Small changes to eligibility rules for the existing SRD R350 grant can enhance poverty reduction and reduce unfair exclusions while remaining affordable

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The South African Department of Social Development introduced the Special COVID-19 Social Relief of Distress (SRD) grant of R350 per month in May 2020 to counter the negative effect of the global pandemic. Over the past two years, the continuation of the grant has been contested, with the Minister of Finance and National Treasury raising concerns about the fiscal sustainability of the grant. As a result, SASSA has made changes to the grant design to reduce the number of recipients. Meanwhile, civil society groups have highlighted concerns that, after these modifications, the grant in its current form is unfairly excluding groups of the population in need of social assistance. In the 2022 Medium Term Budget Policy Statement on 26 October 2022, National Treasury announced that the SRD would be extended until March 2024, with an allocation for up to R52 billion for the year, at the same time noting that grant financing remains a concern. This raises the question of how to most fairly allocate this envelope.

Our research evaluates the effect of implementing modifications to the grant targeting that could address the issue of unfair exclusions. We propose changes to the targeting of the existing grant that will increase the number of poor beneficiaries receiving the grant, while ensuring that the grant is targeted at the very poor, and within a manageable cost to the fiscus. This approach tries to balance concerns of fiscal sustainability, working within the envelope of funding that has been allocated, and helping people in poverty and in need of assistance.

Targeting should be designed to ensure as many people in need receive the grant as possible

The SRD has the ability to meaningfully reduce food poverty. Without the SRD, roughly a quarter of the South African population (15 million individuals) live below the food poverty line of R624 per month, without enough income to buy a basic basket of food items necessary for survival. Estimates from December 2021 show the original SRD reduced the number of people living below the food poverty line by roughly 2 million people (3.4 percentage points, from 20.3 to 17 percent) between its inception and the fourth quarter of 2021.

In April 2022, a new approach to approving recipients was applied. Our research suggests this unfairly excludes people in poverty from receiving the grant. Receipt of the grant is now determined by total inflows into bank accounts, with no discernment regarding the source of the inflows. While designed to minimise the number of people with other income sources receiving the grant, the new approach has likely increased exclusion errors to very high rates (exclusion error refers to the incorrect exclusion of poor individuals who should qualify for the grant).

We argue that the current SRD grant targeting methods are too stringent. At present, individuals receiving inflows into their bank accounts above an “income ceiling” of R624 per month are deemed ineligible for the grant. SASSA checks people’s income with banks and receives a yes-no answer about whether they should be included. R624 is the individual food poverty line – the amount of money a South African needs to receive to be able to buy enough to achieve the absolute minimum calories needed to survive. The logic appears to be that anyone receiving inflows exceeding R624 per month is not in food poverty. Denying them the grant might be argued to improve the efficiency of the grant by reducing the total number of people on the grant while ensuring the very poor are still covered.

However, we highlight that inflows into people’s bank accounts are a poor method of measuring if someone’s income falls below the food poverty line. Many people with income below the food poverty line who happen to fail the bank means test are likely to be excluded from the SRD. There are two main reasons for this.

First, individuals receiving money from other household members into their bank account may be excluded by the means test, even if they and their household would be considered to be in food poverty in the way food poverty lines are usually applied. When applying poverty lines, economists usually examine an individual's *per capita household income* (their household income divided by the number of people in their household). Households commonly share income between members, so this is the most accurate measure of the economic position of the household. Many individuals with inflows above R624 into their bank account are still in food poverty because they have per capita household income below R624 This is because the bank account measure of individual income does not differentiate between income sources, so money sent from one household member to another counts as income for both household members. This process allows for double-counting of income within one household, in that income may be counted once at the original recipient's bank account, and counted again at the household member's account if money is transferred between household members. This double counting is particularly punitive because the income ceiling is set very low, currently at R624 per month, so even small amounts being double-counted can result in individuals being excluded from the grant.

To illustrate, imagine a breadwinner who receives R800 in monthly income and whose spouse earns R300 in monthly income. They have total household income of R1100 and household per capita income of R550. The food poverty line, the ceiling above which people are excluded from receiving the SRD, is R624 per capita per month in 2021 prices. So their per capita household income falls below this line. They are in food poverty. Under a per capita household income measure, usually preferred by economists as the best measure of income, both partners would receive the SRD. Under a pure individual income measure, the lower earning spouse would receive the SRD. In reality, however, we do not observe per capita household income, as banks cannot currently link individuals who are married to each other. There are situations where neither of them would qualify for the SRD grant in the bank means test, depending on whether they transfer money between their bank accounts. For example: if the breadwinner receives R800 in income, and transfers R400 to their spouse, who earns R300, the breadwinner will be rejected from the SRD because R800 is above the R624 ceiling. The lower earning spouse will also be rejected from the SRD because their bank account will show inflows of R300 (income) + the transfer from the breadwinner (R400) = R700.

Second, people who have a low average monthly income over a long period, but have a once off spike in income in the month when the bank means test is done, will be excluded from the SRD. Analysis of the Bolsa Familia grant in Brazil finds evidence of this issue. The poorest families may go over a low-income threshold in certain months, but are rarely able to sustain this level of income over multiple months.

Increasing the eligibility ceiling amount and measuring bank income over time will reduce unfair exclusions

We advocate for two short-term modifications to the means test which would reduce exclusion errors. First, we propose measuring average inflows into the bank account over a longer term, such as 3 to 6 months to calculate an individual's income. This would prevent poor individuals who receive lumpy inflows at infrequent periods from being excluded. Simultaneously, this measure better excludes non-poor individuals whose income is measured in a month where they receive unusually low inflows. Second, increasing the income means test threshold from R624 to R1335 per month would provide a quick and feasible way of increasing the impact of the grant and reducing exclusion errors while remaining fiscally affordable.

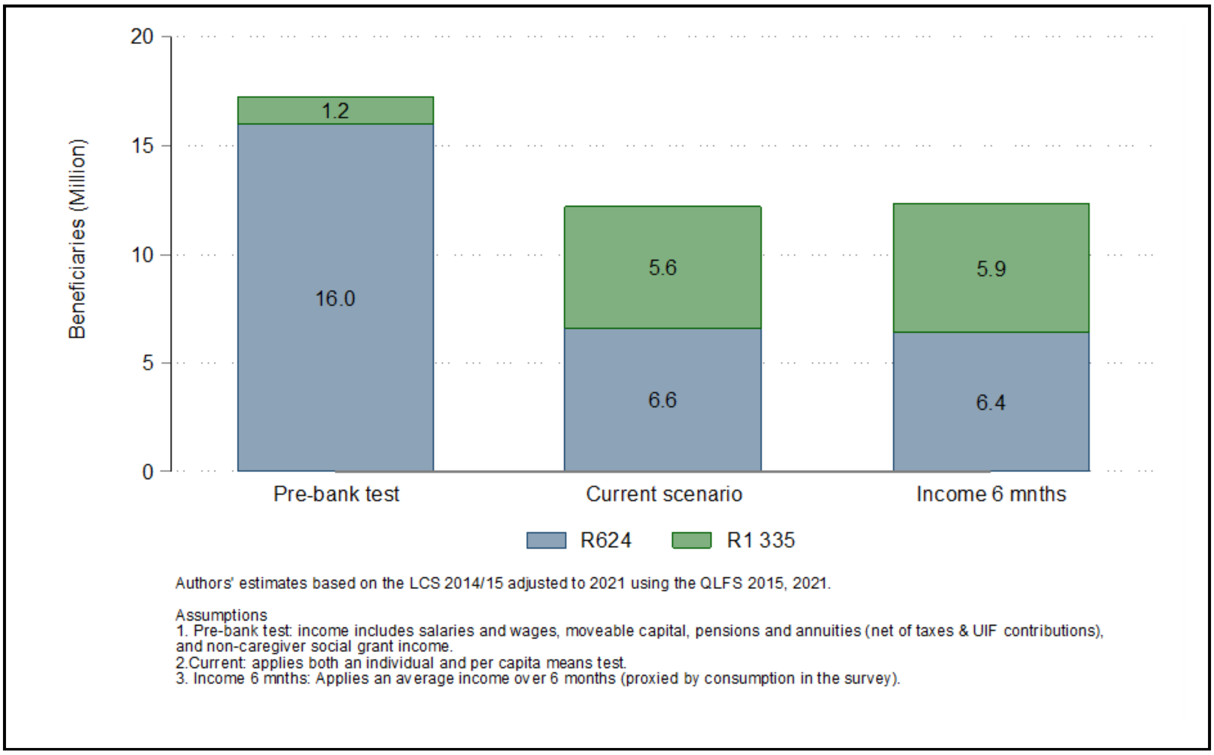
To investigate the effects of these changes, we work with the Living Conditions household survey updated to take into account changes in consumption and employment loss from 2016 to 2021. We simulate the effects of our proposal to average income over a number of months. We consider the impact of using two income ceilings (the Food Poverty Line (FPL) of R624 and the Upper-bound Poverty Line (UBPL) of R1 335 per month). The UBPL captures the amount individuals need to get adequate nutrients and buy basic essentials. We consider more modifications in the report.

We estimate the number of beneficiaries in Figure 1a. The first bar in Figure 1a, "Pre-bank test", is our simulation of the number of beneficiaries who were eligible for the grant in the early months of the SRD. While the income ceiling for eligibility was theoretically set to zero, income was self-reported by means of an affidavit and income was not checked against bank records unless the decision was appealed. If an income check was applied, the means-test used was the size of the 2020 FPL, and so the number of eligible beneficiaries can be considered as 16.0 million. This number is very consistent with the estimated number of eligible beneficiaries in other research.

The second bar, 'Current', is our simulation of the impacts of the current grant design. When an automated bank test at R624 per month (the FPL) is applied to all individuals, which includes all sources of income, the estimated number of beneficiaries reduces to 6.6 million eligible people (the blue part of the bar). This is similar to the number of people that SASSA report were approved for the grant in August 2021.

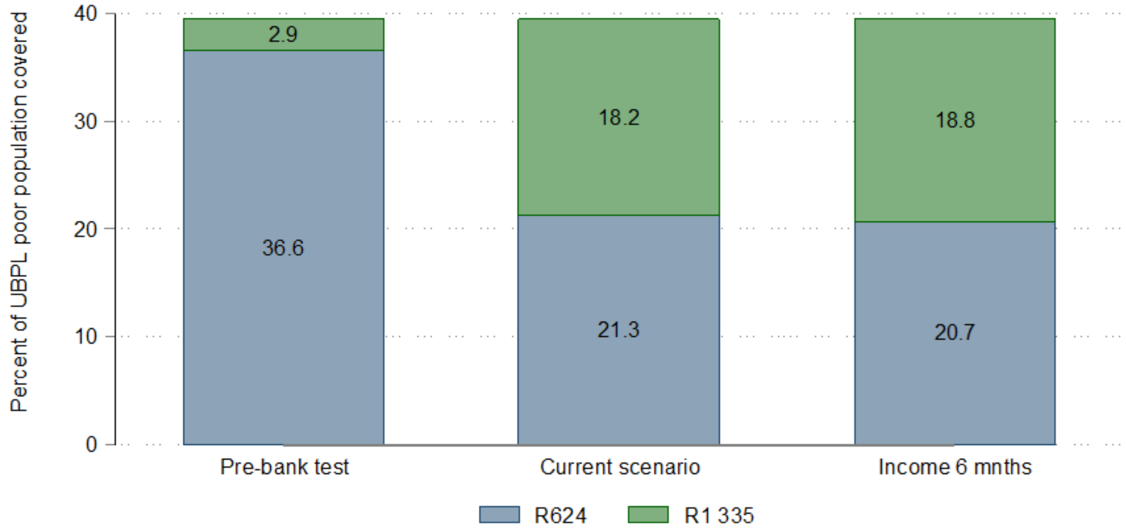
Our proposed scenario for reducing exclusion error in the short-term is represented by the bar "Income 6 mnths" at the R1 335 income ceiling. This scenario proxies the use of an income measure averaged over a six-month period by using survey measures of consumption expenditure, which is likely to be accurate for reasons we explain in the report. Our model predicts that 12.3 million people would be eligible for the grant at the R1335 ceiling with a smoother measure of income. These projections suggest that relaxing the means test measures will not result in an explosion in the number of eligible beneficiaries. Our policy proposal would increase the number of eligible beneficiaries to a similar level as before the new means test regulations, from 6.6 million ("Current" at R624 ceiling) to 12.2 million ("Income 6 months" at R1335 ceiling).

Figure 1: Number of beneficiaries of the SRD grant



In the short term, the proposed means test modifications are effective at increasing the percentage of people considered to be poor who are receiving the grant, where being poor is defined as having household income below the UBPL of R1335. In the current scenario, 21.3 percent of people below the UBPL are eligible for the SRD. Our simulations predict that raising the income ceiling and changing the measure of income to a 6-month average increases coverage to 39.5 percent (reduction in exclusion errors of 18.2 percentage points). In this scenario, all those who become eligible as a result of the means test modification are poor. The modifications would also lift some people out of poverty (see the report for more information on poverty impacts).

Figure 2: Coverage of UBPL poor



Authors' estimates based on the LCS 2014/15 adjusted to 2021 using the QLFS 2015, 2021.
Based on the 2021 Upper-Bound Poverty Line of R1 335 per month.

Assumptions
1. Pre-bank test: income includes salaries and wages, moveable capital, pensions and annuities (net of taxes & UIF contributions), and non-caregiver social grant income.
2. Current: applies both an individual and per capita means test.
3. Income 6 mnths: Applies an average income over 6 months (proxied by consumption in the survey).

Table 1 shows the cost of the two scenarios described here, at the two income ceilings. The corresponding increase in total programme expenditure would increase from R28 to R51 billion, annually.

Table 1: Projected annual cost of simulated scenarios, in billion Rands

Simulated scenario	R624	R1 335
Individual income	67.2	72.1
Current scenario	27.8	51.4
Income averaged over 3-6 months	27.0	51.5

Source: authors' estimates based on LCS 2014/15, updated using the QLFS 2015 & 2021

These proposals are feasible to implement quickly. SASSA has demonstrated the capacity to modify means testing methods in the short term with the new means test that was applied earlier this year. This also suggests that the proposed targeting method is flexible to the fiscal capacity of the government. The ceiling could be gradually raised in the future if more revenue is found. If absolutely necessary for fiscal reasons, the ceiling could be lowered, ensuring the grant remains fiscally sustainable even if the economic outlook were to worsen.

In the long term, targeting should be designed to avoid the pitfalls associated with using banking data to measure income

In the medium-term, the strict bank test risks discouraging the use of the banking system for those not in the formal sector. The means test is likely, therefore, to become gradually less effective for targeting the grant.

We propose moving away from the banking means test in the long-term in favour of a grant design in which individuals self-report their income. This could be supported by grant design elements that discourage wealthier people from applying for the SRD. For example, it might be possible to introduce random audits of a very small, randomly selected subset of recipients. This could involve a more detailed consideration of their data across the banking system, tax records and UIF records. The threat of being audited might encourage compliance, but without the costs of auditing everyone. In Indonesia, self-targeting (encouraging people to apply) to a grant programme plus an audit was found to simultaneously reduce costs and improve accuracy rates relative to automatically enrolling candidates who pass an asset test. Establishing the optimal design to encourage self exclusion will require additional research and testing.

According to our model, which assumes that self-targeting is reasonably successful at attracting applications from those with the lowest incomes primarily, using self-reported income would increase the number of beneficiaries to 11.9 or 12.8 million at the R624 and R1335 ceilings respectively (see the long term proposal laid out in the full report). The estimated cost would be R49.9 billion or R53.8 billion.

An alternative long-term solution to the issues with using banking data would be to raise the means-test threshold to the level of the national minimum wage. At this level, most individuals would be receiving salaries through their bank accounts, and so choosing not to use the banking system is no longer an option. Our calculations of the impacts of these long term designs are described in detail in the full report.

Conclusion

There is scope for relaxing the SRD eligibility criteria without generating a fiscally unsustainable number of new eligible recipients. It appears that increasing the income ceiling and improving the measure of income used would result in a large increase in the number of people below the upper bound poverty line who are eligible for this grant. Concerns that relaxing the grant targeting criteria would result in large numbers of well-off individuals becoming eligible are not supported by our analysis. In the longer term, the grant design ought to be further revised to avoid discouraging the use of bank accounts by people close to the grant cut-off.