefore needed to be updated based on recent consumption data and not CPI.

Table 2.1 below shows the results of the rebasing study by Statistics South Africa (2015b).

Table 2.1

Rebased Poverty Lines						
	Previous poverty lines			Rebased poverty lines		
	Value per person per month	Per cent	Number of people	Value per person per month	Per cent	Number of people
Food poverty line	R321			R335		
Poverty headcount		20,2	10 185 450		21,7	10 944 089
Poverty gap		6,2			6,9	
Lower bound poverty line	R443			R501		
Poverty headcount		32,3	16 286 636		37,0	18 632 646
Poverty gap		11,8			14,5	
Upper bound poverty line	R620			R779		
Poverty headcount		45,5	22 942 475		53,8	27 117 973
Poverty gap		19,6			25,8	

Source: SARB (2015a); Statistics South Africa (2015b)

a. Food Poverty Line: Table 2.1 shows that the previous food poverty line was approximately R321 per capita per month in 2011. Table 2.1 also shows that this line increased to R335, after being rebased on recent consumption data. The latest value of the food poverty line is R400 per month in 2014 (based on CPI data) (Statistics South Africa, 2015b).

b. Lower Bound Poverty Line: Below the LBPL, a person is able to purchase enough food for good health; however, they would need to sacrifice food to obtain non-food items. This line is above the food poverty line but below the UBPL. It is the LBPL that South African National Development Plan makes use of when setting targets for the elimination of lower bound poverty by the year 2030 (Statistics South Africa, 2015b).

The LBPL increased from R443 to R501 in 2011 according to Table 2.1. The 2014, LBPL stands at R544 per month (using CPI data) (Statistics South Africa, 2015b).

c. Upper Bound Poverty Line: Below the UBPL a person is just able to obtain both sufficient amounts of food and non-food items (Statistics South Africa, 2015a). Table 2.1 shows that the UBPL increased from R620 to R779 in 2011 after being rebased. The 2014 UBPL stands at R753 per month (using CPI data) (Statistics South Africa, 2015b).

The international poverty lines of \$1.25 per day and \$2.50, corresponds to the LBPL and UBPL respectively (The World Bank, 2015c; Statistics South Africa, 2014b).

Table 2.2 below shows the changes in South Africa's poverty lines from 2000 to 2014 (using CPI data).

Table 2.2

Poverty Lines in SA 2000-2014

	2000	2011	2014
Food Poverty Line	R 141	R 321	R 400
Lower Bound Poverty	R 209	R 443	R 544
Upper Bound Poverty	R 308	R 620	R 753

Source: Own Illustration based on data from Statistics South Africa (2008; 2014b) and SARB (2015a)

Step Three: Setting a Poverty Measure for a Population

There are many different measures of monetary poverty for the population that can be computed. However, the most common monetary measures are the headcount ratio and the poverty gap ratio (UNDP, 2007; Mbuli, 2008).

a. Headcount Poverty Ratio

This index is the most commonly used aggregate measure in poverty studies (The World Bank, 2014b; Mbuli, 2008). The head count ratio shows the percentage of population who are poor. More specifically, it shows the percentage of individuals or households living below the poverty line (The World Bank, 2014a). The head count ratio has the advantage of being easy to understand and compute. However, it does not account for the severity of poverty and therefore it does not show the extent of poverty among the poor (UNDP, 2014; Mbuli, 2008).

With regard to the food poverty line in Table 2.1 (page 12), headcount poverty in South Africa increased from 20,2% to 21,7% in year 2011. Thus, the proportion of South Africans living in extreme poverty in 2011 was 21,7% according to the rebased figures. In addition, Table 2.1 also shows that the share of those living at or below the LBPL (R443) rose from 32,3% to 37,0% under the rebased poverty values (R501) in 2011.

b. Poverty Gap Ratio

The poverty gap ratio shows the gap between a population's income and the poverty line (The World Bank, 2014b; Mbuli, 2008). Thus the ratio shows the extent of poverty by measuring how far below the poverty line individuals are. In other words, it accounts for the intensity of poverty. Table 2.1 shows that the UBPL poverty gap, increased sharply from 19,6% to 25,8% in 2011, when moving to the rebased figures. As this ratio approaches zero; the extent of poverty decreases. This poverty measure of the population is calculated by adding up the poverty gaps for each household (Ravallion, 1998).

2.4.2 The Broad Based Approach

The monetary indicators are an essential input to poverty measures; however, a monetary measure may not give a complete picture of poverty (Mbuli, 2008). Thus, a broad based approach is necessary. The Human Development Index (HDI) and the Multidimensional Poverty Index (MPI) are means of measuring poverty in a broader sense (UNDP, 2007).

a. Human Development Index (HDI)

This composite comprises of three indices, namely; the life expectancy index, the per capita Gross National Income (GNI) index and the educational attainment index (measured by the expected years of schooling and average years of schooling) as seen in the Table 2.3 below (UNDP, 2014; Mbuli, 2008). The index is calculated by taking the average of the three indices. It provides a value between 0 and 1. The lowest level of development is shown by the value 0; while the highest level of development is shown by the value 1 (UNDP, 2014; Mbuli, 2008). Table 2.3 below shows that the South Africa's HDI in 2013 was 0.658.

Table 2.3

SA's HDI in 2013

	HDI 2013	Life Expectancy at Birth	Gross National Income per capita	Mean years of Schooling	Expected years of Schooling
South Africa	0.658	56.9 years	11,788 (in 2011 PPP \$)	9.9 years	13.1 years

Source: Own Illustration based on data from UNDP (2014)

South Africa is in the medium category in terms of human development, and is currently ranked 118 out of 187 countries (UNDP, 2014). The HDI has been increasing marginally from 0.619 in 1990, to 0.658 in 2013, as seen in Table 2.4 below. This increasing HDI could be a result of the greater access to education as well as the provision of better health care services in the country since 1994. South Africa also fares better than other developing countries such as Nigeria which had a lower index of 0.504, compared to South Africa's 0.658 in 2013 (Table 2.4).

Table 2.4

HDI in SA and Nigeria over time

	HDI 1990	HDI 2000	HDI 2005	HDI 2008	HDI 2010	HDI 2011	HDI 2012	HDI 2013
South Africa	0619	0.628	0.608	0.623	0.638	0.646	0.654	0.658
Nigeria	_*	_*	0.486	0.483	0.492	0.496	0.500	0.504

**Data not available*

Source: Own Illustration based on data from UNDP (2014)

b. Multidimensional Poverty Index (MPI)

The recognition of the multidimensional nature of poverty has resulted in the introduction of MPI in the Human Development Report (2010). Multidimensional poverty is thus measured by the MPI (Tsui, 2000). Multidimensional poverty provides a more comprehensive picture of poverty than income poverty; since it includes deprivations beyond income; such as low education, poor health, nutrition and skills, social exclusion poor livelihoods and household conditions (Tsui, 2000; UNDP 2014).

The MPI measures deprivation in three dimensions namely; education, health and living standards; and these dimensions are measured by ten indicators (Kovacevic, 2015). The education dimension includes the school attainment and school attendance indicators. The health dimension includes the child mortality and nutrition indicators. The living standards dimension includes access to electricity, cooking fuel, type of floor and assets, clean water and sanitation (Kovacevic, 2015). The dimensions, and indicators within dimensions, are given an equal weighting; and since the MPI measures overlapping deprivations, all data used for its calculation has to therefore come from a single household survey (UNDP, 2014).

Table 2.5 below shows the contribution of each of the three dimensions which led to South Africa's 2008 and 2012 MPIs (0.039 and 0.041 respectively). The contribution of the health deprivation dimension to overall poverty was the largest of the three in both years (45.6% and 61.4%).

Table 2.5

Multidimensional Poverty in SA 2008 and 2012

			Population in Multidimensional Poverty		Contribution of Deprivation to Overall Poverty		
			Headcount	Intensity of Deprivation	Education	Health	Living Standards
			%	%	%	%	%
South Africa	2012	0.041	10.3	39.6	8.4	61.4	30.2
	2008	0.039	9.4	41.5	13.4	45.6	41.1

Source: Own Illustration based on data from UNDP (2014)

The MPI measures the proportion of individuals deprived as well as the intensity of deprivation for each poor household (Todaro & Smith, 2015). The national level of the MPI is calculated as a product of the headcount ratio and the intensity of deprivations (Kovacevic, 2015). The MPI can help the effective allocation of resources by making it possible to target those with the greatest intensity of poverty. It can also help monitor the impacts of policy intervention and aids in effectively addressing Millennium Development Goals (UNDP, 2014).

South Africa fares poorly in terms of multidimensional poverty headcount of 10.3%, and an MPI of 0.041; when compared to China, which has a multidimensional poverty headcount of 6% and an index much lower at 0.026 (China's figures based on a 2009 survey), (UNDP, 2014).

2.5 Inequality in South Africa

Inequality is defined as a condition of being unequal in respect of treatment, status or opportunity (Mubangizi, 2008). An unequal society is thus characterised by some sort of social or economic disparity (Mubangizi, 2008). An internationally accepted measure of inequality is the Gini coefficient (The World Bank, 2015a). The Gini coefficient ranges from 0 (representing complete equality) to 1 (representing complete inequality) (The World Bank, 2015a).

This coefficient is obtained by ranking per capita household income from low to high and thereafter calculating the cumulative percentage of household's income (Todaro & Smith, 2015). The cumulative percentages are then plotted and this is known as the Lorenz curve; showing the income distribution graphically (Todaro & Smith, 2015).

Table 2.6 below shows that the South Africa's Gini coefficient decreased between 2006 and 2011 (0,80 to 0,76) when including income from only salaries and wages in the calculation. The Gini coefficient also decreased when including social grants to the calculations (0,72 to 0,69). It decreased with the exclusion of taxes as well (0,67 to 0,65). However, it increased marginally from 0,59 to 0,596 when including free basic services. This decrease could imply a limited scope for fiscal policy in reducing inequality in South Africa (SARB, 2015b).

Table 2.6

Gini Coefficient in SA 2006 and 2011

	2006	2011
Gini coefficient (income per capita from salaries and wages)	0,80	0,76
Gini coefficient (income per capita from salaries, wages and social grants) ...	0,72	0,69
Gini coefficient (expenditure per capita, excluding taxes).....	0,67	0,65
Gini coefficient (income per capita from salaries, wages, social grants and free basic services, excluding taxes)	0,59*	0,596**

Source: SARB (2015a)

2.6 Conclusion

Poverty is a multidimensional concept that goes beyond the economic domain. There are three main perspectives to defining poverty namely the income, basic needs and human capabilities perspectives. There are two main approaches to measure poverty, namely monetary and broad based approaches. The monetary approach involves computation of poverty lines, the headcount ratio, and the poverty gap; while the broad based approach makes use of the HDI and MPI as measures of poverty. The monetary approaches to measurement do not provide a complete picture of poverty and should therefore be complemented by non monetary measures, as these capture poverty in a broader holistic sense.

CHAPTER THREE

Poverty in South Africa

3.1 Introduction

To properly understand poverty issues in South Africa and to respond to the problem more effectively, one would have to consider the country's history, as well as the causes of poverty in the country. This chapter is made up of five sections. The first section briefly reviews the historical background of South Africa. The second section covers the issue of chronic poverty in the country; which is related to the country's history. This third section covers a current profile of poverty in South Africa, in terms of where poverty is concentrated; this profile is also influenced by the country's history. The fourth section covers the literature relating to the causes of poverty. The last section concludes this chapter.

3.2 Historical Background

South Africa has a unique history of apartheid and colonialism which distinguishes it from other countries (The World Bank, 2014b). This discriminative history contributes to the spread of poverty in the country (Aliber, 2003). South Africa had been affected by European colonization at the beginning of the 17th century (Ross, 1999). The European settlement began to grow and expand, while at the same time there was an influx of British settlers into other regions of South Africa (Aliber, 2003). The control of these White settlers over other races occurred when the government at the time (The National Party) put laws in place which entrenched racial discrimination (Potts, 2012). These laws aimed to control all areas of social life of every South African. The apartheid government had provided separate services and opportunities for each of the four population groups (Black, Coloured, Indian and White).

The local Black population as well as Coloureds and Indians, were given an inferior education. Under apartheid, the children of White parents received a better quality of education and were allowed access to tertiary education while other races were denied this opportunity (Thomson, 2012). During this time, Blacks, Coloured and Indians had also been given very poor healthcare facilities (Mubangizi, 2008). The spread of HIV/AIDS had greatly affected the Black population (The World Bank, 2014b). There had also been heavy control of Black mobility by the apartheid government at the time which kept the majority of Blacks isolated in rural areas (The World Bank, 2014b). All of these historical occurrences have had an impact on the spread and incidence of poverty at present.

3.3 Chronic Poverty

The term 'chronic poverty' has received considerable attention in South Africa, as well as globally. A major concern in modern day poverty reduction is trying to decrease poverty in an age of globalization; and integrating the poor into the global economy, where the chronically poor are likely to be neglected (Hulme & Shepherd, 2003).

Chronic poverty occurs if individuals are trapped in poverty over a long period of time (Aliber, 2003). In other words, this type of poverty is deep-rooted, where individuals live in poverty as a result of multiple deprivations over extended time periods (Hulme & Shepherd, 2003). Individuals who are chronically poor are likely to stay poor, if they are not given some kind of assistance. The argument over whether poverty in South Africa has an intergenerational aspect is supported by the country's history, where the majority of the Black population is still poor 21 years after apartheid, as seen in following section.

3.4 Profile of Poverty in South Africa

3.4.1 Poverty by Population Group

South Africa's legacy of apartheid has created deeply entrenched racial characteristics of the country's poverty rates and distributions of income (inequality). The poverty rates among Blacks and Coloured individuals stayed significantly higher than the poverty rates of Whites since 1994 (Armstrong et al, 2008). According to a report by Statistics South Africa (2009) it was found that 62% of Blacks, 33% of Coloureds, 7% of Indians and 1.2% of Whites lived under the upper-bound poverty line in 2009.

3.4.2 Poverty by Geographical Region

South Africa's poverty rates differ significantly across its nine provinces as well as between urban and rural areas of the country. According to Statistics South Africa (2014b), the provinces with the worst poverty rates are Limpopo, Eastern Cape and KwaZulu-Natal. In addition, only three provinces have poverty incidence below the national average for all the poverty lines; and these are Gauteng, Western Cape and Free State.

3.4.3 Poverty by Gender and Age

Current poverty rates in South Africa are much higher among female than males. KwaZulu-Natal had the highest gender poverty of 45% in 2014 (Statistics South Africa, 2014b). Females have always been more marginalized than males since the majority of Black females reside in rural areas (Statistics South Africa, 2014a). With regard to age, the main problem in the poorest provinces of South Africa is the high proportion of child-headed households (Statistics South Africa, 2014b). The three poorest provinces account for up to 67% of all child-headed households in 2014 (Statistics South Africa, 2014b). In the richest provinces, on the other hand, poverty appears to be relatively constant across the different age categories. Therefore, poverty response should focus particular attention on the youth (Statistics South Africa, 2014b).

3.5 The Causes of Poverty in South Africa

There are some general causes of poverty in the literature namely; poor education and the lack of marketable skills, poor health and lack of income (unemployment) (Taylor, 2011).

3.5.1 Poor Education and the Lack of Marketable Skills

Poor education is a huge challenge in many developing countries (UNDP, 2014). Without education, individuals are unable to function properly in society. They have limited capacity to enter into the job market, to earn an income and to contribute to the growth of a country. Furthermore, they may be unable to communicate properly, share ideas, be innovative and get a better standard of living (Thomson, 2012).

Inferior education provided during apartheid has resulted in the majority of Blacks still being illiterate currently. They, therefore, lack the required education and skill levels to meet the demands of the labour market. South Africa faces a huge skills shortage; with majority of the workforce being either unskilled or semiskilled. It is therefore difficult for these individuals to find employment, especially, in the formal sector of the economy. This results in a vast number of South Africans who are unemployable; as they do not possess the skills necessary in the labour market (SARB, 2015c).

3.5.2 Poor Health

Poor health is another cause of poverty in South Africa since, without good health, a person is unable to work and earn an income (UNDP, 2014). In addition, poor health drains households of financial resources; and this may leave many with little or no money for food and other basic necessities. Thus, poor health increases the risk of poverty. The incidence of HIV/AIDS, tuberculosis, malaria, cancer and other illnesses is high in South Africa.

The proportion of the population with HIV/AIDS in 2014, was 10,2% (5.51 million individuals) according to Statistics South Africa (2015b). In addition, in terms of individuals aged 15–49 years (which make up a large portion of the working aged population); 16,8% of this age category is HIV positive (Statistics South Africa, 2015a). The issue of HIV/AIDS cannot be ignored, as it increases labour costs and this negatively impacts firms' margins (Powell & Hendricks, 2009). The pandemic also impacts on absenteeism and staff turnover rates, which in turn puts added strain on firms' resources (The World Bank, 2015c). Thus, with improved health care, individuals will be able to work and this can remove them from the grips of poverty.

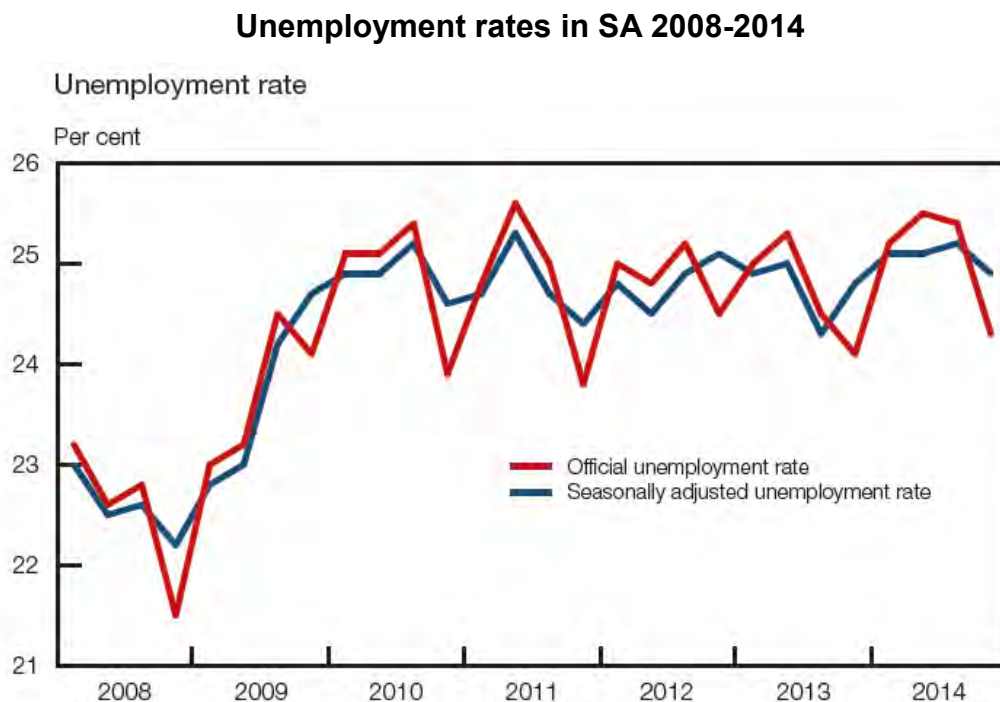
3.5.3 Unemployment

The third and most important cause of poverty in South Africa is the lack of income (or employment opportunities), as a high proportion of the population is unemployed (SARB, 2015c).

There are two definitions of unemployment, namely the strict and broad definition (Statistics South Africa, 2014a). The strict definition is used by the South African government to compute official unemployment rates and this excludes individuals who have not searched for employment within a certain time period from being counted as unemployed; hence removes discouraged workers from the definition (Statistics South Africa, 2000). The broad definition however, does not exclude discouraged workers from the definition of unemployment. The consequence of government using the strict definition is that the real unemployment figures in South Africa are much higher than that recorded "officially". However, unemployment rates have been rising significantly in the country over the years when one uses either definition.

The official unemployment rate shows a steady increase since 1994 from 20%; to 21,5% in 2008; to 25,1% in 2014 to 25,5% in 2015 (SARB, 2015b). The unemployment using the broad definition is 34.9%; which amounts to one third of the labour force being either unemployed or discouraged in 2015 (The World Bank, 2015d). Figure 3.1 below shows the official unemployment trends in South Africa from 2008 to 2014 more clearly.

Figure 3.1



Source: SARB (2015a)

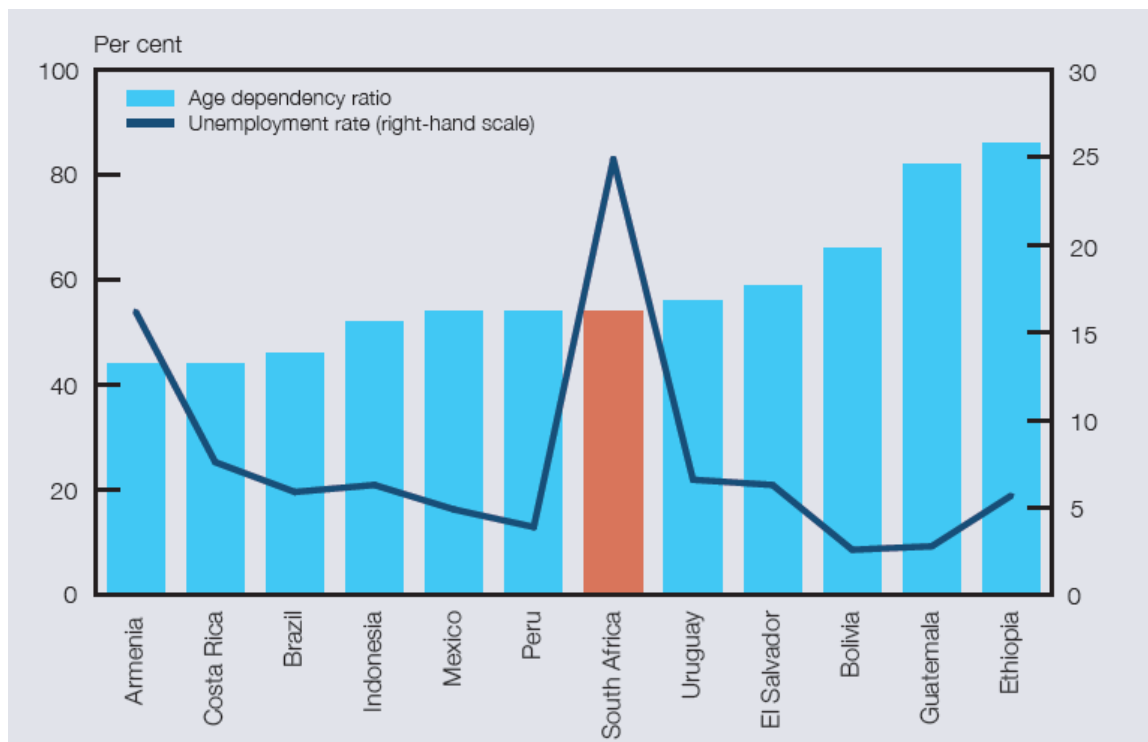
Figure 3.1 shows that the unemployment rate increased sharply in mid 2008 due to the global economic crisis. There have been huge job losses especially in the formal sector during this time. Approximately 1 million jobs were lost as a result of a steep decrease in demand for exports and lower prices of commodities (SARB, 2015d).

Since 2000, the total number of jobs created in the country could not keep up with the growing labour supply (Statistics South Africa, 2008). In addition, South Africa has a low labour absorption rate of only 43,8% (rate at which labour is absorbed into the labour market) (Statistics South Africa, 2015a). Employment opportunities fell in agriculture, mining and manufacturing sectors of the economy according to the SARB (2015c). This is concerning as these sectors absorb a large portion of unskilled and semi skilled labour.

South Africa has a very high unemployment rate of 25,5% in 2015 (5.2 million individuals), compared to an average of 11% for upper middle income countries (The World Bank, 2015b). By looking at Figure 3.2 below, it is obvious that South Africa's unemployment rate is the highest among other selected middle income countries.

Figure 3.2

Unemployment rates and Age Dependency ratio among selected middle income countries in 2013



Source: SARB (2015a)

Figure 3.2 also shows the age dependency ratio of South Africa and selected countries in 2013. The age dependency ratio shows the ratio of dependents (individuals younger than 15 or older than 64) to the working age population (ages 15-64) (The World Bank, 2014a). South African's age dependency ratio was approximately 52,3% in 2013. South Africa's age dependency ratio is similar to those in Figure 3.2, with most countries averaging 50%. This ratio increased to 52,80% in 2014 (The World Bank, 2014b).

South Africa's high dependency ratio is largely due to the high volume of the youth who are unemployed. Youth unemployment rates in South Africa are very high; 3,6 million youth are unemployed and actively seeking employment currently (Statistics South Africa, 2015c). In addition, individuals between the ages of 15-34, unemployment increased from 32,7% in 2008 to 36,9% in 2015 (Statistics South Africa, 2015c).

Another concern is the future of unskilled and semiskilled employment in South Africa. This type of employment has been especially difficult in recent years since capital intensity is on the rise, and more and more labour is being replaced by machinery (Potts, 2012). Technological change in many sectors, especially in the manufacturing sector, causes greater concerns for employment due to the threat of labour displacement. Technological advancement makes labour more expensive in relation to its productivity (and South Africa already has low levels labour productivity even without accounting for technology) (Parsons, 2013). As a result, firms replace labour for capital (factor substitution) (Parsons, 2013). These trends cause great concerns for employment in South Africa.

As mentioned previously, one of the main causes of poverty is the inability to gain employment. The expansion of the formal sector is a main factor determining the future extent of poverty in South Africa. However, this formal sector employment has been contracting and is unlikely to grow much in the future, unless drastic actions are taken by government. This means that the formal economy as it stands, is limited in its ability to reduce poverty in the country. Poor formal sector employment has increased the importance of the informal sector of the economy. However, it must be noted that the informal sector is not a perfect substitute for formal employment as informal employment is less secure (The World Bank, 2015d).

3.6 Conclusion

In South Africa the majority of Blacks are still poor and reside in underdeveloped rural areas. The highest poverty rates are among females and the youth. Poverty is also concentrated in Limpopo, Eastern Cape and KwaZulu-Natal.

The causes of poverty in South Africa are similar to those in other countries; however the extent may differ (Sachs, 2007). The main causes of poverty in the country are the lack of education and marketable skills, poor health and a lack of employment opportunities. The high unemployment rate in South Africa is largely attributed to the high number of individuals who are unskilled or semi skilled, the considerable unemployment among the youth and the shrinking formal sector employment.

CHAPTER FOUR

Poverty Reduction Strategies

4.1 Introduction

South Africa's post-apartheid government embarked on various poverty reduction strategies in order to address poverty and inequality in the country. In order for poverty reduction strategies to be effective, the major causes of poverty, namely the lack of marketable skills, poor health and unemployment, (as mentioned in the previous chapter), need to be properly addressed. This chapter critically reviews South Africa's main poverty reduction strategies since 1994. This critical review is done with the aim of highlighting possible limitations of these strategies.

This chapter is made up of three sections. The first section critically reviews RDP, GEAR, ASGISA, NDP and the Social Assistance System, and looks at its impact on the main causes of poverty. This section also covers more specific poverty reduction strategies by government. The second section provides a discussion of the overall impact of South Africa's poverty reduction strategies on poverty rates; and the last section concludes the chapter.

4.2 Poverty Reduction Strategies in South Africa

4.2.1 The Reconstruction and Development Programme (RDP)

The RDP was the first post-apartheid policy. The fundamental aim of this policy was to decrease poverty in the country. The RDP aimed to respond to the inequalities of the past and some of the main priority areas of the policy were increasing the access to education, healthcare, employment, water and land. The main criticism was that it was fundamentally a policy for huge infrastructure investment instead of economic growth (Aliber, 2003). With less attention placed on economic growth it meant that job creation suffered, thus it had little impact on poverty. As a result the RDP had been dissolved in the beginning of 1996 (The Presidency RSA, 2005).

4.2.2 Growth, Employment and Redistribution (GEAR)

GEAR was introduced in 1996, and was based on conventional neoclassical macroeconomics. Its main aim was to accelerate economic growth in the country. GEAR's central focus was to respond to unemployment through economic growth (The Presidency RSA, 2005). Although the GEAR policy focused on economic growth (employment and poverty), it, however, fell short on most of its targets (Adelzadeh et al, 1998). The critics of this policy argued that GEAR had been largely ineffective, especially in terms of poverty response, as it did little to tackle unemployment rates. With regard to formal sector employment, it was expected to increase over a five year period to 1.3 million, yet actual figures showed a net job loss of more than 800,000 individuals during the GEAR 1996-2000 period (Adelzadeh et al, 1998). Jobless growth was especially problematic in the year 2000, despite positive economic growth, job losses in formal sector increased rapidly in this period (Changunda, 2006)

Furthermore, GEAR assumed that foreign direct investment would rise considerably with economic growth (Aliber, 2003). Foreign direct investment is important especially since it compensates for low domestic savings; yet capital outflows have surpassed foreign direct investment coming into South Africa for many years (SARB, 2014). Lower foreign direct investment meant less employment opportunities for the population and thus little impact on poverty rates.

4.2.3 The Accelerated and Shared Growth Initiative of South Africa (ASGISA)

ASGISA was approved in 2005 (Changunda, 2006). This strategy was to serve as a catalyst to accelerated and shared growth in the country. The aim of ASGISA was to enhance implementation of policy as well as enhance economic growth, by responding to various challenges such as; the lack of human resources to implement policy, skills shortage, corruption, lack of funding, proper coordination among institutions and barriers to entry (Changunda, 2006).

Another target was to reduce poverty by 2010 and unemployment by 2014 mainly through supporting small businesses to grow and through encouraging investment (The Presidency RSA, 2005). ASGISA aimed for a 6% growth rate as this was the rate that is believed to respond to poverty in the country by means of the trickledown effect (Aliber, 2003). This was similar to the sentiments of the GEAR policy.

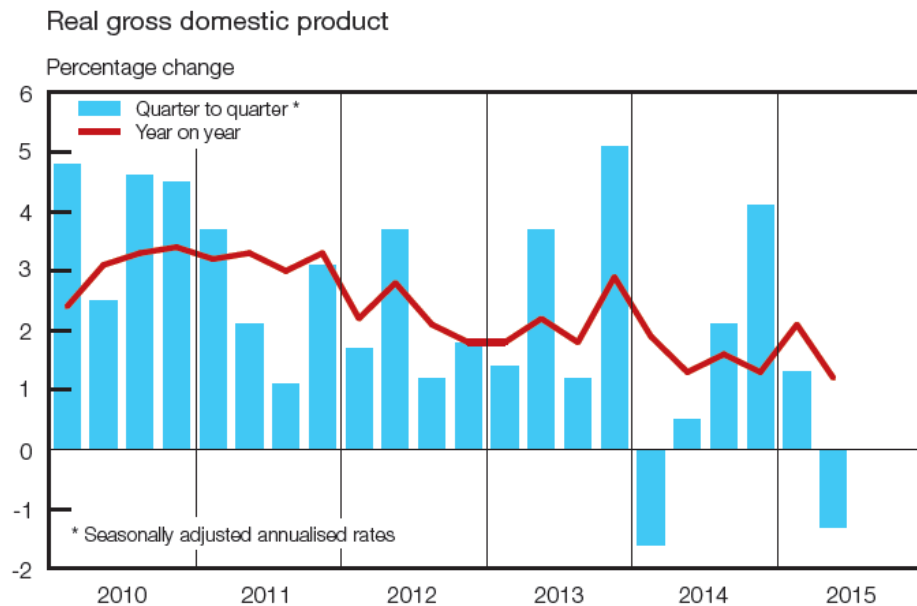
A review of these three post apartheid poverty reduction strategies highlights that it has done little to respond to the three causes of poverty. Furthermore, these strategies have fallen short with regard to tackling the most important cause of poverty (unemployment). The all three strategies have been largely ineffective in employment creation and poverty reduction. GEAR and ASGISA have also fallen short in creating a real impact on poverty and has failed in transferring gains in economic growth to the poor. Economic growth is essential for poverty response as it aids in employment growth. However, this economic growth has to absorb labour, which the GEAR and ASGISA strategies failed to do.

There is a general consensus amongst economists that high rates of economic growth are essential for poverty reduction. Increased economic growth (measured by rising per capita incomes), would mean that poverty levels will fall in a country (UNDP, 2014). Economic growth has been one of the main tools used in various countries to respond to the issue of poverty (The World Bank, 2015b).

Empirical studies by Jain and Tendulkar (1995) have provided support that higher economic growth rates, (as measured by increases in real GDP) are associated with a reduction in poverty levels. Economic growth in South Africa has generally increased after 1994 up until the global crisis and then continued to slow down from 3.5% in 2011, to 2.5% in 2012 to 0,7% in the third quarter of 2015 (Statistics South Africa, 2015b; SARB, 2015c). This downward trend can be seen in Figure 4.1 on the following page.

Figure 4.1

Real GDP in SA 2010-2015



Source: SARB (2015c)

Furthermore, between 1993 and 2015, GDP growth averaged only 2,99% in the country (Statistics South Africa, 2015a). The impact of economic growth rates on poverty figures differ considerably around the world. The World Bank (2014b) showed that if economic growth rates increase by 2%, it will lead to in a fall in poverty of 1% to 7%. This however, is also dependant on the country. The World Bank also showed that as incomes expand, it is likely that this will negatively impact the distribution of income. Thus, economic growth usually also negatively impacts income inequality in a country; therefore the benefits of growth to the poor may fall in this regard (The World Bank, 2014b).

South Africa faces severe electricity and infrastructure constraints, labour problems (strikes and absenteeism), high youth unemployment, among other issues, and these have had an adverse effect on economic growth and poverty levels.

In addition, the poverty problem is the major cause of the high crime rates. All of these problems in South Africa make investment less attractive. Furthermore, South Africa's labour legislation is very rigid and tends to favour the employee. All of these restrict economic growth and employment creation, thus having a negative impact on poverty (Parsons, 2013).

4.2.4 The National Development Plan (NDP)

The NDP is the current poverty reduction policy in South Africa. The NDP as well as the Millennium Development Goals aim to completely eliminate the proportion of individuals living below the LBPL by 2030 (Statistics South Africa, 2015b).

The National Planning Commission was set up by the President of South Africa in May 2010 with the aim of drafting the NDP (NPC, 2011c). The Commission was made up of 26 individuals who had expertise in various different areas and they came up with a Diagnostic Report in 2011 (Zarenda, 2013). This report showed South Africa's shortcomings and achievements since the end of apartheid in 1994. Some of the key reasons for the country's slow progress were found to be the failure to implement government policies as well as the absence of broad partnerships (NPC, 2011c). The commission also outlined nine central challenges that South Africa faces namely:

- High rates of unemployment
- The poor quality of education especially among Black pupils
- The poor quantity and quality of public health systems
- Public services are poor and uneven
- Poor infrastructure
- Spatial divides in the country which hinders development
- The unsustainable resource dependent economy
- Poor quality of public services
- High levels of corruption

This report was widely accepted by South Africans which led to a draft of the NDP in 2011. With regard to responding to the severe short term impact of poverty on South Africans, the plan intends to establish labour demand policies as well as incentives to increase employment especially among the low skilled labour and youth (NPC, 2011b). The central agreement by government is that the South African economy needs to be more inclusive and at the same time grow faster. Overall, South Africa's NDP aims to generate 5 million new jobs between the years 2010 and 2020 and reduce unemployment and poverty to a low level in 2030 (The World Bank, 2015b). The plan also intends to generate these new jobs by providing an encouraging environment for growth that at the same time enhances labour absorption in the economy.

The NDP shows a long term strategy to boost employment opportunities and increase job opportunities through a variety of avenues namely public education programmes; access to health and dietary information; public employment programmes, job training, work experience and transport (NPC, 2011c). According to the plan, these strategies will need to occur over a long time period in order for it to have a widespread impact on poverty.

The NDP also shows that the economy should be able to provide the necessary resources to pay for investments in physical and human capital, and should be close to full employment by the year 2030 (NPC, 2011c). The aim is to move the South African economy more towards lower consumption and higher investment in order for sustained long term economic growth in the coming years (Zarenda, 2013).

The way to enhance economic growth is through improving the country's infrastructure, increasing the physical and human capital, increasing exports and decreasing the country's reliance on capital flows from the rest of the world (The World Bank, 2015c; SARB, 2015c).

By reviewing the RDP, GEAR, ASGISA and NDP, it becomes evident that South Africa's poverty reduction strategies have fallen under the umbrella of conventional neoclassical macroeconomics; where its main aim being to accelerate economic growth with the assumption that this growth will trickle down to the poor in the country (Zarenda, 2013).

Despite the sentiments of the NDP to target full employment by 2030, South Africa still places heavy emphasis on price stability, which comes at the expense of employment growth. In economics, this type of policy dilemma or trade-off between inflation and employment in an economy is shown by the Phillips Curve (Parkin et al, 2010). This curve shows the inverse relationship between rates of inflation and rates of unemployment (Parkin et al, 2010). Thus, if government decreases inflation by means of restrictive monetary policy, it will be at the expense of employment growth (and poverty reduction).

South Africa's government targets an inflation rate within a band of 3% to 6% in order to provide a favourable foreign investment climate (SARB, 2015c). South Africa has balance of payment constraints with long standing current account deficits which means that in order to attract foreign investment into the country, inflation has to be kept stable. This inflation targeting mechanism therefore limits employment growth since monetary policy becomes very restrictive when inflation reaches the upper band of the inflation target. Thus, the macroeconomic framework in the country can be argued to focus on price stability and fails to create sufficient employment. As a result, South Africa continues to experience low growth and high unemployment as well as high levels of poverty. This policy dilemma places South Africa in a challenging position in terms of poverty reduction; since it is necessary for the country to provide a favourable investment climate as well as increase employment.

4.4.5 Responding to the Main Causes of Poverty

a. Increasing Education and Marketable Skills

The government responds to poverty through increasing access to education in order to provide the poor with a better chance of improving their living standards. Education enables the poor to increase their human capital which gives them a better chance of entering the labour market and gaining employment, or better yet become self-employed. Some examples of poverty reduction strategies through educational means include no fee schools, school feeding schemes and the renovation of existing schools, as well as the building of new schools (Statistics South Africa, 2008).

Some specific strategies that tackle a lack of education and marketable skills include the Joint Initiative on Priority Skills Acquisition (JIPSA) or training through the Sector Education and Training Authorities (SETAs).

The Joint Initiative on Priority Skills Acquisition (JIPSA)

JIPSA placed special attention on the skills shortage issue in the country. It was a three year strategy that aimed to improve and enhance scarce skills and improve involvement of the private sector (Zarenda, 2013). In addition, it aimed to transfer individuals from the informal economy toward the formal economy which is essential in South Africa.

Sector Education and Training Authorities (SETAs)

There are 23 SETAs in South Africa that exists, and these SETAs create incentives to the private sector for the provision of approved training to employees (Zarenda, 2013). The criticism of the SETA system has been its heavy administration burden it places on firms (IDASA, 2009). Many firms find it difficult to receive compensation back from government after they have trained workers and paid skills development levies. This therefore limits the scope of this strategy in increasing education and skills (IDT, 2008).

Thus, the issue of inefficient government bureaucracy greatly restricts this poverty reduction strategy.

These education and skills focused strategies have had some positive impact on education and skills since in terms of the proportion of individuals with tertiary qualifications, it shows an increase by 11,1% between 2001 and 2011 (Statistics South Africa, 2014a). However, South Africa is one of the worst in the world when it comes to the level and quality of education, especially in terms of maths and science. According to the Global Competitiveness Report, (2014/2015), South Africa is ranked 144 out of 144 countries in this category (World Economic Forum, 2014).

b. Improving Health

The government also responds to poverty by improving the health of individuals so that the poor are able to work and function well in society. Health care strategies include free immunisation programs against tuberculosis and polio, as well as free HIV/AIDS testing and counseling programs (The World Bank, 2014b).

Other poverty reduction strategies include the reorganization of health services to allow universal free access to primary health care for the impoverished citizens in the country (The World Bank, 2015c). In spite of government efforts the proportion of the population with HIV/AIDS in 2014, was as high as 10,2% (5.51 million individuals) (Statistics South Africa, 2015c).

c. Employment Creation

The most important avenue through which the South African government fights poverty is through the creation of employment opportunities. There have been many initiatives over the years. This section covers the main strategies/initiatives with regard to employment creation.

Small, Medium and Micro Enterprises (SMMEs)

The government has focused on the SMME sector in order to create employment. The Ministry of Small Business Development was established in 2014 to support SMME development, as SMMEs play a major role in the social and economic development of the country (NPC, 2011b). SMME development is essential in combating poverty, due to the limited capacity of the formal sector in employment creation. However, this poverty reduction strategy has faced some criticism. It has been argued that SMMEs have generally not been effective.

This is largely due to poor policy implementation of these enterprises; which is a result of a lack of awareness of support centres and difficult administration (Berry, 2002). In addition, SMME support infrastructure was almost non-existent prior to 1994, and thus has a long way to go before it can make a significant impact on poverty in South Africa. There have also been some questions about the demand from these SMMEs, since most individuals have limited means in the country. Moreover, SMME development is disorganized with different sectors and spheres of government acting without any clear plan. A major aim of government is to develop a SMME plan linked to the NDP. This will create a sustainable policy environment that places SMMEs at the center of accelerated economic growth and development (IDT, 2008). This will also help promote coordinated and integrated support across government spheres, for more effective SMME development (NPC, 2011b).

The Expanded Public Works Programme (EPWP)

The government has utilised public sector budgets to reduce unemployment through the EPWP. This was done by creating short term productive employment opportunities combined with training (Presidency RSA, 2005). This has helped improve employment in South Africa. However, since the EPWP only provides temporary employment it has a limited scope in poverty reduction.

In addition, it has been done on a small scale relative to the number of individuals unemployed, thus having a small impact on poverty reduction in South Africa (Kumo, 2015).

Job Creation Policies and Labour Legislation

Government also tackles unemployment through job creation policies and labour legislation. The Employment Equity Act (1998) offers incentives for firms to hire Black individuals. This is done through policies such as affirmative action and black economic empowerment; where preference is given to previously disadvantaged individuals.

These policies aim to respond to Black citizens by ensuring that they get an improved chance of competing against White, Indian and Coloured candidates for the limited jobs that are available. This then creates a more level playing field in the job market (The World Bank, 2015c). These policies have been found to increase labour force participation of women and marginalised individuals in South Africa (The World Bank, 2015d). However, the effectiveness of this poverty reduction strategy has been under criticism. A study in 2009, reviewed the impact of affirmative action in decreasing both unemployment and poverty among individuals in skilled and semiskilled employment in South Africa (UNDP, 2014). It found that affirmative action policies had a small impact on decreasing unemployment or wage disparities in the country.

In addition, it was shown that the improvements in employment and wages among Blacks in the country could be accredited to the widespread efforts of improving the access and quality of education to Blacks, as well as to the employment effects of accelerated economic growth; rather than to affirmative action (UNDP, 2014). In addition to the previous strategies, government also has various other employment focused strategies.

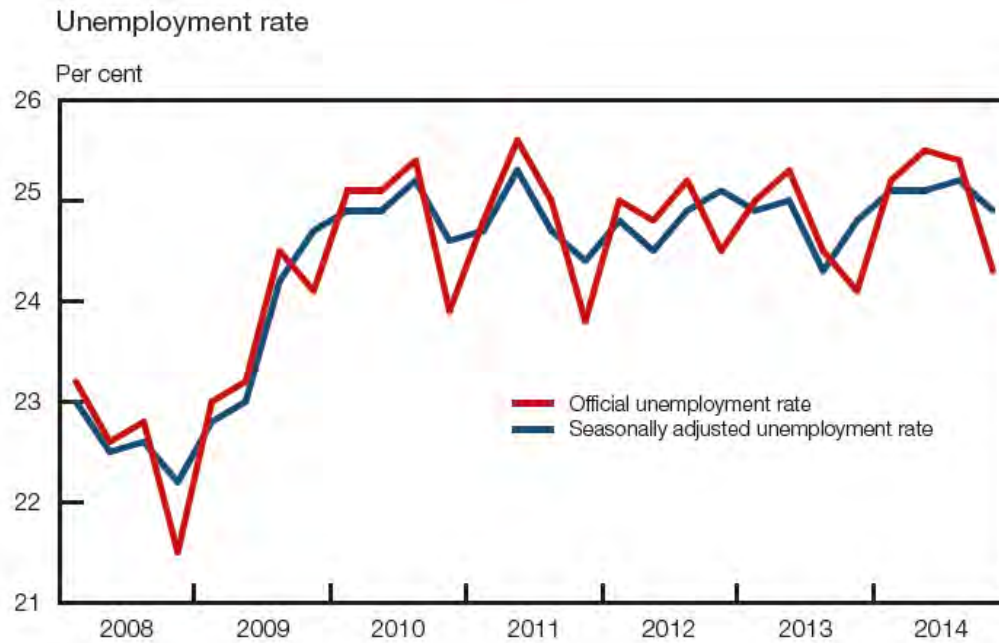
From 2009 to 2014, government has spent more than R100 billion on employment strategies with around 4 million employment opportunities being financed (Lester, 2015). A summary of the main employment strategies by government in 2015 - 2016 include:

1. The Jobs Fund will spend R4 billion on employment projects in 2015-2016 and this strategy involves private sector partnership.
2. R590 million will be used the Green Fund to create environmental projects this also involves private sector partnerships.
3. R15.6 billion will be spent on manufacturing development incentives and competitiveness strategies.
4. R3.5 billion will be spent on special economic zones for infrastructure development.
5. The New Growth Path is also in place to increase growth and employment as well as decrease inequality in 2015-2016.
6. An agricultural strategy is in place to aid the NDP reach its goal of creating 1 million jobs in the agricultural sector by 2030
7. The DTI will continue to provide financial support to companies in need.
8. Employment Tax Incentive has been in place since 2014, to provide subsidies for the salaries of new employees between the ages of 18-29, thus encouraging youth employment.

The information on the allocation of funding of these strategies is from the 2015/2016 Budget speech of South Africa. Despite the numerous employment strategies utilised, with its corresponding high resource allocations, unemployment is among the highest in the world. The President of South Africa in the State of the Nation Address for 2011, stated that 2011 was declared a year of employment creation, however this has been met with limited success since the unemployment rate in 2011 peaked in this year, and has been consistently high since 2010, as seen in the unemployment rates figure in South Africa from 2008 to 2014 (repeated on the next page for convenience: Figure 4.2). (The Presidency RSA, 2012).

Figure 4.2

Unemployment rates in SA 2008-2014



Source: SARB (2015a)

Synthesis

The government had come up with various strategies to address poverty post-apartheid. The strategies range from RDP in 1994 to NDP in 2012. These strategies have met some success as well as some limitations. Overall, post-apartheid poverty reduction strategies from RDP, GEAR and ASGISA have done little to respond to the main causes of poverty. There have also been many education and skills, health and employment focused strategies by government over the years. However, according to IDASA (2009), there has been a lack of a systematic and clear framework for poverty reduction strategies. Various government spheres work in isolation from one another and thereby lack a common goal. For example, in many cases there has been a duplication among many different departments within one province that are engaged in the same project (IDASA, 2009).

The main reason behind this isolation is due to the piecemeal project by project approach which is usually followed by government. This prevents poverty reduction strategies from reaching a wider audience. This approach is also more costly and fails to serve those who need it the most. Thus, despite government's huge efforts, there is an urgent need for a greater policy direction and focus. Aside from wasting resources and being less effective, another consequence of not having a clear plan for poverty reduction strategies is that it creates a lack of accountability among stakeholders. It also makes corruption easier since proper plans and systems are not in place. All of these issues seriously limit the effectiveness of poverty reduction strategies.

In addition, it has also been argued that poverty reduction strategies that target employment may not be as effective as they should be since they are created by government, and not the private sector (IDT, 2008). The reason being is that government may not be best suited at creating and growing business owners, as they are not well equipped to help individuals become entrepreneurs (IDT, 2008). Government lacks the technical skills and experience in this regard, and hence, the employment strategies by government are restricted.

Another criticism of these poverty reduction strategies is that they fail to account for the difference between the individuals who are chronically poor and those who are transitorily poor (IDT, 2010). As a result, these strategies may be less effective and financially wasteful. Government poverty reduction strategies do not make specific reference or account for the heterogeneous nature of poverty (IDT, 2010). A large number of individuals who are chronically poor are Blacks individuals living in rural areas, females and the youth. Thus, these groups experience poverty much more intensely than others. So poverty reduction strategies should be more explicit on the issue.

Main limitations of these Poverty Reduction Strategies

1. The critical review and evaluation of RDP, GEAR, ASGISA and NDP highlights that little has been done to respond to the three causes of poverty, especially unemployment. In addition, GEAR, ASGISA and NDP have fallen short in creating a real impact on poverty by failing to transfer gains in economic growth to the poor, while RDP has failed to promote economic growth.

2. It is also evident that RDP, GEAR, ASGISA and NDP fall under the umbrella of conventional neoclassical macroeconomics; where its main aim being to accelerate economic growth with the assumption that this growth will trickle down to the poor. South Africa still places heavy emphasis on price stability, which comes at the expense of employment growth. Thus, the macroeconomic framework can be argued to be quite unfavourable so South Africa continues to experience low growth and high unemployment as well as high levels of poverty. However, the country is unable to resolve this dilemma as it is necessary to keep inflation stable in order to attract investment.

3. Despite numerous education and health care strategies a significant proportion the quality of education in the country is very poor and a large portion of the population are affected by HIV/AIDS, tuberculosis and other illnesses, which contribute to rising poverty levels.

4. Poverty reduction strategies that target employment are limited by inefficient government bureaucracy and poor implementation. The SETAs and SMMEs, among other strategies, create heavy administration burden on firms and individuals and this limits their effectiveness in creating employment and reducing poverty. In addition, government, though having many strategies in place, falls short in terms of implementation and delivery.

5. As the EPWP only provides temporary employment, it has a limited scope in poverty reduction. In addition, it has been done on small scale relative to the number of individuals unemployed, thus having a small impact on poverty reduction in South Africa.

6. The effectiveness of affirmative action policies in reducing employment is questionable.

7. There has been no clear and common strategy present to reduce poverty in South Africa. The lack of a systematic and clear framework for poverty reduction strategies creates duplication, wastes financial resources and limits the effectiveness of these strategies in poverty response. It also creates a lack of accountability and increases corruption.

8. Government is not best suited when it comes to creating and growing employment due to its lack of the technical skills and experience in growing businesses and despite some partnerships with the private sector, unemployment continues to rise in South Africa.

9. Poverty reduction strategies do not make specific reference or account for the heterogeneous nature of poverty. As a result it may be less effective and financially wasteful.

In addition to the previous strategies discussed, South Africa also targets poverty by means of fiscal redistribution through the social assistance system. The next section discusses this poverty reduction strategy in more detail.

4.4.6 The Social Assistance System

South Africa's social assistance system is unique compared to other middle income countries with regard to the share of government resources its uses and the level of sophistication (The World Bank, 2015b). Despite being a developing economy, South Africa has a remarkably well-developed social assistance system. Table 4.1 summaries the main grants and their values in South Africa.

Table 4.1

SAs Main Grants and Values in 2015

Type of Grant	Description	Value per month 2015
<i>Child Support Grant</i>	This grant is provided to the primary care giver of the child born after 31 December 1993 who is under the age 18 and in need of assistance.	R320
<i>Care Dependency Grant</i>	Here the child must be under the age of 18 years must submit a medical assessment report confirming permanent, severe disability.	R1370
<i>Foster Care Grant</i>	A foster parent is provided with this grant if he/she has a foster child in their care.	R830
<i>State Old Age Grant</i>	The recipient must be 60 years or older and must not be cared for in a State Institution. He/she must also not be receiving any other grant.	R1380
<i>Disability Grant</i>	Recipient must be 18 to 59 years old and must submit a medical report confirming disability.	R1370
<i>War Veterans Grant</i>	The recipient must be 60 years and older or must be disabled. They must have fought in the Second World War or the Korean War.	R1370

Source: Own Illustration based on information from SASSA (2015) and Herbst & Mills (2015)

The social assistance system in South Africa provides many grants to poor individuals. These grants are directed at specific categories of vulnerable individuals and they receive grants on a means-tested basis (Ferreira, 2015). This usually includes three main groups of individuals; the elderly, disabled and the youth (Lings, 2014)

These values of the grant as seen in Table 4.1 are extremely low relative to the poverty lines in South Africa. Child support grants make up 71% of all grants in South Africa while old age grants 18%, and disability grants 7% in 2014 (Herbst & Mills, 2015). In 2014, 12 million children received grants up to 18 years of age (SASSA, 2014).

The approach taken by South Africa to social assistance includes the enhancement of social and economic wellbeing in three main ways namely; access to education, access to health care for individuals in need, and the absorption of labour (Ferreira, 2015). The result of this has been a social assistance system which integrates the three main causes of poverty. Other social assistance measures include the Compensation Fund, the Unemployment Insurance Fund, Road Accident Fund, Social Relief of Distress Assistance and Grants-in-aid (Lings, 2014). Despite responding to the main causes of poverty, this poverty reduction strategy also has its limitations.

The Limitations of the Social Assistance System

a. Dependency on the Government

There has been much debate as to whether a social welfare system creates a greater dependence on government or whether it helps individuals escape poverty by increasing their living standards. The issue of dependency on government has been discussed all over the world and there are two main arguments or schools of thought under this issue (Potts, 2012).

One of the arguments is that social assistance creates dependency on the government and this is known as the “Dependency Syndrome” (Potts, 2012). The other argument is that social assistance creates many benefits to the vulnerable and poor individuals in society which they would not otherwise have access to (Johnson, 2014).

The first argument dealing with the dependency syndrome involves views by Charles Murray (1984). Murray studied poverty reduction programs by the American government for thirty years and concluded that they have not been effective in decreasing poverty in the country. He stated that government poverty reduction strategies have failed overall. He was of the view that there are certain groups in society where their economic and social situations are determined primarily by their individual behavioural flaws; and as a result they have limited or no access to job opportunities.

According to him, individuals live in poverty because they have something lacking in them and if they change themselves then their living standards may also change. He suggests that these individuals do not value paying jobs and are satisfied and happy to rely on government for their survival in the form of grants. Others are also of the view that social assistance creates and enables individuals to be passive and dependent, which increase poverty rates among them rather than reduce it (Potts, 2010). Thus, social assistance is viewed as a system that creates disincentives for individuals to look for jobs.

Murray (1984) thus recommended doing away of social assistance such as grants and welfare, affirmative action, income support systems, unemployment insurance, food stamps and medicaid in America. By doing this he was of the view that it would leave a person who is of working age with no choice except to enter the job market.

The opposing argument on this matter, however, is that social assistance creates incentives for the poor to look for jobs and to contribute to the economy of the country (Surrender, 2010). It is believed that social assistance allows poor individuals in society to use the money from grants to finance self-employment initiatives, enhance mobility, search for jobs, and increase their productivity by enabling improvements in their skills, nutrition and health (Surrender, 2010). In addition, it will help them cope with temporary negative financial shocks in their lives (Surrender, 2010).

Johnson (2014) has a different view altogether and believes that due to the presence of a capitalist system, some portion of the population will be poor no matter how hard they work or how much initiative they take, since the capitalist system promotes increasing concentrations among those who are already wealthy; so increasing initiative will not get rid of poverty. Johnson (2014), states that Murray misinterpreted the failure of government poverty reduction strategies since they are not structured around a consideration of how the system creates poverty in the first place.

In Johnson's (2014) view, this type of poverty reduction strategy (social assistance) assumes that individuals are victims of their circumstances, and it therefore aims to reach out with various kinds of aid. According to him, these social assistance payments soften the impact of poverty on individuals, but they fail to respond to the number of individuals living in poverty which is in a steady supply. So even though these programs lessen the suffering caused by poverty they are by no means a solution to the poverty problem.

A critical question in recent years has been whether or not the increasing social assistance is good or bad for South Africa's poverty response. Some have argued that the second decade after apartheid had been a decade of welfare dependency (Potts, 2012). In many of the South African government conferences it had been indicated that government grants must help to empower individuals and these grants must be linked to economic activity such that they do not create dependence (Presidency RSA, 2005).

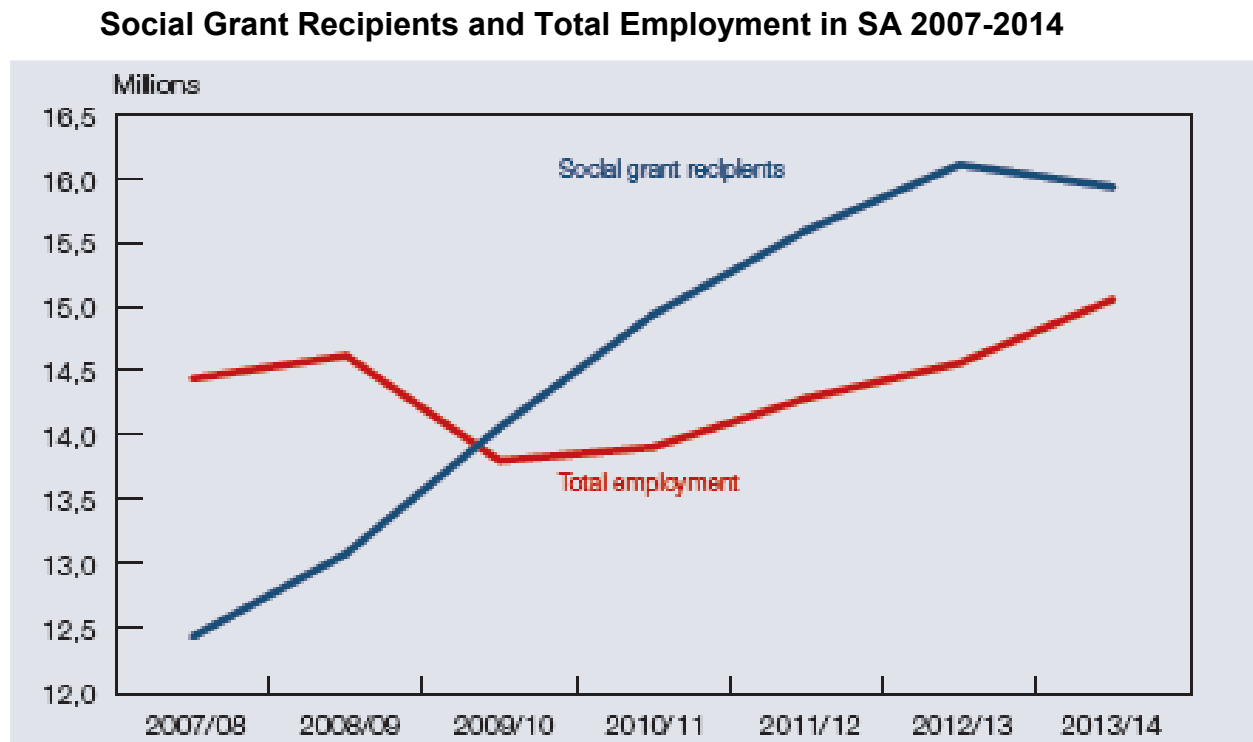
Closely related to the issue of dependency, is the challenges it creates for the future of the economy. Dependency has a negative impact on the sustainability of the South African economy. The next part discusses the issue of sustainability in more detail.

b. Sustainability of the Social Assistance System

Heavy and continuous dependency on social assistance drains governments' resources and over the long term it creates detrimental effects in society. It has been argued that the social assistance system has reached its limit and has become unsustainable (Khumalo, 2011). Initially, social grants were only viewed as a temporary measure to respond to poverty; however it is increasingly becoming a primary source of livelihood for many.

South Africa's grant recipients have increased considerably over the recent years. From the year 1997 to 2008, the number of recipients increased rapidly from 2.8 million to 12,4 million (Herbst & Mills, 2015). In the years 2010 to 2014, recipients increased to 16 million (Herbst & Mills, 2015). While recipients grew from 12,4 million to 16 million from 2008 to 2014; the number of employed individuals only increased from 14,4 million to 15,1 million over the same period (SARB, 2015b). Social grant recipients have therefore increased much faster than the total number of employed individuals in the country as illustrated in Figure 4.3 on the following page.

Figure 4.3



Source: SARB (2015a)

Currently the number of grant recipients stands at 16.9 million while number of employed individuals is only 15,65 million, thus still showing a disparity (SARB, 2015c). 16.9 million grant recipients amounts to one quarter of the South African population dependent on the social assistant system.

Some of the reasons behind these huge increases in social assistance include the rapid increase in the disability grant by individuals affected by the HIV/AIDS, the increasing the number of child pregnancies, the steady increase of the age limit for the child support grant and a decrease in the age limit for the old age grant (Lings, 2014).

For example, in the years preceding the 1990s, grants were only accessible to children under 14 years of age and to the elderly who comprised of individuals 65 years and older (SASSA, 2014). Over recent years the eligibility age for the child support grant has enlarged to 18 years, and old age grants now include individuals 60 years and older (Lings, 2014).

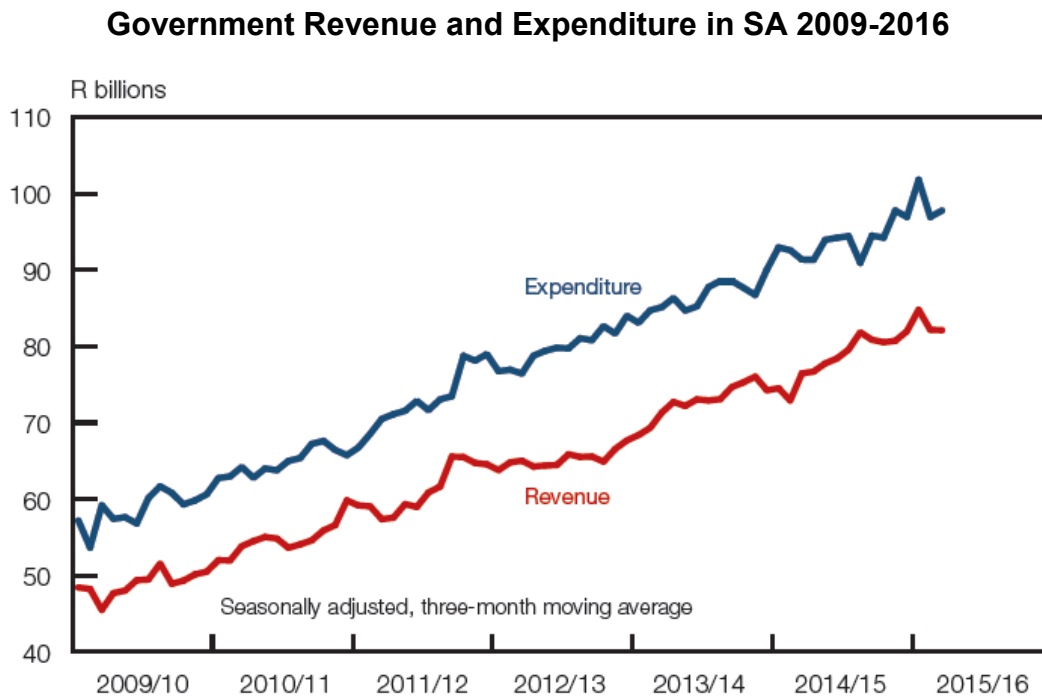
With the increase in grant recipients, government had to considerably increase its expenditure. Expenditure on social grants rose from 1.9% of GDP in the years 2000-2001 to approximately 3% in the years 2007-2008 and 3,5% in 2013-2014 (Statistics South Africa, 2015a). In 2014, government spent R113 billion on social grants which made up 10% of total government spending and over 4% of GDP (SARB, 2015c). Overall, the amount spent by government has increased by more than 50% in real terms over the past decade (SARB, 2015c). The value of more than 4% of the GDP makes South Africa among the highest spenders on social assistance in the world (The World Bank, 2015b; Seekings, 2011).

The considerable increase in social assistance expenditure places concerns about tax burden on employed individuals in South Africa (Herbst & Mills, 2015). A tougher tax regime in South Africa has enabled high redistribution to occur (Herbst & Mills, 2015). Currently, 1.75% of the population pays more than 50% of personal income tax and other taxes (Lings, 2014). This is very risky and unsustainable; thus South Africa has to expand its tax base through employment creation rather than over-taxing its citizens. This has to occur or else government's debt will continue to rise.

South Africa's government debt to GDP ratio stood at 39% in 2014 (SARB, 2014). It averaged 36.31% between the period 2000 to 2014 (SARB, 2014). In the first quarter of 2015, the primary deficit of national government amounted to R17,2 billion, or 1,7% of GDP (SARB, 2015c).

When considering the government's revenue and expenditure it shows the threat to the sustainability of the economy more clearly. If government continues on this trend it is likely to create even more poverty for future generations. Figure 4.4 shows this consistent gap between revenue and expenditure over recent year.

Figure 4.4

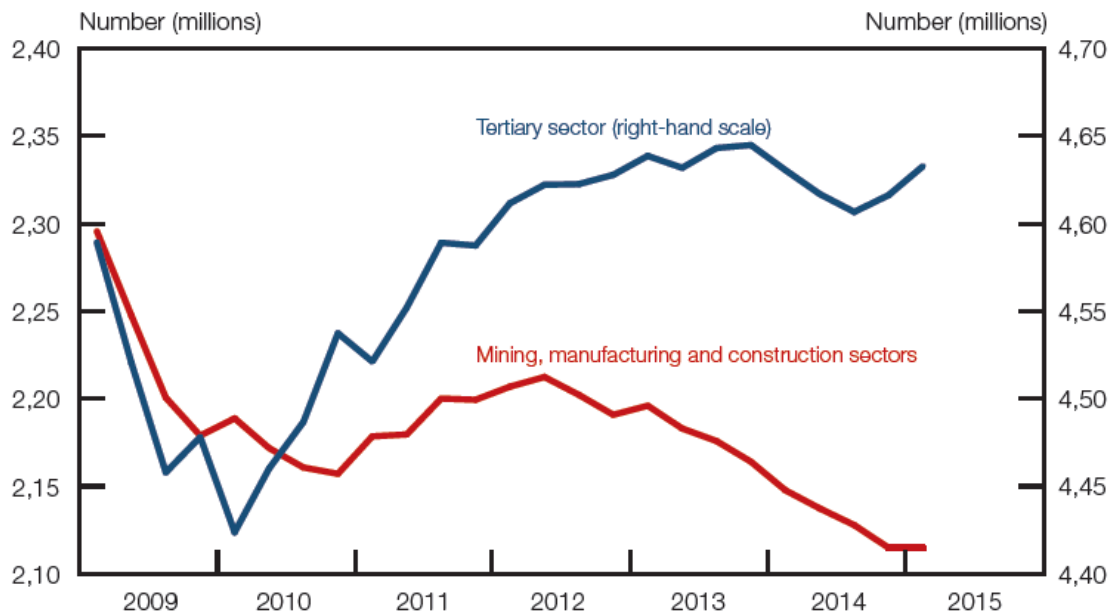


Source: SARB (2015c)

In addition to the high debt in South Africa, employment patterns in the country are not favourable so this places even more limitations on the tax base. The manufacturing sector in the economy which is responsible for absorbing mainly unskilled and semiskilled workers, (which make up the majority of unemployed individuals) has been shrinking in recent years according to Figure 4.5 on the following page. This makes the unemployment issue and the issue of sustainability in South Africa even more challenging and troubling.

Figure 4.5

Employment Trends in Secondary and Tertiary sectors 2009-2015



Source: SARB (2015c)

To sum up, grants, recipients have increased exponentially since 1994. From 1994, it was approximately 4 million which increased to 16.9 million by the third quarter of 2015 (SASSA, 2015). From the grants outlined in this section, seven are provided over the long term. What is even more concerning is that the Department of Social Development is now considering increasing the age of the child support grant even further to 23 years of age (SASSA, 2015).

According to the long run fiscal studies conducted by the National Treasury (2009), to compare government's expenditure on social grants and government revenues since 2008; it has found that these grants will absorb all government revenues by 2026, if current expenditure trends are not adjusted. Furthermore, it shows that the current level of social expenditure will only be sustainable if the economy grows by a minimum of 3% annually.

With heavy electricity constraint, labour unrest, a shrinking manufacturing sector, a formal sector that's stagnant, and falling commodity prices; it is unlikely that the economy will reach 3% growth in the near future; thus, making the rapidly increasing social expenditure very risky. Current economic growth expanded by only 0.7% after a 1,3% contraction in the second quarter of 2015, thus showing that South Africa is far from the necessary growth rates needed to support its expanding social assistance system.

4.3 The Overall Impact of Poverty Reduction Strategies

Overall, between the years 2006 and 2011, the level of poverty has dropped in South Africa. According to Statistics South Africa's (2014b), the General Household Survey showed self-reported hunger has fallen from about 30% in 2002, to 13% in 2011. Poverty also decreased from 12% in 1996, to 5% in 2010 (using \$2 per day poverty line) (The World Bank, 2014b).

According to Statistics South Africa (2014b), extreme poverty (below the food poverty line) was approximately 26.6% (12.6 million) in 2006; compared to 20,2% (10.2 million) in 2011. However, on closer inspection, figures show that extreme poverty increased between the years 2006 and 2009 and thereafter fell in 2011. The global economic crisis of 2008 has had a detrimental impact on the poorest in South Africa. In 2015, 22% (10.7 million) of the population live in extreme poverty (Statistics South Africa, 2015a).

In terms of lower bound poverty, it fell from approximately 27.1 million in 2006, to 23 million South Africans in 2011 (Statistics South Africa, 2014a). In 2015, it stands at 18,6 million individuals (37%) living below the LBPL (Statistics South Africa, 2015b)

With regard to the upper bound poverty, this was approximately 20 million in 2006 compared to 16.3 million in 2011 (Statistics South Africa, 2014b). In 2015, 27 million individuals (54%) are living below the UBPL (Statistics South Africa, 2015a).

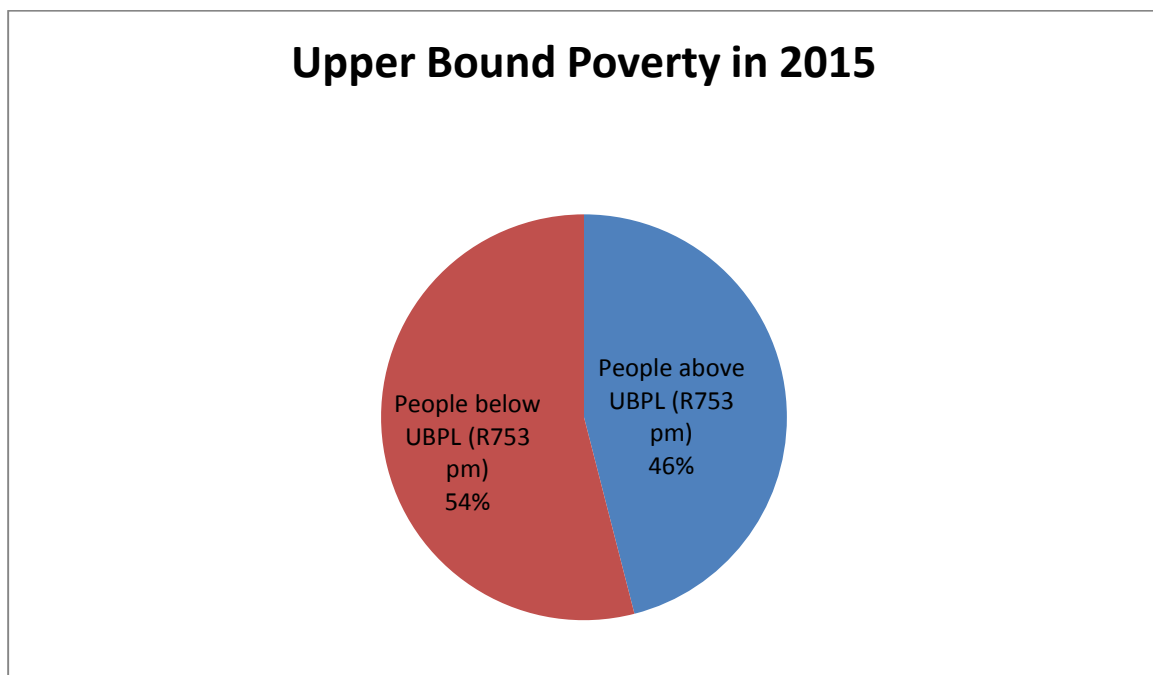
The commitment to equity methodology is used by the World Bank to compare the effectiveness of various middle-income countries' fiscal policies, in reducing poverty and inequality (The World Bank, 2015b). The World Bank (2015b) showed that South Africa's policies to respond to inequality succeeded in decreasing the Gini coefficient much more compared to other middle-income countries. South Africa decreased its Gini coefficient from 0,72 in 2006 to 0,69 in 2011. South Africa also spent much more than other countries on its social assistance programmes, lifting around 3,6 million individuals out of poverty in 2011 (based on US\$2,5 a day on a purchasing power parity basis). In addition, social assistance has contributed to 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 (The World Bank, 2014a).

According to two quantitative studies done by the South African government and UNICEF, child support grants have considerably reduced the effect of poverty in South Africa in the time of the global recession (The World Bank, 2014a). UNICEF (2012) showed that child support grants have had a positive impact on school attendance and health care. In addition, it shows that the child support grant and the old age grant make the greatest impact on poverty. Furthermore, these studies show that grants, especially the child support grants have been key in poverty reduction since 1994, however generally these grants have had smaller impact on inequality in South Africa. It was also found that the size of the grant for older persons is enough to lift numerous households out of the poorest quintile of the population (Schmid, 2012).

It has also been found that since majority of child grant recipients are female, it has had a positive on women empowerment in poor communities (Patel et al, 2012). According to the World Bank (2014a) it shows that South Africa has lifted 3.6 million individuals out of poverty and decreased extreme poverty 50% as a result of fiscal policy largely due to social grants using \$2 per day. In the study using 12 countries, it found that the rate of extreme poverty decreased from 34.4% before the use of fiscal policy to 16.5% after its use, reflecting mainly the impact of cash transfers such as the child support and disability grants and the old age pensions. It was shown that cash transfers lift the income of the poorest decile by tenfold. Despite a progressive tax system, inequality in South Africa was still higher than the other countries in the study. Thus, to make further progress in South Africa, the World Bank (2014a) recommends that there is a need to complement fiscal redistribution policy with higher more inclusive growth that creates employment, especially at the lower end of the distribution.

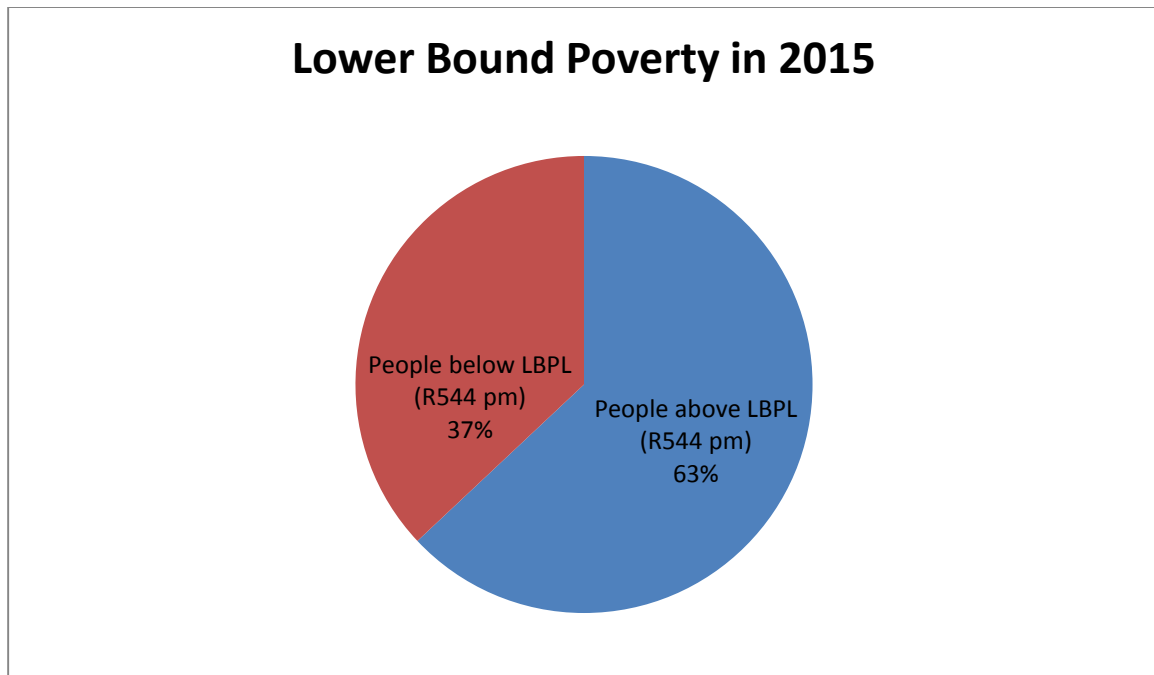
Figure 4.6 and Figure 4.7 below show South Africa's state of poverty in 2015.

Figure 4.6



Source: Own Illustration based on data from Statistics South Africa (2015b)

Figure 4.7



Source: Own Illustration based on data from Statistics South Africa (2015b)

The NDP target is to eliminate the number of individuals living below the LBPL by 2030. With regard to inequality, it aims to reduce the Gini Coefficient to 0,6 by 2030. Table 4.2 on the following page summarises South Africa's progress toward NDP targets.

Table 4.2

Progress toward NDP Targets

Poverty Indicators	2006	2009	2011	2014/2015	NDPs 2030 Target
Percentage of population below the LBPL	42.2%	44,6%	32,3%	37%	0%
Number of individuals living below LBPL (in millions)	20,0	21,8	16,3	18,6	0
Poverty Gap for LBPL	16,4%	18,9%	11,8%	-*	0
Gini Coefficient	0.72	0.70	0.69	-*	0.60

**Data not available.*

Source: Own Illustration based on data from Statistics South Africa (2015b); Mail & Guardian (2015).

Table 4.2 shows that South Africa is far from meeting its NDP targets (also seen from Figure 4.7). With the numerous limitations of South Africa's poverty reduction strategies highlighted in this chapter, and the various constraints in the economy, it is unlikely that it will meet its targets unless drastic action is taken by government.

4.4 Conclusion

South Africa has initiated many strategies, ranging from the RDP to the NDP, to address poverty. The GEAR, ASGISA and NDP have fallen short in creating a real impact on poverty as these have failed to stimulate adequate employment creation and transferring gains in economic growth to the poor. South Africa places a heavy emphasis on price stability and this has come at the expense of employment growth.

Poverty reduction strategies are limited by inefficient government bureaucracy and poor implementation. Furthermore, the EPWP only provides temporary employment, thus limiting the scope in poverty reduction. In addition, it has been done on small scale relative to the number of individuals unemployed, thus having a small impact on poverty reduction in South Africa. Another limitation is that government may not be best suited when it comes to creating and growing value-adding employment in the country. Thus, this increases the need for solid private sector partnerships in order to reduce unemployment and poverty.

In terms of the South Africa's social assistance system, it has a danger of creating a dependency syndrome on government and may create incentives for individuals not to seek employment. The longer individuals are out of work, the more difficult it will be to absorb them into the labour market and they may become unemployable in the future, which makes poverty response more challenging. Probably, the most severe limitation of the poverty reduction strategies is the threat to sustainability. The heavy emphasis placed on the social assistance system is unsustainable given the exponential increase in grant expenditure, high government debt level and a narrowing tax base due to a falling manufacturing and formal sector. This unsustainable strategy is likely to result in more poverty for future generations if individuals, especially the youth, cannot find suitable employment.

CHAPTER FIVE

Poverty Reduction Successes in Other Countries

5.1 Introduction

This chapter outlines some successful poverty reduction strategies applied in other countries in recent years. This chapter comprises of three sections. The first section outlines poverty reduction successes in selected countries. The second section summaries key lessons learned. The last section concludes this chapter.

5.2 Poverty Reduction Successes

5.2.1 China

High Economic Growth and Employment Creation

China has implemented successful employment strategies over the years by pursuing high economic growth rates (The World Bank, 2015b). The country places high growth at the top of its priorities so that employment can increase and new entrants can be absorbed in the labour market (UNDP, 2014). In addition, China has succeeded in increased formal and high rural employment through creation of special enterprise zones (The World Bank, 2015a).

Long Run approach to Poverty

China has also taken a long run approach to poverty reduction, to secure structural change which enables the formal sector to gradually incorporate majority of the workforce (UNDP, 2014). These structural changes include a movement out of the primary sector (agriculture) into the secondary (manufacturing and construction) and tertiary sector (industry and services). The number of individuals employed in the primary sector decreased from approximately 84% in 1952, to 37% in the year 2010 (The World Bank, 2015a). This movement was combined with increased investments in education, skills development and infrastructure development.

High Investment and Entrepreneurship

In addition, China's rate of investment and entrepreneurship is very high, which has contributed to its high economic growth (SARB, 2015c). Over recent years, China's investment relative to GDP averaged 40% and economic growth rates averaged 9.5% (Riddell, 2014). China's investment to GDP also reached a high of 54% in recent years, and economic growth stood at 7.4% in 2014 (KPMG, 2015). In addition, majority of citizens in the country agree that China provides an enabling environment for entrepreneurship (based on a study done by KPMG, 2015).

Favourable Wage Policy

The country has also successfully raised wages to improve living standards and decrease poverty; and this has been largely financed by increasing government fiscal deficits (UNDP, 2014). China has practised wage equalization across all state employment in urban areas (The World Bank, 2015a). This, as a result, increased real wages throughout the country since both corporate and informal employment wages had also increased as a result of this policy (UNDP, 2014).

Labour Flexibility

China's workforce has a high level of productivity and this can be accredited to a stronger work ethic in the country which is due to more flexible labour laws (The World Bank, 2015b).

As a result of China's effort, its poverty strategies have successfully decreased poverty rates by more than 50% since the 1980s (UNDP, 2014). China is ranked 91 in terms of its HDI which places it in the very high category compared to South Africa, which is ranked 118 out of 187 countries (UNDP, 2014).

5.2.2 Singapore

Employment Subsidies

In Singapore, the government places a high importance on job stability in times of economic downturn (UNDP, 2014). Thus, the region provides wage subsidies to employers with the aim of increasing wages and responding to poverty. Therefore, it places more importance on keeping individuals employed rather than providing unemployment benefits to individuals.

Singapore has also temporarily increased employer social assistance in order to reduce job losses during periods of economic downturns (UNDP, 2014). In addition, the government created a one year job credit scheme that aided the private sector to save jobs during the recession in 2009 (The World Bank, 2014b). Thus, the Singapore government focuses on providing a favourable climate for growth and employment, which impacts positively on poverty reduction. As a result of Singapore's efforts, the country enjoys a very high human development ranking. It is ranked at number 9 out of 187 countries (UNDP, 2014).

5.2.3 Germany

Employment Subsidies

European countries' poverty reduction strategies include offering subsidies to employers to hire more labour and thus respond to unemployment (The World Bank, 2015b). For example, in Germany, subsidises have helped about 6% of their citizens out of unemployment in 2003 (UNDP, 2014). This strategy also had additional benefits on the economy as it generated more tax revenue and decreased the cost of unemployment benefits. In addition, it increased social security income which had created a further positive impact on poverty response in the country (The World Bank, 2014b). Germany's efforts have placed it in a favourable position on the human development scale, as it is currently ranked 6th which shows very high human development of its citizens (UNDP, 2014).

5.2.4 Brazil

Minimum Wage

Brazil makes use of a minimum wage policy; where a national wage limit is mandated by law to increase proportionately to the rate of inflation and GDP growth (Randolph & Panknin, 2015). This policy had a positive impact on wage inequality and poverty since the year 2000. Brazil experienced high economic growth which decreased poverty and income inequality during this period (Randolph & Panknin, 2015). Brazil's minimum wage policy also played a more central role in reducing inequality than the country's social assistance programs during the first decade of the century (Randolph and Panknin, 2015).

High Investment and Entrepreneurship

The investment rate in the country also rose from 16.8% in 2000 to 19.5% in 2010 (The World Bank, 2015c). Brazil is ranked 3rd in terms of entrepreneurship activity in the world, with about 13.8% of the population being entrepreneurs (Brinded, 2015).

As a result of Brazil's poverty reduction strategy, the unemployment rate continued to decline from 12.4% in 2003 to 6.7% in 2010 (The World Bank, 2015b). The proportion of Brazil population living in extreme poverty fell from 17% in 1990 to 5% at the end of the 2000s (The World Bank, 2015a). Brazil also has a high HDI ranking at 79 compared to South Africa's 118 (UNDP, 2014).

5.2.5 The East Asian Region

High Economic Growth and Employment Creation

The East Asian regions have achieved high economic growth rates between 1970 and 1980 (The World Bank, 2014b). Some countries in East Asia have enabled a swift movement out of the primary sector (agriculture).

High Investment

Full employment was achieved through high savings and investment which were both above 30% of the country's GDP (The World Bank, 2014b). This led to more inclusive growth patterns in the country which transformed the structure of their economies.

Industrial Development through Government Intervention

East Asia in general has taken a different approach to solving employment problems. The region focused on industrial development, through government interventions, to enhance employment (The World Bank, 2015b). These interventions were coupled with methods to enhance employment security. The industrial policy in the region created conditions for labour to shift to more formalized employment which is more productive and adds higher value than the primary sector (UNDP, 2014).

Accommodative Monetary Policy

In terms of monetary policy in the region, this was accommodative in order to sustain aggregate demand for maximum employment (SARB, 2015c). The policy also made room for moderate inflation in the region (SARB, 2015a). Thus, as a result of successful poverty reduction strategies employed the total number of individuals living in extreme poverty decreased by more than 500 million since 1981 (UNDP, 2014).

Other countries have made use of similar poverty reduction strategies as those adopted by China, Singapore, Germany and the East Asian Region. Another successful experience is the case of India.

5.2.6 India

High Economic Growth and Employment Creation

India has successful poverty reduction strategies in place to target unemployment. For example, India's national rural employment guarantee scheme was put in place to make employment a basic right of all of its citizens (Ravallion, 2008). The scheme guarantees that every rural household has a minimum of 100 days of employment per annum at a reasonable wage (Ravallion, 2008). India utilises tax revenues to fund this employment scheme.

High Investment

India's investment rate is also high and averages around 35% of GDP (The World Bank, 2015a).

EPWP

In addition, like South Africa, India makes use of expanded public works programmes to stimulate employment. As a result of these efforts, India's poverty gap at \$1.25 per day fell from 10,51% in 2005 to 4,84% in 2012, while poverty headcount fell from 41,64% to 23,63% during the same period (The World Bank, 2015a).

5.2.7 Chile

Employment Subsidy

Successful poverty reduction strategies in Chile include a training oriented and employer focused wage subsidies (UNDP, 2014). Under this strategy, employers are given a subsidy for hiring and training unemployed youth (UNDP, 2014). The result is that in most cases about 50% the trainees gained employment after three months after receiving training (UNDP, 2014).

High Entrepreneurship

Chile is considered one of South America's most stable and prosperous nations, and its ranked 9th on this list of countries with the highest entrepreneurial activity as about 11% of its population are entrepreneurs (Brinded, 2015).

5.3 Summary of Key Lessons

1. From the above investigation, the key lessons that can be learned from the international front include countries' strong commitment to economic growth and employment creation when responding to poverty; this is evident from China, East Asian Regions and India.
2. Providing an enabling environment for growth and employment creation is essential for poverty reduction. High levels of investment and entrepreneurship in China, Brazil, India, Chile and the East Asian Regions have contributed to their high economic growth and employment and thus higher poverty reduction.
3. Flexible labour legislation and accommodative monetary policy also aid in the creation of a favourable climate; as seen in China and East Asian Regions respectively.
4. Employment creation is given preference over providing social assistance in China, Singapore, Germany, Brazil, India, Chile and this has contributed to their success.

5. Employment stability is another crucial aspect especially in times of economic downturn. This helps reduce the impact of downturns on poverty rates. Employment subsidies in Singapore, Germany and Chile are means to provide such employment stability.

5.4 Conclusion

It is necessary to consider what has been successful in other countries so that South Africa can be better equipped for the fight against poverty in the future. By looking at some successful international poverty reduction strategies, it is evident that there are many important lessons and areas of improvement that can be used in South Africa's poverty response.

It was found that countries with successful poverty reductions generally have a strong commitment to economic growth and employment creation when responding to poverty; are able to provide an enabling environment for growth and employment creation which generally involve having high levels of investment, entrepreneurship, labour flexibility and accommodative monetary policy.

In addition, employment creation is given preference over providing social assistance in cases of successful poverty reduction; and employment stability in the form of employment subsidies, are a crucial aspect to reducing unemployment, especially in times of economic downturn.

CHAPTER SIX

Conclusion

6.1 Introduction

This concluding chapter is made up of three sections. The first section provides a synthesis of main findings and answers the research questions of this dissertation. The second section provides policy recommendation for future poverty reduction strategies South Africa. These recommendations are based on the limitations and lessons learned from chapter five and six respectively. The last section concludes this dissertation.

6.2 Synthesis

- What is the definition of poverty?

Poverty is a broad multidimensional concept. The concept of poverty was outlined in chapter two where it was found to go beyond the economic domain, and includes monetary (Income Poverty) and non monetary elements (Human Poverty).

- How is poverty measured in South Africa?

The measurement of poverty can be done using the monetary approach or the broad based approach. The monetary measures should be supplemented with broader based measures. This is done to measure poverty more accurately and to account for the highly differentiated experiences of the South African population.

- What are the main causes of poverty in South Africa?

There is no single cause of poverty as seen in chapter three of this dissertation. It is multi-causal which include the lack of education and marketable skills, the lack of health care and the lack of income (unemployment).

- Where is poverty concentrated in South Africa?

Poverty is concentrated among the Black population, youth, women, underdeveloped rural areas and Limpopo, Eastern Cape and KwaZulu-Natal. Thus, in spite of apartheid being officially over for twenty one years, its negative impact is still present currently.

- What have been the main poverty reduction strategies in South Africa since 1994?

South Africa's main poverty reduction strategies include the RDP, GEAR, ASGISA and currently the NDP. In addition to these strategies, South Africa also makes use of the Social Assistance System as a means to tackle poverty and inequality.

- What are the main limitations of these strategies?

Strategies that respond to the root causes of poverty are likely to be successful in reducing poverty in the long run. South Africa's poverty reduction strategies have many limitations. The RDP, GEAR and ASGISA have been largely ineffective in responding to the three causes of poverty, especially unemployment. In addition, GEAR, ASGISA and NDP have fallen short in transferring the gains of economic growth to the poor while RDP did little to promote vigorous economic growth. South Africa places heavy emphasis on inflation targeting or price stability which comes at the expense of employment growth. Poverty reduction strategies are also greatly limited by inefficient government bureaucracy and poor implementation. The EPWP only provides a limited scope in poverty reduction. In addition, affirmative action policies create employment for designated groups, but marginalise and impoverish other groups as opportunities are excluded for them. Furthermore, there has been failure on government's part in creating one clear and systematic framework for effective poverty reduction in South Africa.

Government may not be best suited when it comes to creating and growing employment in the country. Furthermore, poverty reduction strategies do not take account of the heterogeneous nature of the poverty problem, resulting in it being less effective and financially wasteful.

Welfare assistance programmes help the poor, but these suffer from various limitations, such as the danger of creating a dependency on government and a disincentive to search for work. The most disturbing limitation of South Africa's poverty reduction strategies is the heavy emphasis placed on the social assistance system, which is unlikely to be sustainable, given the exponential increase in grant expenditure in recent years against a background of anemic economic growth, high government debt levels and a narrowing tax base due to a falling manufacturing and formal sector.

- What are the key lessons to be learned successful poverty reduction strategies in the international front?

It was found that countries with successful poverty reductions generally have high levels of economic growth and employment creation. They are able to provide an enabling environment for high rates of investment, entrepreneurship, and tend to have a flexible labour market and an accommodative monetary policy.

In addition, employment creation is given preference over providing social assistance in cases of successful poverty reduction. Sustaining employment, possibly with the aid of employment subsidies, is a crucial aspect to reducing poverty.

- How can poverty response in South Africa be more effective in the future?

Government has taken various poverty reduction strategies with mixed results, so various other suggestions may be put forward:

6.3 Policy Recommendations

1. Address Unemployment.

Poverty causes individuals to have no regular source of income; so many rely on grants that create dependency. It is necessary for South Africans to become more self-reliant and this can only happen when gaining employment. Therefore, there needs to be a favourable climate in the country, in order to enhance the employment creation capacity, especially among youth (youth unemployment more than 50%).

2. Accommodative Monetary Policy.

A favourable climate for economic growth is crucial for employment creation and poverty reduction. The priority in South Africa is to tackle unemployment and poverty, yet this is not adequately echoed in its macroeconomic framework; which tends to put more emphasis on inflation targeting than on economic growth. As a developing country, a Keynesian framework to fast-track growth and employment seems more appropriate than the Neoclassical framework that South Africa currently follows. Thus, while it is still necessary to keep inflation stable, it seems more important to target employment creation given the state of poverty in the country (at the expense of a little higher inflation rate).

3. Increase the rate of Investment.

There is a close link between economic growth, poverty reduction and investment. The current GDP growth rate is very low at only 0,7% in the third quarter 2015. A study showed that for every 1% GDP growth, unemployment decreases by about 0,35% (Mahadea & Simpson, 2012). However, the rate at which the economy is expanding is far too low, yet NDP states that South Africa should grow at 6%.

For this to happen, South Africa needs to invest heavily in order to boost the GDP growth rate. Investment in South Africa made up only 20% of GDP in 2014, which is clearly inadequate, compared to China (almost 50%) and India (averaging 35%) (SARB, 2015b). Investment has to absorb labour and be pro labour investment. Therefore, growth must be inclusive, that is, economic growth that absorbs more individuals, who in turn can earn an income for their contribution to the output of the country rather than for them to rely on government welfare grants and create a culture of dependency.

4. Increase the rate of Entrepreneurship.

Brazil, Chile and China have high levels of entrepreneurship which is much needed in South Africa. According to the latest Global Entrepreneurship Monitor report, the level of entrepreneurship (TEA rate) in South Africa was only 7% in 2014. The TEA rate needs to increase if South Africa wants to eliminate the number of individuals living below the LBPL by 2030 according to the NDP (NPC, 2011c). South Africa's rate of entrepreneurial activity is very low compared to other developing countries. In 2014, it dropped from 10.6% to 7% (based on total early stage entrepreneurship activity, which is the percent of adult population who are emerging entrepreneurs or owners of new businesses) (GEM, 2014).

A new Ministry for Small Business was created in 2014; so more individuals may hopefully find employment as wage earners and business starters; thereby earning a valuable source of income and decreasing poverty. However, if poverty has to be reduced more individuals need to be equipped with relevant skills needed to make them employable in the labour market.

It is unlikely that the formal sector can absorb the annual increase in the number of individuals who enter the labour market (1 million per year) to overcome poverty (Statistics South Africa, 2015a). More individuals should be encouraged to provide employment for themselves through the SMME entrepreneurship route, which includes the informal sector.

If more jobs can be created, then more individuals can earn an income and more poverty can be reduced. As more individuals work, this is likely to reduce crime rates in South Africa and make the country more attractive to foreign investors. A better investment climate will enhance job creation which is favourable to poverty reduction.

5. Increase Employer Subsidies.

Another way in which South Africa can create an enabling environment for poverty reduction is through providing more subsidies for employers to absorb more labour into the economy, like in the case of Singapore and Germany. Here, government resources will be able to yield a return in terms of growth in the economy and generate more tax revenues, rather than spending considerable resources on welfare, which does little to benefit its citizens and the economy in the long run. The drawback of this however is that studies show that South Africa's Employment Tax Incentive Act has not been very successful in reducing youth employment in the country (Musgrave, 2015). The main reason for its lack of success is due to the low levels of basic education in the country which therefore needs to take priority before employer subsidies can be successful in the country (Musgrave, 2015).

6. Labour Flexibility.

Poverty can be reduced if the labour market is less rigid. South Africa has very rigid labour legislations and employers find it very difficult to hire and fire employees. Many individuals then become more reliant on government grants as a source of income, as firms hire less labour. However, there is a limitation of individuals being continuously reliant on grants as they become entrapped in a nature of dependency which in the long run may impact on their deprivation and poverty. Labour legislation also needs to restrict strike action and absenteeism so that the work ethic improves and the economy can become competitive.

A national minimum wage has helped in reducing poverty in Brazil; however it is unlikely to work in South Africa at present, due to the high number of individuals who are unemployed, mainly unskilled or semi skilled. A minimum wage legislation may even create more unemployment as firms may find it difficult to foot a higher wage bill and retrench marginal labour. This in turn, may add to the problem of unemployment and poverty. Therefore, focus should be on labour flexibility rather than on wage legislation rigidities at this point in time.

Of utmost importance is strong leadership, good governance and no corruption in the country. The country needs a government with strong leadership that is not corrupt and an efficient cadre of public servants who are truly committed to poverty alleviation and service delivery. Unless this is the case, the country will continue to fall short in the implementation of strategies.

6.4 Conclusion

Poverty reduction in South Africa is a long-term project and has only been given serious attention since 1994 when democratic government took office. In order for South Africa to make a real impact on poverty it needs to address unemployment which is done by creating a conducive environment for high inclusive economic growth.

This can be accomplished by means of, accommodative monetary policy, increasing investment and entrepreneurship, increasing employer subsidies in the future and enabling labour flexibility. Good governance, responding to inefficient government bureaucracy and proper implementation of strategies is also crucial to effective poverty response.

Furthermore, by focusing on the provision of a favourable climate for economic growth, employment creation and poverty reduction, South Africa will be able to move away from a heavy emphasis placed on the social assistance system to a more sustainable economy.

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CHAPTER ONE Introduction 1.1 Background to the Study The Millennium Development Goal to halve extreme poverty in the globe by 2015 was accomplished as early as 2010 (World Bank, 2015). After this goal was reached, the World Bank set a new target which is to decrease extreme poverty of the world's population to below 3% by the year 2030. Over the past few decades the

3proportion of

the world's population living below the international poverty line

(\$1.25 per day using 2005 prices) decreased from 36% in

1990, to 14.5% in 2011 (World Bank, 2015). This decrease in global poverty was driven by relatively high economic growth rates in developing economies (UNDP, 2014). Fast growing emerging markets such as China and India were the largest contributors to the reduction in global poverty during this period (World Bank, 2015). However, despite the rapid reduction in global poverty, it still remains high. On a global scale, more than one billion individuals (predominantly in South Asia and Sub-Saharan Africa), are living in extreme



16 March 2016

Ms Levisha Ramnath 205512346
School of Accounting, Economic and Finance
Westville Campus

Dear Ms Ramnath

Protocol reference number: HSS/0265/016M

Project title: The Effectiveness of Poverty Reduction Strategy in Post-Apartheid South Africa

NO- RISK APPROVAL

In response to your application received 14 March 2016, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number. Please note: Research data should be securely stored in the discipline/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study,

Yours faithfully

Dr Shenuka Singh (Chair)
Humanities & Social Science Research Ethics Committee

/pm

cc Supervisor: Prof Darma Mahadea
cc Academic Leader: Dr Harold Ngalawa
cc School Admin.: Ms Nondumiso Mfungeni

Humanities & Social Sciences Research Ethics Committee

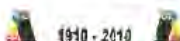
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