Universalisation of the Child Support Grant

Selwyn Jehoma and Eleonora Guarnieri (Economic Policy Research Institute)

Despite the extensive reach of South Africa's social assistance system, a number of barriers exist that prevent many of the poor from accessing social grants. In 2002, the Taylor Committee of Inquiry into a Comprehensive Social Security System for South Africa proposed a system of universal grants to tackle income poverty and address gaps in the social security system.[1] The government has committed to phasing in a universal Old Age Grant[2] and is proposing to apply the same principle to the Child Support Grant (CSG).[3] This essay makes a case for the universalisation of the CSG.

Targeting versus universalisation of children's grants

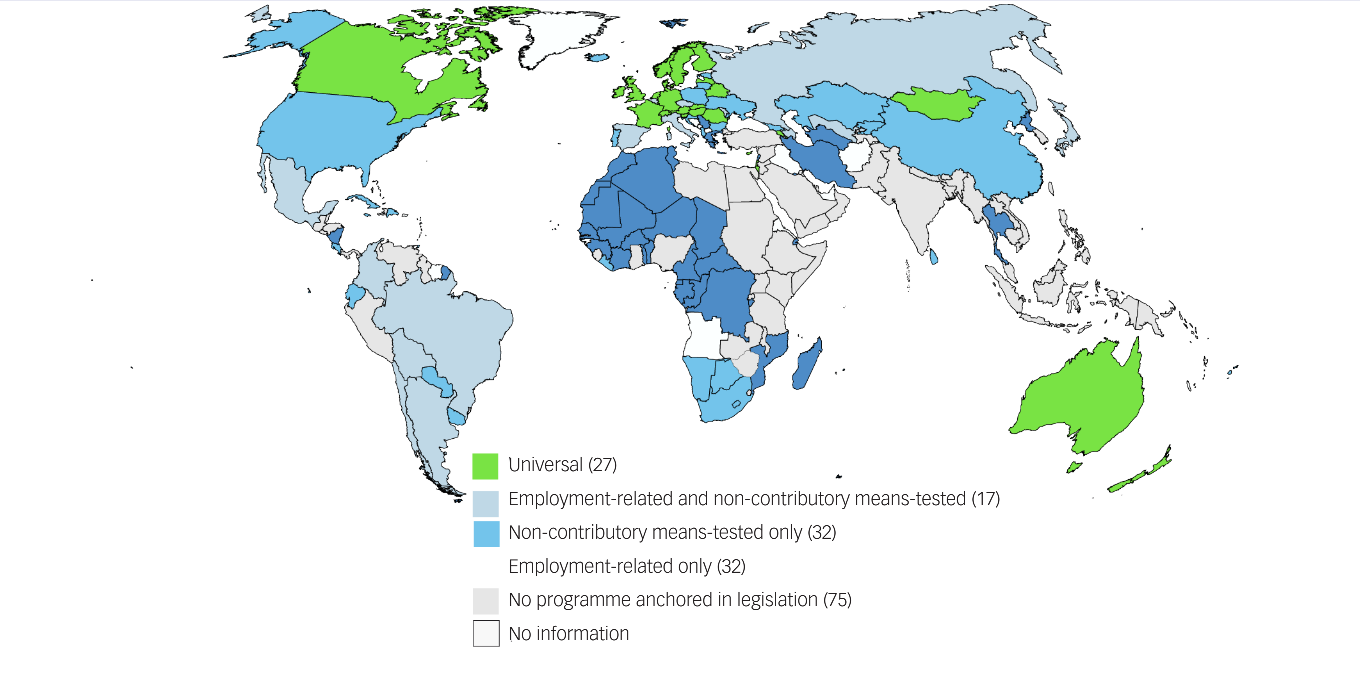
When considering social security programmes, policymakers must decide whether to provide social assistance to everyone (universalisation)[i] or to a select group (selectivity or targeting).[4] For example, fiscal constraints played a significant role in the development of the Lund Committee's proposals and the government's decision to target the grant at poor children under the age of seven years old when the CSG was first introduced.[5] Although there has since been an increase in the age threshold to 18 years, a means test is still a determinant to assess whether caregivers fall below the income threshold and are therefore eligible for the grant. A recent study by the International Labour Organisation (ILO) found that while most countries have child benefits of some kind, 27 countries have chosen to universalise child benefits, where all children receive benefits irrespective of whether or not they live in poor households.[6]

Arguments for targeting children's grants

A key argument for targeting social grants at select groups is that it prioritises certain groups or individuals based on the principle of need: that is, social assistance programmes should focus on those who are most in need of income support.[7]

Closely linked to this is the argument that governments must make choices in the context of resource constraints, and that targeting provides a means of "allocating scarce public resources efficiently and equitably".[8] Given limited public budgets, proponents of targeting argue that it is more efficient to prioritise the poorest, concentrating benefits in this group rather than spreading scarce resources across the population.[9] Those who support means testing argue that targeted interventions are more effective in reducing inequality of opportunities than universalisation "since, if all available resources are destined to the poor, the reduction in inequality will be more marked than if the same resources are equally shared among the entire population".[10] Targeting poor and vulnerable groups is therefore considered a more efficient and effective approach to achieving the goal of reducing poverty and inequality.

Figure 25: Global distribution of child/family benefit programmes by type, 2011 –2013



Source: International Labour Office, Social Protection Department (2015) *Social protection for children: key policy trends and statistics.* Geneva: ILO. Reproduced with permission of the ILO.
Note: Figures in brackets refer to the number of countries in each category.

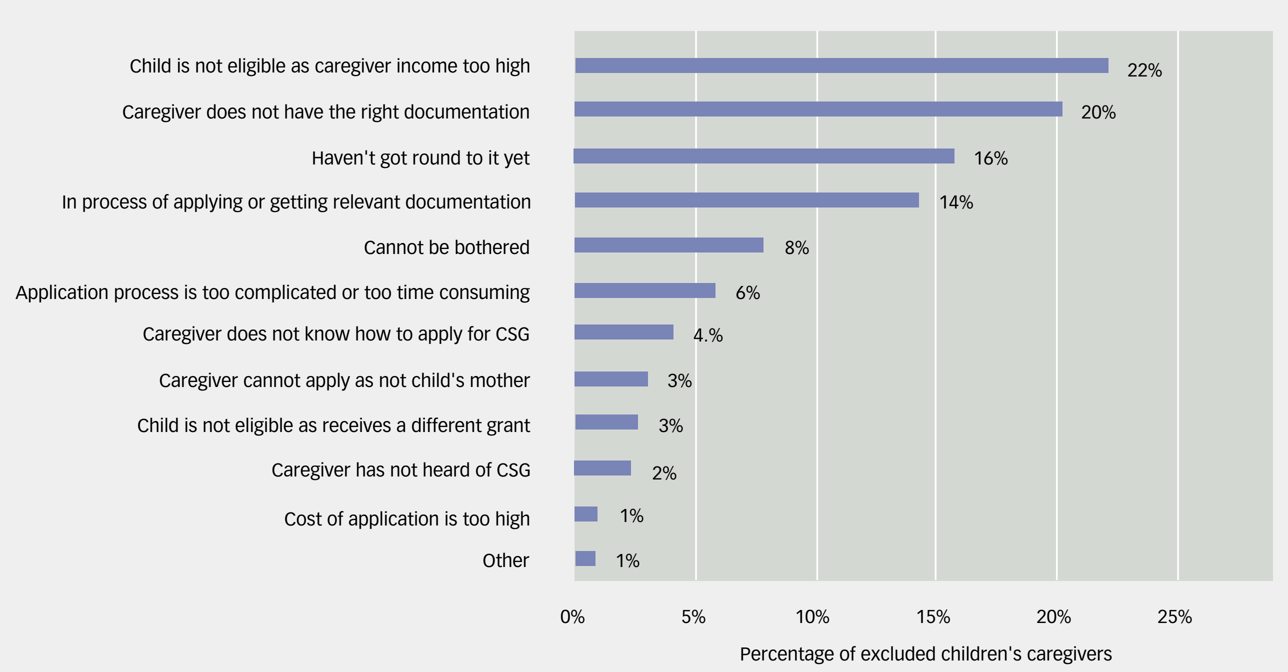
i Few programmes are truly universal; a universal grant would be one that would be available to all citizens of a country, such as the Basic Income Grant. A universal child benefit, however, still targets a specific age category.

Box 8: Exclusion from the Child Support Grant

A recent study on progress made in removing barriers to accessing the Child Support Grant (CSG) estimated that almost 18% of eligible children are not receiving the grant.[11] Analysis of the National Income Dynamics Survey (NIDS, Wave 3) in the same study found that the two most common reasons that income-eligible caregivers did not apply for the CSG for these children were that they believed their income was too high (22%) or that they did not have the right documentation (20%).

Another 14% were in the process of applying for or getting the required documentation.This suggests that a lack of information and misunderstanding of the means test are drivers of exclusion for the CSG. Caregivers also face challenges with the bureaucratic requirements for the grant application and means test, such as providing proof of identity (birth certificates and identity documents, although alternative documents may be used); proof of income (or lack thereof) and proof of marital status (if applicable).

Figure 26: Reasons caregivers of income-eligible children did not apply for a Child Support Grant



Source: DSD, SASSA & UNICEF (2016) *Removing Barriers to Accessing Child Grants: Progress in Reducing Exclusion from South Africa's Child Support Grant. Summary.* Pretoria: UNICEF South Africa.

The rationale for universal child grants

Universalisation, in contrast, gives everyone access to the same benefits. A universal approach is based on the principles of equality and inclusivity, rather than need.

There are several arguments in favour of inclusive social security programmes. First, the South African Constitution states that everyone is entitled to have access to social security, subject to progressive realisation within available resources. Second, poverty targeting requires applying an arbitrary income threshold (means test) to distinguish the "very poor" – those who are eligible for social grants – from others who are also "poor", but not poor enough to qualify for the grant. Thus, caregivers who earn slightly more than the means test threshold cannot receive the grant for their children, even though they live in similar circumstances to those who are eligible. The means test also assumes that incomes are stable, whereas earnings are often erratic, and poor households may fall in and out of "poverty" as defined by the poverty line. Some view this distinction as unfair, and a violation of people's constitutional right to social security and dignity.

As a result, targeting can create resentment and division in communities between those who receive social grants and those who do not, whereas a universal benefit treats all people equally.[12] Universal benefits also avoid the stigma associated with welfare or social grants going to people deemed "poor", and can instead promote an ethos of social solidarity.

A key motivation for introducing a universal child benefit is the potential for reducing the number of poor children who are exluded as a result of targeting. Poverty targeting assumes that

Box 9: Delivery and financing options for a universal child benefit in South Africa

Gemma Wright (Southern African Policy Research Institute)

A study by the Southern African Social Policy Research Institute (SASPRI) recently explored different options for delivering and financing a universal child benefit in South Africa. Using a South African tax-benefit microsimulation model called SAMOD,[13] a number of different options have been simulated, drawing on data from the National Income Dynamics Study (Wave 4).[14] The study estimated that 15.1 million children are eligible for the CSG in 2016. If this is indeed the case, then the current take-up rate for CSG is around 82% of eligible children (or 64% of all children in South Africa).

If there was full take-up under the current terms, then the CSG would reach 78% of all South Africa's children. This would come at an estimated additional cost of R12 billion.

There are many ways in which a universal child benefit could be delivered, both in terms of the regulations and the delivering organisation. For example, it could be delivered as a cash grant through SASSA in the same way as the current CSG – but without a means test. It could also be delivered as a tax rebate through the South African Revenue Service. Whatever the institutional conduit, decisions would need to be made in terms of who is able to claim the benefit on behalf of the child, and how the payment relates to the other child grants.

Using SAMOD, it is estimated that a further R15 billion would be required to finance a universal child benefit. This is over and above the R12 billion required to achieve full take-up of the current grant. The costs of the child benefit would be the same whether routed via SASSA or SARS, although implementation costs may differ.

Where can such large sums of money be found? There is no simple answer as to how best to finance a universal benefit, though many options do exist.[15] Criteria for deciding on a financing option might include the extent of legal or institutional change required, likely social and stakeholder support for the change, the level of complexity of the proposed option, the impact on national or child poverty rates, the redistributive impact of the change, and political will.[16]

The SASPRI study explored a number of financing options that use the tax system, and specifically the personal income tax system. Four examples are given here:

- *Make the universal child benefit taxable*. If the child benefit was included as an element of income to be taken into account when calculating personal income tax, it is estimated that this would yield an extra R1.7 billion per year in 2016.
- *Introduce a new tax band for those with incomes over R1 million*. There are currently six rates of tax applicable to incomes above certain thresholds (six tax bands). If a new tax band for high earners were introduced with a tax rate of 45%, it is estimated that this would yield an extra R8.3 billion per year in 2016.
- *Make the universal child benefit taxable, introduce the new tax band of 45% for the highest earners (band 7), increase the tax rate for band 3 by one percentage point, band 4 by two percentage points, and bands 5 and 6 by three percentage points each.* It is estimated that this would yield an extra R15.3 billion per year in 2016.
- *Make use of fiscal drag.* If in 2017 the tax band thresholds and personal rebates are inflated by less than the inflation rates of taxpayers' incomes, then there are many options for generating sufficient resources to cover the financing of the universal child benefit.

the methods of targeting are effective in reaching poor children. However, no form of targeting is perfect.[17] Instead, those who are not eligible may receive a grant (inclusion error), while many of those who are eligible may be excluded (exclusion error).[18] Despite improvements in the coverage of the CSG, many eligible children who should benefit from the grant remain excluded.[19] A universal child benefit increases the likelihood that the benefit will reach all poor children. Box 8 on P. 81 provides reasons for the exclusion of children who are eligible for the CSG under the current means test.

Targeting imposes costs on applicants and the government. The costs to applicants include travelling to South African Social Security Agency (SASSA) offices, having to pay to make copies of documents and opportunity costs, as applicants may wait for hours in queues. The costs to government involve the costs of administering the means test and monitoring access.[20]

Another argument for universal programmes is that they allay concerns about potential perverse incentives and negative impacts on the labour market, as all caregivers would be eligible for the benefit irrespective of their income.[21]

Furthermore, universal programmes tend to have more political support than those that are targeted and may lead to larger benefits. Kidd's analysis of pension transfers in approximately 40 developing countries shows a correlation between systems with broad coverage (over two thirds) and higher levels of transfers.[22] He argues that in countries with inclusive social security programmes, people with higher incomes are more likely to be supportive of social grants, as opposed to feeling that they are the only ones paying taxes and providing "hand-outs" to the poor. Thus, middle- and higher-income people are prepared not only to support the social security programmes, but also to motivate for increasing benefits, potentially resulting in a greater reduction in poverty.

Lastly, champions of universalism argue that budget constraints are less binding and fixed than often presented; and that the amount of resources available depends on the choices governments make about spending priorities and taxation.[23] In South Africa, some economists argue that the tax base is small, but this argument does not take into account the fact that the tax threshold and amount of taxes raised are policy decisions. Political as well as financial concerns play a role in defining the "affordability" of programmes.[24]

Key considerations for implementation

The universal provision of a child benefit would require an increased budget and fiscal allocation. A common concern raised about this approach is the perception that costs will increase dramatically due to an increase in the number of beneficiaries. However, an estimated 78% of all children in South Africa are already eligible for the CSG (although not all of these children access the grant; see Box 9). In addition, fertility rates in South Africa have declined since 1994[25] and are expected to continue to do so in the future. The implication is that the costs of a universal benefit would decrease over time. Box 9 presents delivery and financing options for a universal child benefit.

Conclusion

Targeted programmes require a considerable amount of extra resources to enforce a targeting mechanism that, at the same time, may generate undesired effects, such as exclusions. Universalisation may cost more in the short run but offers significant social benefits. The Department of Social Development commissioned research into the feasibility of universalising the grant in 2012, and in 2016 commissioned further work to explore delivery and financing options.

References

1 Taylor V (2002) T*ransforming the Present, Protecting the Future. Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa*. Pretoria: DSD.
2 Republic of South Africa (2014) *Budget Review 2014*. Pretoria: National Treasury.
3 Department of Social Development (2016) ***Comprehensive Report on the Review of the White Paper for Social Welfare***, 1997. Pretoria: DSD.
4 For example, see:
Devereux S (2016) Is targeting ethical? Global Social Policy, 16(2):166-181;
Kidd S (2015) The political economy of "targeting" of social security schemes. *Pathways' Perspectives,* Issue 19, Development Pathways: London, UK;
Mkandawire T (2005) *Targeting and Universalism in Poverty Reduction.* United Nations Research Institute for Social Development.
5 Lund F (2008) *Changing Social Policy: The Child Support Grant in South Africa.* Pretoria: Human Sciences Research Council.
6 International Labour Office, Social Protection Department (2015) *Social Protection for Children: Key Policy Trends and Statistics.* Geneva: ILO. Cited in: Gelders B (2015) *Universal Child Benefits: The Curious Case of Mongolia*. Development Pathways. Viewed 1 August 2016: www.developmentpathways.co.uk/resources/universal-child-benefits-the-curious-case-of-mongolia/.
7 See no. 4 above (Devereux et al 2016).
8 See no. 4 above (Devereux et al 2016).
Budlender D & Woolard I (2012) Income inequality and social grants: Ensuring social assistance for children most in need. In: Hall K, Woolard I, Lake L & Smith C (eds) *South African Child Gauge 2012.* Cape Town: Children's Institute, UCT.
9 See no. 4 above (Devereux et al 2016). P. 166.
10 Barros R & Carvalho M (2004) *Targeting and Universalization as Instruments for the Reduction of Inequalities*. Inter-American Development Bank, Poverty and Inequality Unit. P.7.
11 DSD, SASSA & UNICEF (2016) *Removing Barriers to Accessing Child Grants: Progress in Reducing Exclusion from South Africa's Child Support Grant. Summary.* Pretoria: UNICEF South Africa.
12 Hochfeld T & Plagerson S (2011) *Dignity and Stigma among South African Female Cash Transfer Recipients.* Brighton: Institute of Development Studies.
See no. 4 above (Devereux et al 2016).
See no. 4 above (Kidd et al 2015).
13 Wright G, Noble M, Barnes H, McLennan D & Mpike M (Forthcoming in 2016) *SAMOD, a South African Tax-Benefit Microsimulation Model: Recent Developments, UNU-WIDER Working Paper.* Helsinki: UNU-WIDER.
14 SALDRU (2016) *National Income Dynamics Study 2014 - 2015*, Wave 4 [dataset]. Version 1.0. Cape Town: Southern Africa Labour and Development Research Unit [producer], 2016. Cape Town: DataFirst [distributor], 2016. Pretoria: Department of Planning Monitoring and Evaluation [commissioner], 2014.
15 For example: Department for International Development (DFID) (2011) DFID *Cash Transfers Evidence Paper*, London: DFID Policy Division;
International Labour Organisation (2014) *World Social Protection Report 2014/15: Building Economic Recovery, Inclusive Development and Social Justice*, Geneva: Social Protection Department, ILO.
16 For example: no. 8 above (Budlender & Woolard);
Seekings J (2016) *Redefining the 'Affordability' of Social Assistance Programmes: The Child Support Grant in South Africa, 1998 – 2014.* CSSR Working Paper 379. Cape Town: University of Cape Town.
17 Samson M, Mac Quene K & van Niekerk I (2010) *Designing and Implementing Social Transfer Programmes,* 2nd ed. Cape Town: Economic Policy Research Institute (EPRI).
18 Devereux S, Masset E, Sabates-Wheeler R, Samson M, Rivas A & Lintelo D (2015) *Evaluating the Targeting Effectiveness of Social Transfers: A Literature Review.* Brighton: Institute of Development Studies.
19 See no. 11 above.
20 Slater R & Farrington J (2009) T*argeting of Social Transfers: A Review for DFID. London: O*verseas Development Institute.
21 Standing G (2007) *How Cash Transfers Boost Work and Economic Security.* DESA Working Paper 58. New York: UN Department of Economic and Social Affairs.
22 See no. 4 above (Kidd et al 2015).
23 See no. 4 above (Kidd et al 2015).
24 See no. 16 above (Seekings 2016).
25 Makiwane M (2010) The Child Support Grant and teenage childbearing in South Africa. *Development Southern Africa*, 27(2) 193-204.