(South African)

"Talking to the Finance Minister about Poverty":

Pro-Poor Policy and Poverty Statistics

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1 Introduction

The Poverty Reduction Strategy Paper (PRSP) process being engaged in by over 60 countries has reaffirmed the importance of diagnostic analysis for poverty reduction. In formulating and assessing pro-poor policy, users of such research findings will eventually confront the task of talking about poverty with representatives of the Finance Minister if public resources are to be gathered and appropriately deployed. In many countries this has meant that finance ministries have had to take on new responsibilities such as prioritising the allocation of resources between competing needs, choosing between different intervention options that might achieve the same policy goal and identifying the optimal sequencing of policies. As such, finance ministries are increasingly basing decisions not just on financial considerations and macroeconomic strategy, but also on constitutional obligations and long term developmental objectives[2]. At the same time, line ministries are being called upon to base their requests for resources on evidence showing output targets, expected outcomes and anticipated long term impacts. Both of these tasks have formidable information requirements that require reliable and more frequent data from government statistics agencies and the capacity to analyse and report on such data. The PRSP approach also expects involvement by civil society in the formulation and monitoring of policy which among other actions will require capacity for critical comment on poverty trends.

In South Africa, the collection of official statistics was severely disrupted during the dying years of the apartheid government and data that described living conditions in the former bantustans and townships were often suppressed. It was not until the 1993 Project for Statistics on Living Standards and Development (PSLSD) that a comprehensive quantitative database of household conditions was created. Since then, Statistics South Africa has undertaken 17 similar household surveys, 2 long form censuses and a number of sector surveys such as the Time Use Survey and Rural Survey undertaken in 1997. Other national data sets that have been collected by other agencies include two Demographic and Health Surveys (DHS) while provincial surveys include panel studies undertaken in KwaZulu-Natal, the Western Cape and the Free State. Finally two Demographic Surveillance Sites provide extensive data for the Hlabisa district in KwaZulu-Natal and Agincourt in Mpumulanga.

South Africa also has comparatively strong capacity for the collection and analysis of data relative to many other developing countries. The country has an official statistics agency that undertook its first data collection in 1904, 36 institutions of higher education with more than 35 000 post graduate students in 2000, numerous research and think tank organisations, and a long tradition of academic and civil society comment on socio-economic conditions (DoE, 2002). Despite a 'brain drain' from universities into government and abroad, social science research remains internationally competitive while increasingly complex data are being collected and analysed by Statistics South Africa and the local research community.

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[2]/ The title of the paper aspires to capture the irony of Billy Bragg's mid-80's album, 'Talking to the Taxman about Poetry'. I must acknowledge my debt to Maldives' Minister of State for Finance and Treasury, Hon. Mohamed Jaleel for raising the question as to whether it is appropriate for finance ministries to assume these roles.

Despite the existence of these surveys, the capacity to analyse the data that are collected, and the evident importance of being able to say something about poverty changes in South Africa during the post-apartheid era, recent data simply do not permit such analysis to be made with any confidence. The results of the 2000 IES have been dogged by controversy and the researchers in both government and universities have expressed dismay over the quality of the data. This situation cannot be tolerated in a country of South Africa's size and complexity and requires urgent attention if future policy development is adequately to meet the challenges of persistent poverty and inequality. It is to be hoped that this workshop represents the beginning a new cooperation between Statistics South Africa, the National Treasury, other government stakeholders and their research partners that will address this need.

In this paper I am going to try to define the broader context within which something would be said about poverty changes in South Africa. My expectation is that other papers will go into more detail concerning the short-comings of existing data, the methodologies that can be adopted to overcome these problems, and the results that have been found. I will first consider why evidence-based pro-poor policy is required at all after a decade in which many countries chose to reduce the role played by government in poverty reduction. I will then review what we think we know about recent poverty trends in South Africa, and make mention of poverty analysis that points towards what might be anticipated once the official statistics have been corrected. I will conclude by making some comments about the way forward.

2 Why is Evidence-Based Economic Policy for Poverty Reduction Needed?

Spurred by a controversial paper written by World Bank economists, David Dollar and Aart Kraay (2000), recent international literature has examined the relationship between growth and poverty reduction. Some researchers conclude that the standard pro-growth macro-economic policies are good for the poor as they raise mean incomes with no significant effect on the distribution of income[3]. At one level this is a simple and useful message: there is nothing intrinsically wrong with expanding economic output in terms of achieving a reduction in poverty. It is therefore reasonable for governments of developing countries to adopt pro-growth macro-economic policies that foster trade, investment and economic stability. Admittedly, moving from accepting that growth leads to a linear improvement in the incomes of the poor to the assertion that even with a reduction of social expenditure and the absence of formal structures of democracy, growth remains 'good for the poor' is a bold, and perhaps questionable step. Indeed, other researchers have shown that poverty elasticities of growth vary widely, that very little is known about the causes of changes in the distribution of income, that the impact of growth on absolute income poverty is unclear and that the division of roles between governments and markets for poverty reduction is by no means as clear cut as advocates for privatisation would hold[4]. However, if at best the benefits of economic growth are distribution neutral,

[3]/ The usual medicine of fiscal discipline, macroeconomic stability, openness to trade and the protection of property rights is examined.

[4]/ Poverty elasticities refer to the percentage change in the proportion of people below a poverty threshold produced by a percentage change in economic growth. Empirical studies use these results to demonstrate

and if poverty reduction is believed to be more than improving income levels, these research findings imply that additional interventions will be required of governments if economic policy is also to achieve pro-poor goals.

So how are the options for pro-poor policy to be identified? The new economics of inequality provides some clues as to the kind of policies that might be needed. This analysis includes a microeconomic component (see Bardha, Bowles and Gintis, 1998) that has grown from the economics of imperfect information. Beginning with the idea that costly and asymmetric information systematically leads to missing and/or non-price rationed capital and insurance markets, this microeconomic literature has focused on the inequities and inefficiencies that result in economies with initial wealth inequality. Referring to 'economically costly poverty', this analysis argues that initially poorer agents (individuals, households or firms) may be unable to finance productive projects that offer higher expected returns than do projects of initially wealthier agents that do get financed. In addition to this microeconomic literature, a more macroeconometric literature has emerged from the work on endogenous growth and has shown that, as an empirical proposition, initial inequality is related to lower levels of aggregate growth over time (*e.g.* Alesina and Rodrik, 1994). Thus inequality adversely affects economic growth which, in turn, retards the rates of poverty reduction and improvement in social indicators. Deininger and Squire (1996) identify the distribution of assets as more important than income distribution in determining economic growth while of particular relevance to South Africa, Deininger and Olinto (1998) show that initial land ownership inequality is strongly related to the subsequent rate of economic growth. They suggest that this is because more equitable distribution of assets enhances the capacity of the poor to borrow, making it easier for them to acquire skills through education, to boost farm output, and to establish new businesses.

The analysis of poverty trends is then not simply a score-card against which the government of the day can be assessed, but is profoundly important for the development of appropriate interventions to tackle the difficult task of poverty reduction and sustainable growth. Estimates of the percentage of a population who may be categorised as being below some poverty threshold are thus only part of the information that is required; perhaps even the least important component of poverty analysis. Instead changes in the severity or depth of poverty, changes in the characteristics of those who are poor, and most importantly, changes in the opportunities available to the poor to move ahead towards and over the poverty threshold, and then permanently out of poverty are surely more important issues for policy analysis. However before this task can be tackled in South Africa, a credible source of data is required; agreement on an appropriate poverty threshold must be reached; and a basic poverty profile is needed.

3 Trying to Say Something about South Africa's Poverty Profile

In describing the impact of 'apartheid's assault on the poor', Wilson and Ramphele (1989:204, 230) conclude that policies of deliberate impoverishment distinguished the experience and dynamics of poverty in pre-transition South Africa. These included:

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that the poverty reducing impact of growth depends crucially on the distribution of income (Hamner and Naschold, 2000; Dagdeviren et al, 2000; Ravallion, 1997).

- The impact of apartheid legislation that stripped and eroded assets, especially human capital and land, distorted economic markets and social institutions through race and gender discrimination, and resulted in violence and destabilisation;
- The under-mining of the opportunities available to individuals, households and communities through neglect, over-crowding, environmental degradation, the mismatch of resources and opportunities, discrimination and social exclusion;
- The impact of a disabling state, which included the behaviour and attitudes of government officials, the absence of information concerning rights, roles and responsibilities, and the lack of accountability by all levels of government.

This legacy of inequality and poverty continues to shape the nature of South Africa's economy and society. Importantly, it has been shown to lead to the persistence of poverty even though many other aspects of the South African political-economy are being transformed (Aliber, 2001; Carter and May, 2000; May et al, 2004; Moser, 1998). While history matters for the interpretation of poverty statistics in any context, in South Africa an ahistorical analysis will be especially unhelpful in terms of offering meaningful solutions to South Africa's development challenges.

This is confirmed by recent debate over social policy in South Africa that has demonstrated both the importance and paucity of evidence-based, policy-orientated poverty analysis. The extent, distribution and trends of poverty remain the subject of debate even within government and much of the data available are under-utilised while even simple descriptive statistics show variation between the different surveys that is more likely due to sampling or design error than to actual trends. Part of the explanation for this lies in differing interpretations of the most appropriate measure of well-being, as well as in different sampling, survey and analytical methodologies. However the quality of field work, data capture and subsequent quality control are all cause for concern.

Notwithstanding these problems, a sense of South Africa's poverty profile over the past 10 years can be drawn out from the endeavours of the analysts in government and the research community[5]. At PPP$11 240 per annum in 2001, South Africa's per capita GDP corrected for purchasing power parity (PPP) places it as one of the 50 wealthiest nations, while the strikingly poor social indicators of the country result in South Africa being ranked 111th of 175 countries in terms of its Human Development Index in 2001 (HDI) down on its ranking of 93rd in 1992 (UNDP, 2002)[6]. Despite being among the 35 largest economies in the world, the country now has life expectancies among the 30 worst while projections of mortality suggest that these will deteriorate further as deaths from the AIDS epidemic increase (UNDP, 2003; UNDP, 2004; Dorrington et al, 2001:25). Worryingly, when using the World Bank's Atlas approach to correct for exchange rate fluctuations, Gross National Income per capita has steadily declined from US$3290 in 1998 to US$2500 in 2002, suggesting that capacity to address these socio-economic

[5]/ This brief review looks at a sample of recent research undertaken by South African analysts. This is simply for illustrative purposes and does not to imply any criticism of the valuable work undertaken by the international research community, or by South African researchers who may not have been mentioned.
[6]/ The HDI calculated by the South African Human Development Report (UNDP, 2003) would place South Africa at 115th place for 2003.

problems is being eroded despite the modest economic growth rates that are now being achieved. (World Bank, 2004).

At the time of the transition in 1993, South Africa was described by the World Bank as among the world's most unequal economies, with a Gini co-efficient measuring 0.58. More recent analysis using the 1996 Population Census data put the Gini co-efficient for income as high as 0.68, worse than that of Brazil and of 33 other developing countries (Marais, 1998: 106). Woolard and Leibbrandt et al (2001:22) show that in 1995, six percent of South Africa’s population captured over 40 percent of income. This experience of income inequality carries over to the social indicators as well, with the HDI reported by the UNDP revealing significant spatial and racial differences within South Africa. In 1991, while white South Africans had an HDI similar to that of Canada or Israel, the HDI score for Africans was lower than that of Egypt and Swaziland, and a provincial comparison shows that the score for the Limpopo Province was lower than that of neighbouring Zimbabwe (May et al, 2000: 23). Although there were some improvements in the HDI among some groups by 2000, South Africa is one of a handful of countries that has experienced a decline in the HDI since 1995, while the racial aspect of the South African situation remains unchanged with the gap between the index of the poorest (mostly African) and richest (mostly white) provinces having widened (UNDP, 2003).

Although income or consumption based poverty is not the only component of deprivation, most analysts would agree with Lipton (1997:1003) as to the usefulness of this approach when evaluating progress made by policy interventions. South Africa does not as yet have an official poverty line and researchers have made use of a range of methodologies in order to categorise the population into poor and non-poor. These vary between the institutionally determined household measure used by Statistics South Africa in their “Measuring Poverty” publication, through to the distribution based approach adjusted for adult equivalents used by the ‘Poverty and Inequality Report.’ Ideally a poverty threshold is required that is based upon a minimum food consumption, adjusted for non-food requirements and calculated to take account of household size and composition. For moment however, different estimates of incidence of consumption poverty may simply reflect the use of different thresholds and methodologies.

At the start of South Africa’s transition in 1993 almost half of the population, some 19 million people, were categorised as poor using a national consumption-based poverty line with over 60 percent of Africans being poor compared to just one percent of the white population (Klasen, 1997). The World Development Report of 2000 uses the same data to show that 11.5 percent of the South African population lived on less than PPP$1 per day, while 35.8 percent of the population lived on less than PPP$2 per day (World Bank, 2000:64). At that time, poverty rates in South Africa could thus be compared to countries such as Bolivia (11.3 percent), Colombia (11.0 percent) or Cote d’Ivoire (12.3 percent) in terms of the PPP$1 per day measure of poverty.

More recent South African measures of poverty based on a minimum acceptable standard of living suggest that poverty is more severe than the rather arbitrary international rules of thumb would imply. Woolard and Leibbrandt (2001) use a range of thresholds to provide a rigorous analysis of poverty in South Africa in the period until 1995[7]. Using data from the 1995 Income and Expenditure Survey (IES), they conclude that some 40-50 percent of South Africans could still be categorised as poor in 1995, while 25 percent could be categorised as ultra-poor. They also found that the poverty rate was far higher in rural areas than in urban (65 percent of individuals compared to 22 percent) and 27 percent of rural dwellers were below half the poverty line, and thus were likely to also be chronically poor in the sense of being unable to escape poverty over time (Woolard and Leibbrandt, 2001:59-60). In line with other studies, the Eastern Cape emerged as the poorest province in South Africa, containing 27 percent of those likely to be chronically poor while KwaZulu-Natal and Limpopo Province accounted for 19 and 17 percent of the chronically poor respectively. Also in 1995, the poverty gap, a measure of the depth of poverty calculated to show the amount that is needed annually to wipe out poverty through a perfectly targeted transfer to the poor, was about R15 billion, or about 4 percent of GDP. In the case of the two poorest provinces, Eastern Cape and Limpopo Province, the poverty gap amounted to 11 percent and 21 percent of the provincial Gross Geographic Product (GGP) respectively (May et al, 2000).

Changes in the incidence and severity of poverty since 1995 are less clear and have been the source of debate: herein is the rationale for this workshop on poverty statistics in 'Transition +10' South Africa. Using a mix of data sources, Aliber (2001:33-40) distinguishes a number of groups who can be described as being chronically poor and attempts to estimate the size of each[8]. Based on Roberts' (2001) analysis of the KwaZulu-Natal Income Dynamics Study (KIDS), Aliber estimates that approximately 950 000 rural African households are chronically poor and estimates that another 50 000 rural Coloured families are also in this category. Just under 770 000 African female-headed households are calculated to live in chronic poverty and around 250 000 female-headed households of other races are thought to be in chronic poverty in addition to those that are among the rural poor. A further 38 000 disabled-headed households are chronically poor. Aliber (2001:40) concludes that in 2000, at least 18 to 24 per cent of all households in South Africa were chronically poor or highly susceptible to chronic poverty, a total of some 2 million households or 10 million people. By 2010, he suggests that AIDS may contribute to the chronic impoverishment of 26-33 percent additional households, bringing the total share of chronically poor households to 24 –30 percent.

Drawing on several of the large sample surveys collected by Statistics South Africa between 1994 and 1998, Budlender (2001:93) suggests that both poverty and inequality had increased, a finding supported by an official publication using the results of the 2000 Income and Expenditure Survey (Statistics South Africa, 2002). The average annual per capita income in 1995 was reported to be R12 135 adjusted to 2000 prices, higher than the per capita income of R11 755 per annum reported in 2000. However many analysts have raised serious concerns with the quality of the data collected by this survey, pointing to methodological and weighting problems and evidence of sloppy fieldwork and data

[7]/ For most of their analysis Woolard and Leibbrandt (2001:56) settle on the Household Subsistence Level and $1 a day 'International' line (R3509.00 and R2200 per annum per adult equivalence in 1995 Rand). The latter may be thought of as the ultra-poverty line.

[8]/ Chronic poverty may be thought of as referring to those who are trapped in deprivation, unable to progress from this situation over time, lacking the assets, skills or social networks to take up new opportunities being offered as a result of expanded economic output or government intervention.

processing (Meth and Dias, 2004:61; vd Berg and Louw, 2003:2). In a brave attempt to interpret these data, Meth and Dias (2004) employ a mix of procedures to adjust for these problems and conclude that the case for an increase in the numbers of people in poverty seems convincing. They find that the numbers of people in the lower of two expenditure groups identified as encompassing the potentially poor increased by about 2.9 million people between 1995 and 2000 while the numbers in the higher band increased by 1.4 million people (Meth and Dias, 2004:63). Thus they estimate that there were 22 million people in poverty in 2002, an increase of at least 2.4 million from 1999 when applying the same methodology. Attempting to take account of transfers to the poor from government in the form of water, electricity, health care, housing, sanitation, education and transport, they amend this estimate to an increase of 2 million people (Meth and Dias, 2004:81)[9]. In a less ambitious attempt to manage data quality problems, van de Ruit and May use a PPP adjusted $1 a day poverty threshold and conclude that poverty levels have increased from 11.5 percent in 1993 to 19.8 percent in 2000 (van der Ruit and May, 2003:23)[10].

Using a different methodology, but a similar approach to a poverty threshold, vd Berg and Louw (2003:18) conclude that the numbers in poverty reached 17 million people in 2000, an increase of 1.2 million people from 1995. Hunter et al (2003) use the same data from the 2000 Income and Expenditure to show the continued high levels of income inequality in South Africa. They report that the top decile in the distribution account for 49 per cent of total expenditure compared to just eight per cent accounted for by the bottom four deciles, suggesting little change in income inequality since 1993. Van der Berg and Burger (2002:10-11) try to take account of shifts in social spending in terms of their impact on the distribution of income adjusted for non-cash transfers. Noting that per capita incomes of the African elite have almost caught up with the white population, they calculate a Gini coefficient for South Africa of 0.66, similar to most other studies. Turning their attention to the impact of social spending, they show that social spending to the African population has increase from 51 percent in the immediate transition period to 80 percent in 1997. When income is calculated adjusted for South Africa's relative progressive taxes and for the strongly progressive non-cash transfers that are made, they conclude that the Gini coefficient can be re-estimated to 0.44. In particular, they conclude that fairly good targeting of old age pensions and disability grants have resulted in rural areas receiving an unusually fair share of social spending compared to the situation in many developing countries. However, they do not attempt to measure on the impact that this social spending might have had on the well-being of the poor, noting that the quality of the service delivered substantially determines this. As an example, while inequalities in terms of inputs to education have narrowed, the outcomes in terms of education attainment have not (vd Berg and Burger, 2002:18).

Putting aside concerns of the quality of official statistics and the methodologies used to overcome these, analysis of other survey data supports evidence that the incidence and severity of income poverty continued to increase in the immediate post-apartheid period.

[9]/ Referred to as a social wage as an attempt to take into account government reaction to the Stats SA report.

[10]/ All of these analyses calculate poverty and inequality in terms of 'per capita' or 'per adult equivalent' scales, and include an adjustment to take account of household economies of scale.

Using the KIDS panel data, Roberts (2001) and Carter and May (2001) adopt different methodologies to distinguish those that move in and out of poverty from those that are structurally poor. Both analyses suggest that while some 40-50 percent of South Africa's population could be described as poor, around 20-25 percent of the sampled African and Indian population in KwaZulu-Natal could be thought of as being chronically poor in terms of either a 'time-spell' or 'trajectories' definition. Furthermore, despite a 50 percent chance of upward mobility from the poorest to the next expenditure class, Carter and May (2001) calculate that some 75 percent of those measured as being ultra-poor in 1993 would still be below the poverty line in 1998 and that there was little chance that this group would ever escape poverty in the absence of fundamental change. They ascribe this to the persistence of multiple market failures that prejudice the chances of the poor to make use of the assets that they do have, or to accumulate additional assets. Using the same data, Woolard et al (2002:11) identify three poverty traps that hindered the upward mobility of the poor between 1993 and 1998: large initial household size, low initial levels of education and low initial participation in the labour market. Bhorat and Poswell (2002:51) examine the impact of trade and technology on employment dynamics in South Africa since 1995 and conclude recent economic growth has resulted in weak employment growth among highly skilled workers, while unskilled workers and those in poor households have carried the adjustment costs of greater openness. May et al (2004) reflect on these data, and arguing that progress along the current growth path will not be sufficient to reduce poverty, call for stronger action to address these market failures through further transfers and redistribution. They suggest that such policies form part of the microeconomic strategy being sought by government in various budget and State of the Nation addresses and question the wisdom of policies that rely upon anticipated efficiencies that might be derived from market based interventions.

4 Conclusion

Despite the inadequacies of recent data concerning poverty in South Africa, this brief review of recent research shows that much has been learnt. The extent to which policy debate in South Africa is informed by the results of this research and even of official data collection, does not match the progress made for transformation, governance and policy-making structures. The recent debate over social policy in South Africa, and the much debated proposal for the introduction of a universal Basic Income Grant (BIG) demonstrates the importance of this. All of this points to the need for better data, an acceptable, accurate and practical method for measuring persistent poverty within South Africa, agreement on a national poverty line and a stronger relationship between researchers and government. This would need to recognise the role of critical commentary, the limitations of the analysis both in terms of its methodology and its application to policy dialogue, and the opportunities for budget reprioritisation in the face of global trends, limited resources and competing needs.

Finally, despite their advantages, one-dimensional indicators of poverty such as the money-metric approach used by most of the research mentioned will not address the complexity of poverty. Consumption poverty does not constitute the only form of deprivation and there are critical capability-related measures, such as access to services and employment, which could be considered as part of a wider system of deprivation indicators. Access to the assets that generate income is increasingly being thought to be a more useful measure of long term or chronic poverty, while ‘social exclusion’ and ‘capabilities’ may be fruitful directions for future analysis in South Africa.

This workshop represents a unique opportunity to say something about poverty changes to the South African Minister of Finance, the South African Statistician General and the World Bank’s chief economist for the Africa region. I have tried to suggest that international research has shown that governments need to adopt more than pro-growth strategies if poverty reduction is a priority. In the face of missing, thin or distorted markets, microeconomic analysis suggests that interventions might not be able to anticipate efficiencies from markets in terms of delivering services or opportunities to poorly resourced people and that policy may need to pay more attention to redistribution and pro-poor regulation. Credible data and rigorous analyses are required if such policies - notoriously double edged - are to succeed. Despite substantial problems with recent data, studies have shown the potential for persistent poverty in the context of South Africa, while an overview of diagnostic capacity reveals the country’s comparative advantage in this regard. Improving the quality of both data and the basic building blocks for analysis is therefore both possible and necessary, and it is to be hoped that workshops such as these might build partnerships between those of us concerned with critical commentary, and those concerned with resource allocation and program implementation.

Minister Manuel’s fondness for poetry has been revealed in the last few budget speeches. I am therefore optimistic that in the case of South Africa this appeal for a shared agenda to improve poverty diagnostics in South Africa will have a greater impact than Billy Braggs’ rather less auspicious allusion of persuading the Taxman as to the merits of poetry.

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