

## **5. Constraints and challenges to addressing chronic poverty in South Africa**

### **5.1 Introduction**

The purpose of this section is to reflect on what inhibits government - and to a lesser extent civil society - from better addressing the situation of chronically poor people. The section focuses on three main issues. First, we draw attention to the fact that there exists no specific strategy to address chronic poverty, and furthermore that there are obstacles to the development of such a strategy. Second, we revisit the issue of formal sector unemployment and self-employment. The key question here is whether government's approach to stimulating entrepreneurship is such as to provide opportunities for the poorest of the poor to escape poverty. And third, we touch on the issue of HIV/AIDS, and what it means and will mean in particular for those living in marginal rural areas.

### **5.2 Absence of a strategy for the chronically poor**

#### 5.2.1 "Chronic poverty" has not entered the lexicon

In the course of speaking to government officials who deal with anti-poverty programmes for the purposes of researching this report, it was established that the distinction between chronic and episodic poverty - by whatever terms - is not observed, that is, it is not a distinction that government officials are aware of when devising policies or evaluating progress. Government documents also reflect the fact that "chronic poverty" is not held as a distinct dimension of poverty. Neither Stats SA's recent volume *Measuring Poverty in South Africa* (2000b), nor the Department of Social Development's recent "National Report on Social Development, 1995-2000" (2000), nor the Human Rights Commission's "Second Economic & Social Rights Report, 1998-1999" (2000), make any allusion to the distinction between chronic and transitory poverty.

As mentioned above, the government's broadly two-fold approach to poverty - safety-net and development - can be construed as an implicit recognition of this distinction, but only very crudely. That is, there might be a recognition that many poor people are stuck in a poverty trap, but developmental programmes do not generally attempt to target those who are most likely to be chronically poor.<sup>31</sup>

That "chronic poverty" has not entered people's lexicon may owe to the fact that, until relatively recently, there has been little research activity in South Africa focusing on it. Only with the analyses based on the KIDS data have there been quantitative estimates as to the incidence of chronic poverty, and this only for KwaZulu-Natal. In addition, we might speculate that the size of the poverty problem, as well as the problem of inequality, is so vast that to many observers the distinction between chronic and episodic poverty would appear somewhat esoteric.

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<sup>31</sup> A notable exception, as indicated above, is the Flagship Programme: Developmental Programmes for Unemployed Women With Children Under Five Years.

At any rate, given that the distinction between chronic and episodic poverty is not generally acknowledged, it is not surprising that there are few government programmes that seem to be geared specifically to addressing chronic poverty. However, now that there are a number of research reports based on the KIDS data, will there be a shift in government (and non-government) policy? This would appear to be unlikely in the short-term. Key respondents interviewed for this report indicated that even academic research that is specifically commissioned by and for government, mainly ends up unread on civil servants' book shelves. Officials responsible for co-ordinating anti-poverty initiatives for KwaZulu-Natal (by all accounts one of the better organised provincial programmes), were not even aware of KIDS or the published analyses based on the KIDS data. Within government circles, there is a fair amount of disillusionment about the usefulness of academics and consultants, while among academics and consultants, there appears to be an equal measure of scepticism about the delivery capacity, intellectual capital, and institutional memory of government.

### 5.2.2 There is no over-arching anti-poverty strategy

A number of officials interviewed expressed a concern at the absence of an over-arching anti-poverty strategy. Notwithstanding the creation within government of co-ordinating clusters at national and provincial level, the feeling was that these were not in service of an actual strategy that precisely articulated goals and roles. Moreover, no system exists to help harmonise or identify the respective roles of government and the private sector in poverty reduction. IDASA (2000) raises the concern that the present emphasis on solving the problem of under-spending from the Poverty Alleviation Fund, while important, is doing little to solve the bigger problem of "the absence of a coherent and systematic framework for poverty reduction". Ben Turok, Member of Parliament for the ANC, writes that the central reason for government's ineffectiveness in addressing poverty is not lack of commitment (which is belied by large budget allocations to social services), but the absence of a "special ministry of economic development", of which the main purpose would be "to develop a coherent, intersectoral poverty and development strategy and synchronise policy between departments" (*Business Day*, 23 November 2000).

Perhaps the creation of such an over-arching strategy would provide government an opportunity to reflect on the heterogeneous nature of poverty, including *inter alia* the distinction between chronic and episodic poverty. We would go further and say that this could be a critical distinction to inform any anti-poverty strategy, which is not to say the only one. It would constitute a more thoughtful approach to targeting than the one that presently obtains, which mainly seeks to concentrate anti-poverty resources to the 'three poorest provinces'.

### 5.2.3 The limits to 'development by piggeries'

Government-led and government-funded development interventions are hindered by a paucity of ideas about how to help people help themselves. One manifestation of this is that, in some provinces, one finds the welfare department, health department, and agriculture department, all independently attempting to launch community agricultural projects, often to the frustration of

the agriculture department (e.g. KwaZulu-Natal Director General's Office, 2000). In some provinces, different departments may collaborate or co-fund rather than duplicate or compete (e.g. in Northern Province, the health department has made funds available for community gardens to be implemented by the agriculture department), but the point remains that agricultural projects are excessively popular, probably for lack of alternative ideas about what one can do. One astute observer working with anti-poverty programmes within government, has dubbed this 'development by piggeries', not just because of the widespread over-subscription to agricultural projects (which also figure prominently in the Department of Social Welfare's Flagship Programme), but more generally because this piecemeal project-by-project approach ultimately has not reached very broadly or deeply. The project-by-project approach is costly to administer, often fails to reach the poorest of the poor (because funding is more likely to be secured by those who are relatively well organised, which tend not to be or include the poorest), and is virtually always based on the rather problematic 'group approach'.

By the 'group approach', we mean that the project involves a group of members who are expected to work and profit as a group. Projects sponsored by the Gauteng Department of Social Development, for example, must be registered as non-profit organisations, which cannot have fewer than 10 members according to the Nonprofit Organisations Act, No.71 of 1997. As with similarly constituted land redistribution projects, these projects have a high mortality rate due to age-old problems such as lack of accountability and free-riding.

In essence, the government is struggling with a paradox. On the one hand, having embraced 'developmental welfare', the government wishes to see people become economically self-sufficient and thus no longer reliant upon social security grants for survival. People must learn to provide for themselves by being entrepreneurial. However, government is intrinsically ill-suited to nurturing entrepreneurs. Social workers and other civil servants make poor extension agents for helping people launch and manage income generating projects, partly for lack of sufficient technical expertise, and partly for lack of own entrepreneurial experience (IDT, 2001). Moreover, the group aspect itself might have the effect of reducing the ability to reach the most marginalised. Probably the most efficacious government interventions at present for job creation are the Community Based Public Works Programme and the Working for Water programme, which are run by the Department of Public Works and the Department of Water Affairs and Forestry, respectively (both funded, at least in part, through the Poverty Alleviation Fund). One principal reason they are successful relative to, say, the Department of Social Development's efforts to support income generating projects, is that they do not require government to do what it is not qualified to do. A second reason is that the market for their 'products' is given, whereas for income generating projects such as piggeries, the market may or may not be proven. Having said this, it is important to state that governments' and others' efforts to support and invigorate the SMME sector are absolutely critical and a good start has been made. If the pay-offs of these efforts are not what they should be, that is in no small part because of the enormous size and complexity of the task.

### 5.3 Employment and unemployment

A major challenge facing the country's ability to reduce poverty is the high rate of unemployment in the formal sector and low rate of SMME growth in the formal and informal sector. One reason households remain in poverty, is because their members repeatedly fail to gain employment over sustained periods. The prospects for employment growth in the formal sector is therefore a key consideration in the future extent of chronic poverty. In a previous section, it was shown that the government's projections as depicted in the initial GEAR document, turned out to be overly optimistic. The question is whether there is any reason to hope that the situation will change in the near future. If not, government and civil society must look elsewhere to see what can be done to address the needs of the chronically poor.

It is a fairly safe conjecture that formal sector employment growth is not likely to take off in the near future, particularly as the government remains loathe to embark on an ambitiously expansionary macroeconomic policy. Prospects are especially bleak for unskilled and semi-skilled employment, where demand is most slack. Even in commercial agriculture, which has traditionally been a labour-intensive sector, unskilled workers are gradually being replaced by machinery, contributing to higher rural unemployment. While the weakening Rand may have somewhat changed the perception that South Africa is a high labour-cost economy, technological change in the manufacturing industry is following the same trend. The prospect of AIDS-induced labour cost rises will no doubt further propel this trend. (More on this below.) In addition, informal sources indicate that government is gearing up for a large-scale retrenchment over the next 5 to 10 years. Taking into account both parastatals (Telkom, Eskom, etc.) and the public service itself, 600 000 to 1.2 million workers could be retrenched within that time frame, representing up to a staggering 15% of the present formal sector workforce.<sup>32</sup>

This sobering prospect means that, at least over the next 10 to 20 years – i.e. as one generation of the economically active population is replaced by the next – the formal economy is unlikely to contribute substantially to the reduction of chronic poverty. Even if the thrust to improve skills in mathematics, science, and information technology is successful, this will do little to benefit large segments of the population.

This implies that the onus will be on government and civil society to make up the difference. The two main areas in which they can attempt to do so are public works programmes and SMME promotion, with the social security system remaining a critical safety net. Much therefore depends upon government's capacity to manage interventions of this kind. In its response to the most recent government budget unveiling, IDASA argues that this is precisely where government is most deficient, casting doubt that it can spend (and spend effectively), the budget amounts it has allocated for, say, human resource development and infrastructure development (IDASA, 2001).

Beyond this, however, too little is understood about the potential role of the SMME sector in the

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<sup>32</sup> Government is preparing for this process by putting in place training programmes that will allow those people who are retrenched to either find jobs elsewhere or, mainly, set up their own businesses. Sources indicate however that the success rate of such training programmes is at best 7%, meaning only 7% of the trainees manage to start SMMEs that survive beyond the critical start-up period. Supposing that all 1.2 million retrenched individuals did enter self-employment, this would represent an implausible increase in that sector of 50%-60%.

economy. To what extent does SMME growth depend on the growth of the formal sector economy? Will SMMEs remain predominantly 'survivalist' activities, or can they serve as engines of broad-based growth? What are the prospects for SMME growth in rural areas? To what extent does SMME growth depend on the population at large having larger disposable incomes, even if these are derived from social security grants? If a 'basic income grant' is introduced like that presently being studied by the Portfolio Committee on Welfare and Population Development, what will this mean for the expressed demand for the goods and services rendered by SMMEs? How effective are such indirect means of supporting SMMEs, relative to the variety of measures now in place? And finally, even in the event self-employment through SMMEs takes off, who will be able to share in the opportunities, and who will be left out?

The final issue we wish to draw attention to here is the role of asset redistribution via the land redistribution programme. The contention here is that there has been no satisfactory resolution to the debate about whether land redistribution can serve as an efficacious strategy for employment creation. The newly-formulated redistribution programme and rural development strategy hold that it is, but back-of-the-envelope calculations suggest that there is plenty of room for doubt. For example, suppose that in the next 15 years, government is in fact able to accomplish its avowed goal of redistributing 30% of private farm land, plus all available agricultural state land, and that this is all dedicated to settling commercial farmers. This implies about 25.6 million hectares. If farms are designed with the idea of providing each beneficiary with enough land to earn a modest net farm income of R15 000 per year, then this would imply (in theory) around 280 000 beneficiaries, or 11% to 14% of rural unemployment. The total cost would be (very roughly) around R27 billion, or R97 000 per beneficiary, or R1.8 billion per year over 15 years. Private sector debt and own contribution might contribute up to 30% of this. However, since the vast majority of this redistribution would be in terms of acquired private land, numerous farm jobs would also be lost. Given the 30% target mentioned above, roughly 200 000 farm worker jobs would be lost. The net gain of 80 000 represents an almost negligible share of the rural employed. The social and economic dislocation would likely far outweigh the modest gains. Even counting on the fact that the 280 000 beneficiaries would in theory have larger incomes than the displaced farm workers, it is unclear whether this would do much to stimulate the rural economy. A large share of the income would in fact go to debt servicing, at least for the medium term. Of course, this represents an extreme hypothetical case. In practice the redistribution programme will not be so heavily weighted exclusively towards one type of small-scale commercial farmer. The point is that land redistribution may not serve as the engine of rural economic revitalisation that is accorded to it, and there remains scope for introducing other ways of pursuing land redistribution as part of a well-targeted anti-poverty strategy.

#### **5.4 HIV/AIDS and the implications for marginal rural areas**

The last issue we touch on in this section is HIV/AIDS, and its implications over the next few decades for the economy at large, and for marginal rural areas in particular. At least two macroeconomic modelling exercises have been conducted seeking to illustrate the potential impact of HIV/AIDS on the South African economy. In the one, ING Barings (2000) identifies

seven "key impact channels" that link the demographic effects of AIDS to the South African economy: "1. A lower labour force; 2. Lower labour productivity through absenteeism and illness; 3. Cost pressures for companies through higher benefit payments and replacement costs; 4. Lower labour income, as employees bear some of the AIDS-related costs; 5. Lower population translating into lower expenditure; 6. Increased private sector demand for health services; 7. Higher government expenditure on health services". While the focus here is on the impact of AIDS on the formal economy, the implications are wide reaching, for example: lower disposable household income means lower demand for services that might be provided by SMMEs; higher state expenditure on health care may displace government attention from anti-poverty initiatives; and household resources depleted by caring for ill family members will become unavailable for investment in own enterprises.

Arndt and Lewis' simulation study (2000) examines similar 'channels', and arrives at similar conclusions. One important conclusion is that, relative to the no-AIDS scenario, the future with AIDS will have similar unemployment rates for unskilled and semi-skilled workers: "The net effect of AIDS-related mortality and slower growth is to leave the unemployment rate largely unchanged" (p.17). The implication however is that, in absolute terms, the number of unemployed people will fall proportionally to the decline in the number of economically active people due to the higher mortality rate.

Drawing on research conducted in rural areas of other African countries, there are certain impacts that can be anticipated for South Africa's rural areas that have especially grave implications for vulnerable groups. Cohen (1997) and Ayieko (1998), for example, have undertaken case studies showing that households with an AIDS sufferer frequently seek to keep up with medical costs by selling livestock and even land. Baier (1997) shows that women who are widowed due to AIDS sometimes lose rights to land, adding to an already precarious situation. Baier (1997) and Cohen (1998) draw attention to the manner in which AIDS can cause affected households to become socially excluded, thus diminishing their ability to cope with further crises. Similarly, extended family networks sometimes collapse, not least due to the pressure of having to support orphaned children (Halkett, 2000). Topouzis and du Guerny (1999) note that in a number of countries, the HIV/AIDS epidemic has resulted in a return to rural areas of community members who have been living and working in towns and cities. It can be anticipated that in South Africa, one certain effect of growing AIDS-related mortality will be ever more intense pressure on grandparents. 'Granny households', which previously were a means by which grandmothers could care for their grandchildren to enable their children to derive an income, will increasingly be called upon to raise children whose parents have died. This suggests that the present system of old age grants may soon become due for an overhaul. This, as well as other possible effects of the epidemic, will have to be studied carefully as the epidemic progresses.

## **5.5 Summary**

This section has enumerated a number of challenges facing government and civil society in respect of tackling chronic poverty. At the most basic level, neither government nor, arguably,

civil society, are in an optimal position to address chronic poverty because there does not exist a strategy for doing so. "Chronic poverty" as such has not entered the lexicon of either policy makers or development practitioners, but rather remains an esoteric interest of sundry academics. While government anti-poverty initiatives do sometimes ostensibly target especially deprived or vulnerable groups, often it proves very difficult to reach such groups, in large measure because those that succeed in attracting government or civil society assistance tend to be those who are most vocal or organised. Most targets, moreover, are defined spatially, i.e. that anti-poverty programmes should prioritise the poorest provinces or poorest districts. While this is not bad in and of itself, it may not be sufficient to address the plight of the chronically poor.

A second challenge to addressing chronic poverty is the probability that formal sector employment will fail to expand dramatically in the near future. Prospects are especially bleak for unskilled work. This implies that if chronic poverty is to be reduced then the SMME sector will have to pick up the slack. The fact that the SMME sector is only partially able to do so now (among Africans and coloureds, there are more than 5 times as many unemployed people as there are employed or self-employed in the informal sector, excluding domestic workers), suggests as a necessary condition that government and civil society will have to step up their efforts considerably from what they are presently. Whether this will be a sufficient condition, however, is doubtful. A key question is whether markets for the goods and services that SMMEs provide are sufficiently large. Another key question is whether an increasing number of SMMEs can move beyond the 'survivalist' mode and thereby provide actual escapes from poverty.

A third challenge facing the reduction of chronic poverty is the AIDS epidemic. Research conducted in countries where the epidemic is more advanced reveals the numerous ways in which AIDS can devastate households, during and beyond the illness of infected household members. Similar tragedies are presently being experienced among South African households, but the full scale of the epidemic has yet to be realised. The macroeconomic effects of AIDS will also increasingly be felt in the course of the next several years, for example in diminishing government resources available for social services and investment, and in damaging the vitality of the informal economy, e.g. where many would-be SMMES would have been expected to operate.