



Contents lists available at ScienceDirect

World Development

journal homepage: www.elsevier.com/locate/worlddev

Reforming grants to tackle child poverty: An integrated macro-micro approach



Luca Tiberti^{a,*}, Helene Maisonnave^b, Margaret Chitiga^c, Ramos Mabugu^d

^aPartnership for Economic Policy (PEP) and Université Laval, Québec, Canada

^bLe Havre University (France), EDEHN and PEP, France

^cSchool of Public Management and Administration, University of Pretoria, Lynnwood and Roper, 0002 Pretoria, South Africa

^dIndependent Researcher and Department of Economics, University of Stellenbosch, 180 Anderson Street, Brooklyn, Pretoria 0181, South Africa

ARTICLE INFO

Article history:

Accepted 27 August 2018

JEL classification:

D58
E24
E6
H53
I3
J01
O55

Keywords:

Child Support Grant
Computable general equilibrium
Micro-simulation
Poverty
South Africa

ABSTRACT

Social grant schemes have become an important component of many developing countries' inclusive growth strategies with governments increasingly investing in large-scale cash transfer programs. South Africa's Child Support Grant (CSG) is one of the largest cash transfer systems in Africa. However, child poverty remains high in the country, leading to calls to expand the CSG. Government faces resource scarcity and therefore needs to create fiscal space to set up such a reform. This paper evaluates the economy-wide impact of the CSG on the economy using a recursive bottom-up/top-down CGE-micro simulation approach. This allows the estimation of the potential effects of a 20% increase in the grant on households' welfare, the economy, as well as on the fiscal constraint. This reform is evaluated under three fiscal scenarios to take into account the fiscal stress the country is currently experiencing. We find that the reform brings some positive impacts at the macro level, and a decrease in poverty for the whole population as well as for children. The direct effect brought by the CSG increase represents the largest contribution to poverty reduction, but the indirect (general equilibrium) effects globally reduce the positive poverty effects engendered by the CSG. Some interesting heterogeneous effects are also found, with the proposed reform being progressive and the richest percentiles showing a (small) deterioration due to the decrease in wage revenues. However, the overall poverty and inequality effects are small and unlikely to be robust. The paper's results can assist South Africa, and indeed other African countries, calling for increased coverage of grants as well as exploring universal coverage. Further, the use of the integrated macro-micro simulation methodology is a major contribution of this paper.

© 2018 Elsevier Ltd. All rights reserved.

1. Introduction

Investing in large-scale cash transfer programs has become a crucial component of many developing countries' inclusive growth strategies (The Department for International Development (DfID), 2011a, 2011b). South Africa has one of the largest cash transfer systems in Africa. The Child Support Grant (CSG) has been an important instrument of that social protection and is both the largest of South Africa's social cash transfer programmes as well as one of its most successful social protection interventions. A number of studies have contributed to a growing evidence base, demonstrating the successes of the CSG in terms of reducing pov-

erty and promoting human capital development (see below for a discussion of these studies). However, although these studies typically appreciate the importance of general equilibrium effects, they do not use the tools that can quantify them. This paper addresses that important gap. In particular, we investigate whether the indirect or general equilibrium effects resulting from the proposed scaling-up of the CSG scheme, other than the direct effects, affects poverty and inequality among South Africa children. Hence the necessity of using a micro/macro general equilibrium approach. As demonstrated in the following section, there are very few studies in the literature looking at the potential general equilibrium effects due to a social reform. In this paper, we found that the macroeconomic changes as induced by the proposed reforms are small and this results in marginal indirect poverty and inequality effects. Also, while the scaling-up of the CSG scheme clearly appears to be progressive, the overall poverty and inequality effects are small and unlikely to be robust.

* Corresponding author.

E-mail addresses: luca.tiberti@ecn.ulaval.ca (L. Tiberti), helene.maisonnave@univ-lehavre.fr (H. Maisonnave), margaret.chitiga@gmail.com (M. Chitiga), RMabugu@gmail.com (R. Mabugu).

The CSG was first introduced in 1998 and is the largest social protection scheme in the country by number of recipients (growing from 8.2 million children in 2007/8 to 10.7 million in 2011/12 and by 2016/17 had reached 12.1 million) with the amount allocated to the grant growing from 19.6 billion rands in 2007/8 to just over 34 billion rands in 2011/12 and 51.4 billion rands in 2016/17.¹ In addition, there have been various reforms and innovations within the provision of CSG since its beginning. The reforms include the expansions to the CSG's criteria for eligibility including an increase in the age limit from seven to eighteen years old, and adjustments to the income threshold to take inflation into account and improve equity (the amount per beneficiary rose from 200 rands on 2007/8 to 265 rands in 2011/12 and currently is pegged at 355 rands in 2016/17). Although great achievements were demonstrated in the lives of recipient children, about 2.35 million eligible children were still unable to access the CSG by 2011 (SASSA and UNICEF (2013)). Since 2011, there has been an improvement in reducing exclusion with the number of excluded children now at 1.8 million (Department of Social Development, SASSA and UNICEF, 2016). Government has been trying to reach the excluded children who are missing this lifetime opportunity and denied their constitutional right to social assistance. Also, the poverty rate among CSG beneficiaries is still critically high (81% versus 29% among non-beneficiaries (own calculations based on NIDS 2008)). Therefore, there is potential for growth in the CSG. A major contribution of this paper is its focus on the general equilibrium effects of reforming the CSG, under different fiscal scenarios. To do that, a recursive bottom/up-top/down computable general equilibrium (CGE)-microsimulation approach is used to capture the overall impacts of the reform. Although the paper uses South African data, it is generalizable to many other countries wanting to understand the general equilibrium effects of social grants, and analyse the impacts given alternative fiscal scenarios. The use of this sequential methodology is in itself also a major contribution, which inspires from the pioneering work by Savard (2003). The use of a top-down CGE-microsimulation approach as in Hérault (2006) on South Africa would have allowed only to capture the general equilibrium effects as generated by the increased government spending due to the reform. By introducing a (starting) bottom-up sequence (as we do here), we also capture the general equilibrium effects engendered by the variation in the labour force participation and household consumption due to the reform. The fully integrated CGE-microsimulation framework (as in Cockburn et al., 2007), although it has the advantage of ensuring a full consistency between the macro and microeconomic models, it would not have allowed to have an econometrically-estimated microsimulation model, which is the most suitable framework to capture the direct effects on labour supply. The rest of the paper is arranged as follows: Section 2 briefly looks at relevant literature, while Section 3 details the micro macro methodology used. In Section 4 we discuss the findings and conclude the paper in Section 5.

2. Literature review

Studies on the evaluation of social grants abound in South Africa (for example, Samson et al., 2004; Booysen, 2004; Eyal & Woolard, 2011; Ntuli & Wittenberg, 2013). Most of the studies have used a micro modelling approach. Such an approach can identify the *partial equilibrium effects* of social grants on labour force participation and household consumption patterns. According to various studies (e.g., Case & Deaton, 1998; Keller, 2004; Klasen & Woolard 2008; Bertrand, Mullainathan, & Miller, 2003), the receipt

of the *social age old pension* is an important source of support for those unemployed, especially the youths and young adults. These two groups tend to stay longer in their households due to pension payouts of their parents. As summarised in Van der berg and Siebrits (2010), this has two effects on the labour market. One is that some people stop or delay looking for work when they benefit from household members receiving grants. The other is that when migrant absentees are included, then social grants income may allow individuals the freedom to search for employment away from home (see Samson et al., 2004). This second effect is stronger for women than it is for men. On the other hand, Posel, Fairburn, and Lund (2006) find that, while OAP eligibility has no overall labour supply effect, OAP has a significant and positive impact on female labour supply only. These findings, which constitute most of the available evidence on the impact of social grants on labour market indicators in South Africa, are not necessarily extendable to the case of the *Child Support Grant* for various reasons. First, in 2008 (the year of our data) the unit amount of the OAP was around 4.5 times higher than that of the CSG (the ratio is similar also in more recent years). Considering the high fixed costs that poor people (especially in rural areas) may need to absorb while looking for job, the relatively small amount of the CSG is expected to generate modest or insignificant changes in the labour market outcomes. Second, CSG and OAP-beneficiary households differ substantially in their socio-demographic structure. While the latter are relatively often constituted by three generations, CSG-beneficiary households are predominantly bi-generational households. Even though we have no evidence supporting it, we believe that such a diversity may engender different mechanisms driving the effect of the grants on labour market outcomes.

Also, more generally, as discussed in Eyal and Woolard (2011), the sign of the labour outcome with respect to a change in the grant depends on whether leisure is a normal or inferior good. As the authors state, assuming that leisure is a normal good (as generally done) “cannot be taken for granted in the South African context, and in particular not amongst [some groups of people], given their documented high levels of unemployment” (p. 8).

Williams (2007) found that, although receiving the CSG seemed not to affect women's search behaviour or actual employment, it influenced labour force participation positively. One possible reason that is advanced is “...receiving a CSG may give a mother some income stability and alleviate her enough from domestic duties and immediate subsistence needs that she is capable of holding a job. This would account for an increase in broad participation. However, if the means test income threshold is likely to be a binding constraint for her, this willingness to work may not translate immediately into active job search and employment – she may be passively network-searching for an employment opportunity that compensates her enough for the loss of her CSG.” (Williams (2007: p 70)). Eyal and Woolard (2011) found that the CSG receipt increases the probability of mothers of entering the labour force and of being employed, while decreases that of being unemployed. However, in general, according to CASE (2008: 27), the labour supply effects are small given that the amount of the CSG is also small.

The partial equilibrium results of cash transfers on consumption impacts are generally positive with a number of studies finding that cash transfers significantly improved household consumption, dietary diversity and per capita calorific consumption (see DfID (2011a, 2011b); Adato and Bassett (2009); Hoddinott, Skoufias, and Washburn (2000); Booysen (2004); Attanasio and Mesnard (2006); Kebede (2006)).

As mentioned, however, these studies use a partial framework for the evaluation, thus are not able to account for spillover effects. Yet, there is a need to link the micro effects of such transfers to the macro economy. The need to link macroeconomic performance to income distribution has been partly driven by the rate at which

¹ Data included in the Budget Reviews of the National Treasury Republic of South Africa, available at www.treasury.gov.za, accessed Dec 2017.

Download English Version:

<https://daneshyari.com/en/article/9953091>

Download Persian Version:

<https://daneshyari.com/article/9953091>

[Daneshyari.com](https://daneshyari.com)