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Acronyms

CDG | Care Dependency Grant
CSG | Child Support Grant
CPI | Consumer Price Inflation
DSD | Department of Social Development
ECD | Early Childhood Development
FCG | Foster Child Grant
GDP | Gross Domestic Product
M&E | Monitoring and Evaluation

MTEF | Medium-Term Expenditure Framework
MTSF | Medium Term Strategic Framework
NAWONGO | National Association of Welfare Organisations and Non-Governmental Organisations
NDP | National Development Plan
NPOs | Non-Profit Organisations
OAG | Old Age Pension Grant
SASSA | South African Social Security Agency
Key Messages and Recommendations

South Africa plans to spend R193 billion on social development programmes in 2018/19. Combined social development spending grows by 2.3 per cent above inflation annually over the next three years. Overall, the country spends 13 per cent of its public resources on social development and its combined spending is 3.8 per cent of the Gross Domestic Product (GDP).

Almost 60 per cent of learners who passed the final-year (Grade 12) school examinations in 2017 are recipients of social grants. The Government is encouraged to:

I. Sustain the 2.4 per cent above inflationary increase on social grants for the next three years;
II. Continue to build a database of grant recipients who pass Grade 12 and participate in higher education institutions to record the rate of return on this investment; and
III. While social grant impact on broader social outcomes is welcomed, the government needs to consolidate its investment in social welfare services, which only attracts 4.4 per cent of combined social development budgets in 2018/19.

Cash transfers for children, especially the Child Support Grant (CSG), are well-targeted in that 64 per cent of the poorest households reported having access to at least one CSG. It is reported that 38 per cent of the poorest households have access to at least one Old Age Pension Grant (OAG). The Government is encouraged to:

I. Further improve the coverage of social grants for children in both urban and rural areas because social grants appear to have a large impact on reducing overall income inequality in rural households and because a smaller percentage of urban households are reported as having access to at least one CSG; and
II. Maintain cash transfers as a vital part of the country’s Social Protection system because of its proven role in reducing overall income inequality and for lifting many households out of poverty.

Under-spending continues to plague provincial budgets. Under-spending is driven by cost-containment measures, delays in filling funded vacant posts, lower than expected uptake of social grants, pressures associated with cash flow challenges, and Non-Profit Organisations (NPOs) that are non-compliant. The Government is encouraged to:

III. Devise a plan to increase budget utilization by improving planning and execution functions;
IV. Intensify its focus on NPOs’ financing and governance arrangements because NPOs are often implicated in under-spending in both national and provincial social development departments; and
V. Reduce delays in procurement for infrastructure at the provincial level because the lack of infrastructure impacts directly on substance abuse victims, young children accessing Early Childhood Development (ECD) centres, and other physical assets needed to deliver social welfare services.

Spending and allocations on provincial social development programmes are flagging and are expected to grow by a mere 1.1 per cent above inflation over the next three years. The Government is encouraged to:

VI. Communicate clearly how it is planning to prioritise provincial social welfare funding over the next three years in view of cost containment and fiscal consolidation measures; and
VII. Focus on increasing value for money, especially in programmes that target young children and the elderly.
SECTION 1. Introduction

Governance and National Policy

Social protection involves the delivery of goods and services across a range of departments, which include the delivery of social assistance (social grants), free basic education for 60 per cent of the country’s poorest schools, school nutrition and school transport, free healthcare for pregnant women and children under six years, access to the expanded public works programme, access to basic services at local government, and various labour market interventions. In this budget brief, we restrict our focus to the ten social development departments and examine their contribution to social protection in South Africa.

South Africa has nine sub-national (provincial) departments of social development, and a national Department of Social Development that leads policy-making and co-ordination in the sector. The mandate of the social development sector has been established through several laws and policies and these include:

• The Social Assistance Act (2004), which provides the legislative framework for providing social assistance (the social grants system);
• The 1997 White Paper for Social Welfare, which sets out the broad principles for a developmental social welfare system in South Africa;
• The Children’s Act (2005), which sets out the principles relating to the care and protection of children;
• The Older Persons Act (2006), which provides a framework for empowering and protecting older persons;
• The Non-profit Organisation’s Act (1997), which establishes an administrative and regulatory framework for NPOs;
• The Social Services Professions Act (1978), amended 1995, 1996 and 1998, which provides for the establishment of a South African Council for Social Service Professions and for establishing control over the various social work professions;
• The Prevention of and Treatment for Substance Abuse (2008) (Act No. 70 of 2008), which provides for a comprehensive response for the combating of substance abuse and for mechanisms aimed at demand and harm reduction in relation to substance abuse through prevention, early intervention, treatment and re-integration programmes.

In terms of the Government’s Outcomes Framework, the social development sector takes ownership of Outcome 13, which calls for an ‘Inclusive and responsive social protection system’ (RSA Government, MTSF, 2014–19). The Medium-Term Strategic Framework (MTSF) coincides with an electoral period of five years and institutionalises the electoral mandate of the governing party and includes key national goals. In terms of the overarching framework, the MTSF is informed by the policy goals in the National Development Plan (NDP).

The high-level targets for social development (and their corresponding share of the social protection commitments) are articulated in the country’s National Development Plan 2030 and confirmed in the sector’s Medium Term Strategic Framework (MTSF). These include:

• By 2030, South Africa should have a comprehensive system of social protection that includes social security grants, mandatory retirement savings, risk benefits (such as unemployment, death and disability benefits) and voluntary retirement savings.
• Social welfare services should be expanded, with more education and training for social work practitioners (social workers, auxiliary social workers, child and youth care workers, and community development practitioners) and a review of funding for non-profit organisations;
• Ensuring that individuals and households that are eligible to receive social grants receive the support they need to access much-needed grants.
Indicators on the Health of the Social Development System

Almost 60 per cent of learners who passed the Grade 12 examinations in 2017 are recipients of social grants. Many of these learners also enter the country’s higher education system, thus providing some indication of the return on investment in the cash transfer system. This high-level output is supported by strong spending on social grants for children in the budget of the national Department of Social Development, which accounts for 36 per cent of total spending. It is clear from this year’s budget numbers as well as corresponding figures in 2017, that more needs to be done to increase spending on developmental social welfare services for children. Only 4.4 per cent is set aside across national and provincial social development budgets for child welfare services.iv The Government spent ZAR 37 per grant on administrative costs in 2017/18, which represents approximately 2.2 per cent of the value of the OAG, but roughly 9 per cent of the CSG.

Income Poverty Outcomes, 2006 to 2015

Headcount poverty (using the upper-bound poverty line) decreased from 67 per cent in 2006 to 53 per cent in 2011, but increased marginally to 56 per cent in 2015. Children continue to bear the brunt of income poverty. The child poverty rate increased from 64 per cent in 2011 to 67 per cent in 2015. Likewise, there are larger percentages of females below the poverty line (57.2% in 2015), while half of all households that were declared poor in 2015 are female-headed households as opposed to 33 per cent of male-headed households.

TAKEAWAYS

» Large numbers of young people who are grant recipients have completed their final school-leaving examinations. As many as 80 per cent of the 180,000 social grant beneficiaries who wrote the Grade 12 examination in 2016 qualified for entrance to tertiary education.

» The progress in linking grant receipts to relevant social outcomes is supported by strong and continued spending on social grants for children, which makes up 36 per cent of the social assistance budget of the national Department of Social Development.

» Child welfare services, which are funded predominantly at the provincial level, make up just more than 4.4 per cent of budgets across the national and provincial social development budgets. Clearly, more needs to be done to raise the profile of this developmental service.

» Tough economic conditions have led to a worsening of the poverty status of the population with 56 per cent of the population below the poverty line in 2015, while 67 per cent of children suffering the same fate.

» The aggregate snapshot provides a compelling rationale for the preservation of the country’s social protection programmes, while pointing to the need for economic growth and investments in core social sectors to change the fortunes of ordinary citizens.
**FIGURE 1:**
Income poverty trends in South Africa, 2006 to 2015 (using the upper-bound poverty line of ZAR 992 per person per month)  
*Source: Statistics South Africa 2017 (official report)*

<table>
<thead>
<tr>
<th>Year</th>
<th>% of population below the upper-bound poverty line</th>
<th>% of females below the upper-bound poverty line</th>
<th>% of children below the upper-bound poverty line</th>
<th>% of female-headed households below the upper-bound poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>66.6%</td>
<td>68.9%</td>
<td>77.5%</td>
<td>65.8%</td>
</tr>
<tr>
<td>2009</td>
<td>62.1%</td>
<td>63.9%</td>
<td>73.4%</td>
<td>57.6%</td>
</tr>
<tr>
<td>2011</td>
<td>53.2%</td>
<td>54.9%</td>
<td>63.7%</td>
<td>47.8%</td>
</tr>
<tr>
<td>2015</td>
<td>55.5%</td>
<td>57.2%</td>
<td>66.8%</td>
<td>50%</td>
</tr>
</tbody>
</table>
SECTION 2.
Social Development
Spending Trends

Size of Spending

The combined national and provincial social development spending is ZAR 193 billion in 2018/19 with the national Department of Social Development (DSD) consuming the largest share of the budget (Table 2). Provinces’ combined spending is ZAR 21 billion, while the national DSD plans to spend roughly ZAR 172 billion. The reason for the large discrepancy in allocations between the national DSD and provinces is that the country’s social grants budgets are on the books of the national DSD.

<table>
<thead>
<tr>
<th>National DSD</th>
<th>Provinc</th>
<th>% of total</th>
<th>Provincial population (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>172.9</td>
<td>0.758</td>
<td>89.3%</td>
<td>8.3</td>
</tr>
<tr>
<td>Combined provincial social development budgets</td>
<td>20.6</td>
<td>10.7%</td>
<td>6.7</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>2.8</td>
<td>13.7%</td>
<td>6.7</td>
</tr>
<tr>
<td>Free State</td>
<td>1.3</td>
<td>6.1%</td>
<td>2.8</td>
</tr>
<tr>
<td>Gauteng</td>
<td>5.0</td>
<td>24.2%</td>
<td>13.5</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>3.3</td>
<td>15.9%</td>
<td>10.8</td>
</tr>
<tr>
<td>Limpopo</td>
<td>2.0</td>
<td>9.6%</td>
<td>5.7</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>1.6</td>
<td>7.5%</td>
<td>4.3</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>0.87</td>
<td>4.2%</td>
<td>1.2</td>
</tr>
<tr>
<td>North West</td>
<td>1.61</td>
<td>7.8%</td>
<td>3.8</td>
</tr>
<tr>
<td>Western Cape</td>
<td>2.2</td>
<td>10.9%</td>
<td>6.4</td>
</tr>
<tr>
<td>Consolidated Social Development Budget</td>
<td>192.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TABLE 2: Summary of nominal national and provincial social development budgets, 2018/19 (ZAR billion) | Source: Estimates of National Expenditure 2018 and Estimates of Provincial Revenue and Expenditure 2018

Note: To promote readability, budget numbers have been rounded up.

Among provincial social development departments, KwaZulu-Natal and Gauteng are the largest spenders with annual allocations of ZAR 2.8 billion and ZAR 5 billion respectively.

Spending and allocations on combined social development budgets make up approximately 13 per cent of consolidated government spending (Figure 2). Allocations as a percentage of government proposed allocations remain constant at around 13 per cent over the Medium-Term Expenditure Framework (MTEF) period, while overall, spending and allocations on social development constitute about 4 per cent of the country’s Gross Domestic Product (GDP).

Spending Changes

Expenditure on social development budgets has enjoyed relative prioritisation, evidenced by the growth in the inflation-adjusted spending and allocations over the period represented in Figure 2. Real social development spending shows steady growth due to the Government’s commitment to link changes in social grant allocations to the prevailing inflation rate. This trend is continued over the MTEF, thus signalling further commitment from Government to protect vital priority expenditures for poor children and families.

The Priority of Social Development in the Budget

Except for a small dip in shares of government spending in 2015/16, spending and allocations on the social development portfolio remain constant at around 13 per cent (Figure 4). This contrasts with basic education spending and allocations, which decline from 17 per cent in 2014/15 to 16.5 per cent in 2018/19, and by the end of the MTEF, stands at 16 per cent of government allocations. Over the same period, the shares of health spending and allocations remain constant at 13 per cent, except for 2017/18 where combined health projected spending is estimated at almost 14 per cent of government spending.
FIGURE 2:
Consolidated expenditure and allocation on social development as a percentage of consolidated government expenditure and the GDP (%), 2014/15 to 2020/21 (%) | Source: Estimates of National Expenditure 2018 and Estimates of Provincial Revenue and Expenditure 2018

Social development as a % of consolidated government expenditure
Social development as a % of Gross Domestic Product (GDP)

FIGURE 3:

Nominal
Real
FIGURE 4:
Social service sectors as a percentage of consolidated government expenditure, 2014/15 to 2020/21 (%) | Source: Estimates of National Expenditure 2017 and Estimates of Provincial Revenue and Expenditure 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Health</th>
<th>Social Development</th>
<th>Basic Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>12.9%</td>
<td>12.8%</td>
<td>16.8%</td>
</tr>
<tr>
<td>2015/16</td>
<td>12.8%</td>
<td>12.4%</td>
<td>16.3%</td>
</tr>
<tr>
<td>2016/17</td>
<td>13.2%</td>
<td>12.7%</td>
<td>16.7%</td>
</tr>
<tr>
<td>2017/18 Revised Estimate</td>
<td>13.8%</td>
<td>12.8%</td>
<td>16.7%</td>
</tr>
<tr>
<td>2018/19 MTEF</td>
<td>13.4%</td>
<td>12.9%</td>
<td>16.5%</td>
</tr>
<tr>
<td>2019/20 MTEF</td>
<td>13.3%</td>
<td>12.9%</td>
<td>16.1%</td>
</tr>
<tr>
<td>2020/21 MTEF</td>
<td>13.2%</td>
<td>12.9%</td>
<td>16%</td>
</tr>
</tbody>
</table>

TAKEAWAYS

» Government plans to spend ZAR 193 billion on social development programmes in 2018/19, which represents approximately 13 per cent of total government allocations.

» The national DSD commands the bulk of the combined social development budget because all the social grants paid to individuals and households sit on the books of this department. Transfers on social grants, including its administration, make up more than 90 per cent of the budget of the national DSD.

» Spending and allocations on social development constitute between 3.7 per cent and 3.8 per cent of the country’s GDP.

» Despite challenging financial and economic circumstances, the proposed allocations in the combined social development budget are projected to grow above inflation over the new MTEF period.

» The Government follows an explicit strategy of linking the increase in value of the grants to the Consumer Price Inflation (CPI) to preserve the spending power of the social grants.

» While the predictability of the funding for social development is welcomed, in the present fiscal climate, there are clear limits on the ability of the system to expand and increase spending on the developmental and preventative aspects of social welfare.
SECTION 3.
Composition of Social Development Spending

Composition of Spending by Department

The provincial social development budgets grew and are projected to grow at a much slower and lower rate than the national DSD budget over the period represented in Figure 5. Furthermore, growth in provincial social development budgets is more variable, and towards the end of the new MTEF, additional planned spending is muted. In contrast, the budget of the national DSD is projected to increase by the same ratios over the new MTEF (2.3% above inflation annually).

FIGURE 5:

Note: Total consolidated social development expenditure nets out the transfers to provincial social development departments.

Composition of Spending by Programme: National DSD

The national DSD plans to spend ZAR 173 billion in 2018/19 and its budget is projected to grow by 2.3 per cent above inflation annually over the new MTEF (Table 3). The trend in spending in this budget is dominated by the allocations to social grants (Social Assistance programme), which is projected to grow by 2.4 per cent above inflation annually over the next three years. The programme that is responsible for the administration of the social security system has set aside ZAR 7.9 billion in 2018/19 and will grow by a small margin (0.8% above inflation annually) over the new MTEF. The projected allocations in the Welfare Services programme are encouraging (5.7% above inflation annually), even though the allocations grow from a small base (just more than ZAR 1 billion in 2018/19). The growth in allocations is driven, in part, by allocations to the Early Childhood Development (ECD) grant, which aims to increase the number of registered ECD facilities that comply with the department’s norms and standards.
TABLE 3:
Programme spending and allocations in the budget of the national Department of Social Development, 2014/15 to 2020/21 (ZAR billion)

<table>
<thead>
<tr>
<th>Source: Estimates of National Expenditure 2018</th>
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</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014/15 Outcome</th>
<th>2015/16 Outcome</th>
<th>2016/17 Outcome</th>
<th>2017/18 Revised Estimate</th>
<th>2018/19 MTEF</th>
<th>2019/20 MTEF</th>
<th>2020/21 MTEF</th>
<th>Real change between 2017/18 and 2018/19 (%)</th>
<th>Real average annual change over MTEF (%)</th>
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</thead>
<tbody>
<tr>
<td>Administration</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>-1.5</td>
<td>0</td>
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<tr>
<td>Social Assistance</td>
<td>120</td>
<td>128.3</td>
<td>138.9</td>
<td>150.9</td>
<td>163</td>
<td>175.7</td>
<td>189.8</td>
<td>2.4</td>
<td>2.4</td>
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<td>Social Security Policy</td>
<td>6.6</td>
<td>6.7</td>
<td>7</td>
<td>7.3</td>
<td>7.9</td>
<td>8.3</td>
<td>8.8</td>
<td>2</td>
<td>0.8</td>
</tr>
<tr>
<td>and Administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welfare Services</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>1.1</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
<td>15.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Policy Development</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>and Implementation Support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>-3.4</td>
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<tr>
<td>Integrated Service Delivery</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>127.9</td>
<td>136.4</td>
<td>147.3</td>
<td>160.1</td>
<td>172.9</td>
<td>186.2</td>
<td>200.9</td>
<td>2.4</td>
<td>2.3</td>
</tr>
</tbody>
</table>

FIGURE 6:
Expenditure by type in the budget of the national Department of Social Development, 2014/15 to 2020/21 | Source: Estimates of National Expenditure 2018
TABLE 4:
Spending trends in provincial social development budgets, 2014/15 to 2020/21 (ZAR billion) | Source: Estimates of Provincial Revenue and Expenditure 2018

<table>
<thead>
<tr>
<th>Province</th>
<th>2014/15 Outcome</th>
<th>2015/16 Outcome</th>
<th>2016/17 Outcome</th>
<th>2017/18 Revised Estimate</th>
<th>2018/19 MTEF</th>
<th>2019/20 MTEF</th>
<th>2020/21 MTEF</th>
<th>Real change between 2017/18 and 2018/19 (%)</th>
<th>Real average annual change over MTEF (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>2.1</td>
<td>2.3</td>
<td>2.4</td>
<td>2.6</td>
<td>2.8</td>
<td>3</td>
<td>3.2</td>
<td>1.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Free State</td>
<td>1</td>
<td>1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
<td>1.4</td>
<td>3.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Gauteng</td>
<td>3.4</td>
<td>3.9</td>
<td>4.3</td>
<td>4.6</td>
<td>5</td>
<td>5.3</td>
<td>5.6</td>
<td>3</td>
<td>1.4</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>2.5</td>
<td>2.6</td>
<td>2.7</td>
<td>2.9</td>
<td>3.3</td>
<td>3.5</td>
<td>3.7</td>
<td>5.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Limpopo</td>
<td>1.5</td>
<td>1.6</td>
<td>1.7</td>
<td>1.8</td>
<td>2</td>
<td>2.1</td>
<td>2.2</td>
<td>3</td>
<td>1.5</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
<td>1.6</td>
<td>1.6</td>
<td>1.7</td>
<td>-2.6</td>
<td>-1</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
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<td>-5.1</td>
<td>-1.4</td>
</tr>
<tr>
<td>North West</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
<td>1.6</td>
<td>1.7</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Western Cape</td>
<td>1.7</td>
<td>1.9</td>
<td>2</td>
<td>2.1</td>
<td>2.2</td>
<td>2.4</td>
<td>2.5</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Grand Total</td>
<td>15.3</td>
<td>16.6</td>
<td>17.5</td>
<td>19.2</td>
<td>20.6</td>
<td>21.9</td>
<td>23.2</td>
<td>1.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Composition of Spending by the Type of Expenditure: National DSD

The budget of the national DSD is dominated by transfers to individuals and households (94% on average) and for providing for the South Africa Social Security Agency or SASSA, the entity that administers the grants on behalf of the Government (4.5% on average). Transfers to Non-Profit Organisations (NPOs) make up less than 0.2 per cent of the department’s budget, whereas the corresponding figure for provinces would be much larger because of the critical role that NPOs play in provincial social welfare programmes. As the lead policy-making entity in the social development sector, spending on compensation of its employees makes up 0.5 per cent of the department’s total budget and these shares are consistently maintained over the entire period represented in Figure 6.

Spending and Allocations on Provincial Social Development Budgets

Provincial social development departments are planning to spend ZAR 21 billion in 2018/19 and allocations are projected to grow to ZAR 23 billion at the end of the MTEF period (Table 4). This translates into a real average annual growth rate of 1.1 per cent over the MTEF period against a more robust 2.3 per cent above inflation growth for the national DSD budget. Mpumalanga and the Northern Cape project real average declines over the MTEF, while KwaZulu-Natal projects to spend 2.4 per cent above inflation annually over the next three years.

Provincial social development budgets consume 3.5 per cent of total provincial government resources on average in 2018/19 (Figure 7). Provincial budgets are dominated by spending and allocations to basic education and health (roughly 70% of total provincial spending), which puts the challenge of provincial social development departments in stark relief. Given the strength of the social security system in South Africa and the limited fiscal room available to increase spending, these trends are likely to continue. Comparatively, the Northern Cape allocates the largest share of its provincial budget to social development (5.1%), while the smallest share is allocated in KwaZulu-Natal (2.7%). Three provinces, namely the Eastern Cape, Free State, and the Western Cape allocate 3.6 per cent of their budgets respectively to the social development function.

FIGURE 7:
Provincial social development budgets as a percentage of total provincial government budgets in 2018/19 | Source: Estimates of Provincial Revenue and Expenditure 2018 (own calculations)
Allocation trends to the two largest provincial social development programmes, namely the Children and Families and the Social Welfare Services programmes, provide a fair indication of the financing challenges for provincial social development departments over the MTEF. The Children and Families programme is planning to spend 1.0 per cent above inflation annually, while the Social Welfare Services programme plans to spend smaller margins (under 1 per cent above inflation annually). Overall, provincial social development budgets hardly get out of first gear over the MTEF period and planned allocations are projected to grow by a mere 1 per cent on average over the next three years.

Whereas the national DSD budget devotes a much smaller share of its budget to compensation of its employees and transfers to NPOs, the exact opposite situation is of relevance to provincial social development departments (Figure 9). Allocations to NPOs that do critical social welfare services for provinces, consume 37 per cent of overall provincial social development resources, while allocations to departmental personnel and their benefits make up close to half of combined provincial social development budgets (46%). Allocations to Goods and Services consume 13 per cent of provincial resources, while buildings and fixed structures constitute only 2 per cent of the budgets of provincial social development departments.
Despite the critical importance of NPOs to service delivery at the provincial level, Figure 10 shows that these organisations are facing declining budgets over the medium term (Figure 10). For two of the financial years represented below, spending in 2016/17 (-1.7% decline) and allocations in 2020/21 (decline of 0.4%) indicate negative growth and one can merely speculate about the impact of such reductions on frontline service delivery. Spending and allocations to government staff are mostly positive with strong above-inflation increases in 2015/16, 2017/18 and 2018/19. Finally, provincial social development departments appear to have heeded the call for reducing spending and allocations on the Goods and Services item, which is planned to grow by a mere 0.3 per cent over the new MTEF.

**TAKEAWAYS**

- The national DSD budget and provincial social development budgets follow similar trajectories over the new MTEF, although the magnitude of the positive change differs.
- The national DSD budget grows by 2.4 per cent above inflation annually over the MTEF, while combined provincial social development spending grows by 1.1 per cent above inflation annually over the same period.
- Likewise, the national DSD budget is dominated by social assistance (grants) spending and allocations to the agency that administers social grants (SASSA), whereas provincial social development budgets are dominated by transfers to NPOs and compensation of its employees.
- Provincial social development budgets consume only 3.5 per cent on average of provincial resources against basic education and health, which collectively, consume roughly 70 per cent of provincial budgetary resources.
- Provincial social development budgets benefit from the introduction and expansion of the ECD grant, which is intended to increase the participation rates of ECD centres (and by extension, the children who attend these centres).
SECTION 4. Budget Execution and Credibility

Budget Execution Rates in the Social Development Sector

Budget execution figures for the national DSD are very high, in part because any funds that are transferred from the department to an individual or a household are considered final spending. The relatively low actual spending figure of the Eastern Cape in 2013/14 (94.4%) was caused by the department’s internal vetting systems intended to establish and verify the actual number of personnel under its employ. A common thread running through all the instances of provincial under-spending is the challenge in procuring Implementing Agents for physical-built projects and the issue of non-compliance of NPOs with departmental regulations and procedures. Another theme that was highlighted in the UNICEF Education Budget Brief 2018 is the complicating issue of increasing spending arrears, which increases the risk of under-spending and non-delivery of planned services to communities that need it most.

FIGURE 11: Budget execution in the social development sector, 2013/14 to 2016/17 (%) | Source: Estimates of Provincial Revenue and Expenditure 2018 and Estimates of National Expenditure 2013/14 to 2018/19 (own calculations)

Budget Credibility: Department of Social Development and Provincial Social Development Departments

Under-spending in the budget of the national DSD is driven primarily by lower than expected uptake of social grants and non-payment to NPOs that do not comply with departmental regulations and reporting requirements (Figure 12). The under-spending on Administration was due to the department not receiving invoices for accommodation it utilised, while the under-spending on the Social Assistance programme was driven by the re-registration of beneficiaries, which had a negative impact of the take-up rates of grant beneficiaries. A similar story explains the under-spending on Social Assistance in the remaining years due to differences in projected beneficiaries of social grants (war veteran, disability, foster care) and the actual take-up. Under-spending on the welfare services and social policy programmes is driven by payments being withheld to NPOs due to their non-compliance on reporting, financing and governance issues.

Under-spending in provincial social development departments is driven by a host of factors, including cost-containment measures, delays in filling funded vacant positions across programmes, challenges in the processing of NPO transfers, and delays in procurement processes.
for building projects (Figure 13). In the Eastern Cape in 2013/14, under-spending was caused by non-submission of claims by ECD centres, challenges in processing NPO payments and delays in procuring services for building projects. North West experienced similar challenges in securing Implementing Agents for building projects in 2014/15, while the KwaZulu-Natal DSD had to deal with cost cutting and cost-containment measures in general, especially in its Travel and Subsistence budget. Across provinces, the moratorium that was placed on growing the public-sector bill meant that promotions were done within the ranks of the exiting staff complement, thus further reducing overall departmental expenditures. In Free State and the Northern Cape in 2016/17, under-spending on built projects was a key reason for the deviation between adjusted and final spending.

FIGURE 12:
Comparing adjusted expenditure with final outcomes in the budget of the Department of Social Development, 2013/14 to 2016/17 (%) | Source: Estimates of Provincial Revenue and Expenditure 2018 (own calculations)

Note: The spending ratios for Social Assistance and Total Budget are highlighted

FIGURE 13:
Comparing adjusted expenditure with final outcomes in the budget of provincial social development departments, 2013/14 to 2016/17 (%) | Source: Estimates of Provincial Revenue and Expenditure 2014-2018 (own calculations)
Challenges

The reasons for the under-spending by the national DSD and provincial social development departments can be traced back to the different mandates that are relevant for each of these entities. Because of the central role of social security in the budget of the national DSD, under-spending is strongly driven by lower than expected uptake rates among potential social grant beneficiaries. The national DSD also has a small number of NPOs that it works with, and the challenges that this department experiences, are common to the challenges that provincial social departments face. However, the scale of the problem is much bigger at the provincial level, because of provinces’ reliance on NPOs to deliver social welfare services. The national DSD is not required to undertake procurement for physical buildings and does not have appreciable spending issues in this area, whereas ECD centres, substance abuse treatment centres, and office space are critical issues for provinces, and they have under-spent heavily on these items. The introduction of cost-containment measures is another complicating reason for the under-spending at the provincial level, which is required to interface directly with many NPOs. In the absence of adequate human resources, the interaction between provincial social development departments and NPOs is likely to become more frustrating because of the sheer volume of monitoring and reporting duties of both parties. Finally, growing spending arrears in provincial governments will ensure that underspending becomes a systematic feature of the social service delivery field for years to come, and a resolution of this issue is more urgent than ever.

TAKEAWAYS

» Budget execution in the social development sector is strongly related to the mandates of the national DSD and the nine provincial social development departments.

» The national DSD is responsible for maintaining the country’s social security system and strategically procuring the services of a select number of NPOs. Its own underspending is driven by a lower than expected uptake among potential grant beneficiaries and challenges in processing payments for NPOs due to compliance issues.

» Provincial social development departments deliver services, run and manage various centres, employ a larger number of staff members, and interact intensively with NPOs. Their underspending is driven by delays in procurement for physical infrastructure projects, challenges in processing NPO payments due to non-compliance, and cost-containment, which makes the filling of vacant posts harder.

» In addition to these issues, provinces deal with growing spending arrears, which force departments to delay payments because of severe cash flow shortages, and thus incurring under-expenditure in a select number of programme and service delivery areas.

» For provinces, an inadequate human resources situation further complicates their efforts to systematise their approach to NPOs and make their (and NPOs’) reporting and monitoring obligations more onerous.
SECTION 5.
The Impact of Cash Transfers (Social Grants) on Household Inequality

Understanding targeting success of various social grants

Social grants are effectively targeted at reaching those most in need as evidenced by the high percentage of poor households that have access to the CSG and the OAG (Figure 14). In the poorest income quintile, 64 per cent of the poorest households access at least one grant per household. The corresponding figures for quintile 2 and quintile 3 are 54 per cent and 46 per cent respectively. Close to 40 per cent of households in the poorest income quintile reported receiving at least one OAG, while one out of every four households in the second poorest income quintile, reported receiving at least one OAG. A much smaller percentage of households accessed the Foster Child Grant (FCG) and the Care Dependency Grant (CDG). Only 4 per cent of households in the poorest quintile reported receiving at least one FCG, while half that percentage reported receipt of the FCG in quintile 2.

Impact of social grants on household inequality

South Africa suffers from abnormally high levels of inequality among individuals and households in the population even if cash transfers are considered. When market income alone is considered (exclusive of cash transfers), the summary Gini coefficient of income inequality \(^{vi}\) is estimated at 0.72. To put this into perspective, Brazil, which used to be ranked with South Africa as two of the most unequal societies, had a summary Gini index score of 0.51 in 2015. As can be seen from Figure 15, this level of inequality becomes smaller when cash transfers are considered. The revised Gini index now stands at 0.67, which is 6.3 per cent lower than when it is based on market income alone. However, the distance from the line of perfect equality where households receive the same percentage of income resources is stark, thus quantifying the additional work that needs to be
done (in the economy and the labour market), to bring about a more fairer distribution of income.

This extreme level of inequality means that the poorest households are dependent on the Government to provide their basic needs. Cash transfer income in the poorest household is more than thirteen times the amount these households earn on the market, while cash transfer income is twice as large as households’ market income for households in the second poorest income quintile. As one would expect, these ratios become smaller the higher a household income is, and in the case of households in quintile 5, there is virtually no effect of cash transfers on their market incomes (cash transfer income and market incomes are the same because of almost zero receipt of cash transfers).

**FIGURE 15:**
Plotting market income and market income inclusive of cash transfers (both market income and cash transfer incomes exclude taxes) | Source: Living Conditions Survey 2014/15 (own calculations)

**FIGURE 16:**
Ratio of income inclusive of cash transfers and market income (excluding social grants), by household quintile | Source: Living Conditions Survey 2014/15 (own calculations)
Cash transfers are more effective in reducing rural inequality than urban inequality. Urban households have a lower level of market income inequality than the national average (0.67 versus 0.72), while the income inequality in rural households (0.73) is above that of the national average (Figure 17). However, when cash transfers are considered, rural household income inequality declines from 0.73 to 0.59, which represents a 20 per cent reduction in inequality. This benefit is likely to be higher if the analysis includes the distribution of taxes. The corresponding figure for urban households is only 4.5 per cent in gross terms. This highlights the continued importance of social grants in the lives of poor households, especially poor households in rural areas.

**TAKEAWAYS**

- The CSG is the best targeted social grant and 64 per cent of the poorest households reported having at least access to one CSG.
- 38 per cent of the poorest households reported having at least one OAG, while 7 per cent of the richest income quintile is reported as having access to at least OAG.
- Smaller percentages are reported for the remaining child grants with 4.1 per cent and 1.3 per cent of the poorest households reporting accessing at least one FCG and CDG respectively.
- Cash transfers have a substantial impact on reducing income inequality. Overall, it reduces income inequality by 6.3 per cent and could be larger if the distribution of taxes is fully accounted for.
- In rural areas, it is estimated that cash transfers reduce income inequality by a staggering 20 per cent.
- The importance of cash transfers is further emphasised in that this form of income is more than thirteen times the income the poorest households earn on the open market, and twice as large as market income earned by households in the second poorest income quintile.
- It remains an important government imperative to maintain the social grants system, especially in view of the fact that the South African economy has slowed considerably with serious equity and poverty implications for its poorest citizens.
Endnotes

- Social assistance and social welfare services provided by the ten social development departments;
- Access to basic services at the local government level;
- Free basic education in 60 per cent of the countries’ poorest schools;
- Free health care for pregnant women and children under six;
- Statutory social insurance policies (such as the Unemployment Insurance Fund);
- School nutrition and school transport;
- Active labour market policies to facilitate entry into the labour market;
- Income support for the working-age poor through public works programmes;
- The redress of inequalities that are inherent in the system due to apartheid.

ii. The Government has adopted an Outcomes Framework that is based on key issues addressed in the country’s National Development Plan and the Government’s electoral mandate. There are 14 outcomes (including Outcome 13 that involves the Social Development Ministry), and the responsible minister is required to report to the President of the Republic of South Africa on progress made in achieving the relevant outcome.


iv. Social welfare services (exclusive of social grants) are largely delivered at the provincial level through NPOs. In 2010, an umbrella organisation representing NPOs, challenged the issue of inadequate funding for social welfare services (and the transfers that flow to NPOs), in court. The court concurred with the National Association of Welfare Organisations and Non-Governmental Organisations (NAWONGO), that funding for social welfare services is inadequate, and ordered the Free State Department of Social Development to revise its funding policies for it to be reasonable and institute a fair and transparent mechanisms for determining the suitable level of funding for NPOs. In the 2018 Budget, the Government set aside resources to specifically work through the implications of this 2010 court case, thus implying that it also considered funding for social welfare services inadequate. For a summary of the court case, please see pmg-assets.s3-website-eu-west-1.amazonaws.com/docs/110614nawongo.doc <accessed 20 September 2018>

v. The data in the Living Conditions Survey are set up so that receipt of a child grant is ‘allocated’ to a caregiver, thus complicating the task of in-depth analysis. This led us to adopt a household approach to the grants, and the variable represents at least one social grant receipt for the various social grants.

vi. The Gini coefficient is an inequality index ranging from 0 (complete equality) to 1 (complete inequality). Scores that are closer to 1 indicate serious levels of income or expenditure inequality. The calculated Gini coefficients (per capita income or expenditure) were computed for household levels of inequality. For country comparisons, please see the World bank (2016) Taking on inequality: poverty and shared prosperity 2016. Washington: WB Group

vii. Market income (excluding social grant income) was used to rank the population of households. It was calculated using household wages and salaries; household self-employment and business; income from letting of fixed property; interests received; dividends of listed and unlisted companies; income from unit trusts and share trading; pension from previous employment and annuities from own investment; alimony/palimony; imputed rent on owned dwelling; royalties; income from subsistence farming; and other income from individuals plus income not elsewhere specified. The definition of market income was adopted from Lustig, N and Higgins, S (2013) Commitment to equity assessment: estimating the incidence of social spending, subsidies and taxes handbook. Working Paper No. 1, 2013