Chapter 1 Poverty in South Africa

The land area of United Republic of South Africa is 1,220,000 km$^2$ which is 3.2 times as large as that of Japan. The population density, however, is low: the population is 44.83 million. As the population composition shows 79% of African, 9.6% of White, 8.9% of Colored, and 2.5% of Asian, Africans account for most of the population.

More than 10 years have passed since the democratic government of South Africa, which was elected by the first general election in the Republic, abolished Apartheid in 1994. Although the government has been making continuous efforts to tackle socio-economic inequality prevailing the Republic, since then, it has never been easy to mitigate the inequality existing between whites and non-whites (the Africans, the Asians, the Coloureds), which had been institutionalised over time through the prolonged practice of Apartheid. Poverty in the Republic is rooted in such structured inequality. The Republic’s economy has been developed based on the mining sector, including gold and diamonds, which was initiated by Europeans in the 19th century. Since the transition of the political regime in the Republic, there has been no significant change in the macroeconomic structure of the Republic, which is dominated by capital owned by whites, accounting for less than 10% of the total population.

This chapter gives an overview on poverty and inequality, and identifies the causes in the Republic based on available statistical data and existing analyses.

### 1.1. Measuring of Poverty and Inequality

The Censuses of 1996 and 2001 as well as the Income and Expenditure Survey (IES) provide effective data in measuring poverty and inequality as they exist even after democratisation. This country poverty profile, along with analysis of this data, presents an overview of poverty and inequality in the Republic after democratisation in 1994. The IES is yet not comprehensive due to its nature as a sample survey based on voluntary responses, and in relation to this, the Statistics South Africa (Stats SA), a national statistical agency, points out that there is an absence of data for certain groups, including a part of the white wealthy households.

#### 1.1.1. Poverty Line

The South Africa employs, in addition to its own national poverty line, international poverty line (less than 1$ per day and less than 2$ per day), to measure poverty status in terms of Millennium Development Goals (MDGs).

The National Treasury defined national poverty line in 1995 as minimum expenditure calculated on the basis of the Engel’s coefficient, food consumption ratio to total household consumption expenditure. However, it is envisaged that the Engel’s coefficient might have been undervalued since the poor did not consume sufficient food for a minimum calorie intake. The poverty line in 1995 was R 354 per month per adult. However, it is pointed out by Stats SA that owing to the possible distortion of the national poverty line by this method, present national poverty line might not reflect the reality of poverty in the Republic.

#### 1.1.2. Poverty

According to the “South Africa Human Development Report 2003” prepared by United Nations Development Programme (UNDP), the poverty headcount ratio decreased from 51% to 49% between 1995 and 2002 and the poverty gap ratio stood still, increasing only slightly from

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17.8% to 18%. However, based on the re-weighted IES data of 1995 and 2000\(^1\), it is estimated that poverty incidence would rise from 32% to 49% and the severity of poverty would go up from 12% to 20%. Although it is not possible to make comparisons between the poverty indicators derived from IES 1995 and 2000 without adjustment, it is highly likely that poverty in the Republic expanded and became severer since the living standard of the poor deviated from the national poverty line. Presently, Stats SA is implementing research work to increase the accuracy of data collection and to improve the marking of poverty in order that the reality of the Republic might be reflected. Therefore, it is necessary to take account of poverty estimation based on the upcoming survey.

As for poverty at a provincial level, the percentage of the population below the poverty line is more than 50% in 7 out of 9 provinces in the Republic. In particular, KwaZulu-Natal, Eastern Cape, and Limpopo are provinces with a large poor population, as they embrace the former “homelands” for Africans built under the Apartheid regime and even now, large African populations still live in these provinces. Comparing the poverty incidence of each province, provincial disparities are quite significant: the poverty headcount ratio in Eastern Cape is 71% while Gauteng has the smallest ratio at 18%. On the whole, in provinces with a higher poverty headcount ratio, the depth of poverty is more serious because of a large number of households with consumption deviating from the poverty line and even hunger.

Poverty ratio by race also shows considerable disparities among the races. Africans have a higher poverty headcount ratio than other groups. They account for 80% of the total population and their poverty ratio was 56% in 2002. This proves that more than a half of the Africans struggle with poverty. In addition, their poverty gap ratio of 20% means that their degree of poverty is deeper than others. On the other hand, the poverty headcount ratio and the poverty gap ratio for Whites are less than 7% and approximately 2%, respectively. Thus, it is obvious that there is a huge gap in the poverty situation between Whites and Africans.

1.1.3. Inequality

According to the "South Africa Human Development Report 2005", the Gini coefficient of the Republic, in all cases of different estimations, indicates that the Republic has one of the most serious income or expenditure inequality problems in the world. The estimated Gini coefficient by expenditure was 0.65 in 2000. Due to the absence of data for higher expenditure groups in IES2000, it can be assumed that the unequal income (expenditure) distribution could be worse. Serious inequality prevails nationwide, as even the lowest Gini coefficient is 0.58 in Western Cape and the highest is 0.65 in Eastern Cape and KwaZulu-Natal.

Gini coefficients for all races, Africans, Coloureds and Whites are respectively high, and therefore the inequality of income (expenditure) distribution amongst each racial group is severe. Examining population share by the expenditure quintile for each racial group, the African group is composed of large lower quintile groups and a limited top quintile group. On the other hand, the White group consists of a large number of top 20% quintiles and a small lower quintile group. In other words, inequality among Africans means the gap between the majority poor and the minority rich, while amongst Whites, it means the disparity between the majority rich and the minority poor.

1.2. Poverty in Non-economic Dimensions

After starting the democratic transformation in 1994, the government of the Republic has focused upon human development. This poverty profile also attempts to understand poverty from non-economic aspects, including living conditions and social services.

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1.2.1. Access to Basic Infrastructure

Comparing access to basic infrastructures in 1995 and 2000, access to safe water, electricity and telephones overall improved for the period. For those extreme poor below the international poverty line of $1 a day, access to basic infrastructures increased, yet is still far from the national standards. While nearly 70% of the total households have access to electricity, only 31% of those below the international poverty line have access. Similarly, 80% of the total population have access to safe water, whereas less than 50% of the poor households as defined by the international poverty line have access.

By regional comparison, access to basic infrastructures in non-urban areas is worse than in urban areas. While 59% of urban households have piped water within their residences, merely 8% of the non-urban households do. Among the races, more than 95% of Whites and Indians, and 70% of Coloureds have piped water in their houses, whilst 25% of Africans obtain water from piped water within their residences. The difference in the access to basic infrastructures by race can be attributed to the fact that the majority of the poor of the Republic, who are predominantly the Africans, live in the non-urban areas which remain backward in infrastructure development.

1.2.2. Employment

Analyzing unemployment by income class, lower income classes have a higher unemployment rate, a lower average wage and a lower labour participation rate. Presumably, the poor have limited access to labour markets and more severe conditions with low wages. The labour indicators by income quintile show that the unequal distribution of income (expenditure) is closely related to the uneven employment opportunities and the wage gap. The unemployment rate in Eastern Cape, among the other provinces, is the highest and in fact more than half of its economically active population are unemployed there. During the period between 1996 and 2001, in all provinces, the unemployment rate went up; and in particular in the provinces with a high poverty headcount ratio, the employment situation was more difficult.

While the unemployment rate for Whites is 6.2% that of other races is more than 20%. The Africans have the highest unemployment rate of 37%. In particular, African females face most difficulty in the employment market with an unemployment rate of over 40%. In terms of educational level, the unemployment rate of university graduates is lower than the rate of those below university education level. The unemployment rate of people with incomplete university education, however, is even higher than that of the non-educated and those who have not completed primary education: this indicates that the educational level does not necessarily affect the unemployment rate.

It is recognised that unequal employment opportunities can be attributed to the labour structure and education system developed under Apartheid, in particular for Africans. Under the former regime, Africans were not offered education and were simply mobilized as a labour force for the mining sector. They were laid off afterwards due to stagnation of the economy without being given alternative jobs and consequently, many of them were forced to be unemployed.

Skilled workers can gain a higher wage. The wage of highly skilled worker is 6 times more than the wage of unskilled workers. Currently the wage gap is tending to expand. There is a fear that the growing wage gap could bring about deterioration in the inequality of income distribution.

1.2.3. Education

On the whole, the educational level in the Republic is relatively high. The government introduced free compulsory education after 1996, however, the gross enrolment ratio at all
levels (primary, secondary, and higher education) in 2003 were lower than in 1995. Although the educational indicators for the poor have not been verified, it is thought that those indicators could be lower than the national standards because the areas with large poor populations have limited access to schools.

The educational indicators in Eastern Cape, Limpopo, Mapumalanga, which are provinces with a high poverty incidence, are lower in comparison to other provinces. Access to primary education in the 6 provinces stands at over 80%, while that in Northern Cape, Free State, and North West it stands at below 80%. While only Limpopo has more than 80% of the population with access to secondary education within walking distance, the percentage is less than 80% in others, with the lowest percentage of 54% in Northern Cape. In Northern Cape, the gross secondary enrolment ratio is also very low. In the provinces with the former “homelands”, provision of education services and facilities has been hindered because of the discriminatory education system for Africans established by Apartheid.

The access to primary and secondary education scarcely varies among sexes and races, but differs largely between urban and non-urban areas. More than 80% of the urban population have access to primary and secondary schools within 30 minute’s walk, whereas in non-urban areas nearly 80% of population have access to primary schools within walking distance but less than 60% of have population access to secondary schools in the same way.

1.2.4. Health

Since there is no available up-to-date data on health indicators of the poor, it is difficult to analyse in detail their actual health conditions. However, according to the health indicators at the provincial level, including the infant mortality rate, life expectancy at birth, and access to health facilities, it can be assumed that the health conditions of the poor are severe due to limited access to basic infrastructures and the higher percentage of households without food security. The inadequate access to the health service as well as to other social services has been affected by the unequal social structure developed by Apartheid.

It is not enough to consider the relationship between the level of health indicators and the accessibility to health care services. For example, KwaZulu-Natal has a good profile of health indicators for the population but limited access of the population to health care facilities. On the other hand, the population in Mpumalanga has a low profile of health indicators but sufficient access to health care services. Thus, further detailed analyses are indispensable to identify any other factors affecting the health condition of the population in each province, including living conditions.

Disparities in health conditions by gender and race can be negligible but the gap between urban and non-urban areas is considerable. The accessibility of the poor to health care service in non-urban areas is substantially lower than that of the urban population.

1.3. Determinants of Poverty in South Africa

Generally, poverty implies complex issues, including economic, social and environmental factors, which are mutually related and affected. The section attempts to identify factors with significant relations with and influence on poverty in the Republic as well as the risks of poverty.

1.3.1. Key Factors of Poverty at Household level

Although there is no specific data on income and expenditure of poor households, it is possible to make assumptions based on the data for the household balance of the lower 50% expenditure
groups, which presumably overlap with the poor in the Republic. These households have a little surplus since poor households can cover shortages in income by social allowances provided by the government. For the extreme poor, however, since social allowances are not included in their income sources, expenditure must be provided for by other alternative sources. Thus, detailed analyses of poor households, including their income sources and expenditure items, are essential in order to comprehend the real living conditions of the poor.

Regarding the gender of the household head, the poverty headcount ratio for female-headed households at 51% is higher than for male-headed households at 46%, though both ratios declined from 1995 to 2002. More female-headed households face hunger than male-headed households: the percentage of female-headed households with at least one child under 7 hungry and those with at least one other person over 7 hungry is 12% and 22%, respectively.

According to the census of 2001, the portion of male-headed households and female-headed households is 57% and 43%, respectively. As stated above, the poverty incidence by race is as follows: 56% for Africans, 36% for Coloureds, 15% for Indians, and 7% for Whites. The percentage of African households below the national poverty line is the highest among the other races. In terms of disaggregated household data by race and gender, male-headed households account for over 70% in the groups of Whites and Asians, while the portion of male-headed households is 53% for Africans and 45% for Coloureds. Because Africans account nearly for 80% of the total population, the portion of African female-headed households is 84% of the total number of female-headed households and 35% of the total number of households. Thus, it is recognised that African female-headed households suffer from a higher poverty ratio and critical living conditions.

This profile attempted multiple linear regression analysis of the data of the General Household Survey 2004 in order to identify factors deeply correlated to poverty from the aspect of household expenditure. The following variables were selected for the analysis: variables of regions (urban and non-urban areas, and provinces); variables of households (household size, the employed and unemployed, and access to land); variables of heads of household (sex, age, race, and marriage status); variables of access to social services (public transport, safe water, and electricity).

Since correlation does not indicate the causes and effects of poverty but the depth of the relationship with poverty, it is necessary to verify how the variables are related to poverty so as to identify the causes of poverty.

Considering the existing poverty analyses, it is assumed that income gain by work and social allowances significantly contributes to the improvement of economic conditions of households. The key factor is the condition of the place where people live: people can possibly earn more income in the urban areas providing more employment opportunities or in provinces with high economic growth. In addition, since proximity to public transport increases the access of people to such advantageous regions, this can be considered as another critical factor affecting household income levels. Furthermore, the following social factors can affect better household conditions: being white, the household being headed by a male, being old-aged, and being highly educated. This implies that the social structure, which is undoubtedly an unfavourable legacy of Apartheid, influences disparities in the living standards of the people in the Republic.

1.3.2. Key Factors of Poverty at Provincial Level

This profile analyzed the relationship between the development status and poverty at the provincial level based on the development indexes, the Human Deployment Index (HDI), the Service Deprivation Index (SDI), the Household Infrastructure Index and the Household Environment Index. The last two indexes were developments of Stats SA.

Overall, it can be considered that the poverty situation is moderate in Western Cape with the
second lowest poverty headcount ratio and relatively high development indexes. On the contrary, it is understood that Eastern Cape, KwaZulu-Natal and Limpopo face not only severe income poverty but also low quality of life due to the high poverty ratio and the low profile of development indexes. In Northern Cape, the poverty status and level of basic needs satisfaction are contradicted since the province has a high poverty incidence of over 50% and a relatively favourable level of development indexes. On the other hand, Gauteng has the lowest poverty headcount ratio and a higher rank of HDI but an unfavourable level of SDI, Household Infrastructure Index and Household Environment Index.

Those facts imply that it is indispensable to study and examine the details of socio-economic conditions at a provincial level in order to identify specific factors affecting the poverty status for each province since the poverty status and development status or the level of living conditions are not necessarily consistent.

1.3.3. Key Factors of Poverty at National Level

(1) Determinants of Chronic Poverty

Chronic poverty in the Republic is caused by inequality in various aspects, such as employment opportunities, the ownership of assets, and accessibility to basic infrastructure, which all can be attributed to Apartheid. However, it must be noted that different factors affecting and causing poverty exist in urban and non-urban areas.

Poverty in non-urban areas has been deeply affected by structural factors formulated under Apartheid, in particular, the “homeland” policy. In areas which were designated as the “homelands”, where Africans, accounting for 80% of the total population, were forced to migrate, infrastructure was not provided and economic activities were restricted. As a result, Africans had no other alternatives than to depend on wage labour as migrant workers from the “homelands” to the Republic dominated by whites. This has affected and even hindered the evolution of economic activities in the “homelands.” A number of reforms have been underway since democratisation, nevertheless, the unfavourable legacy of Apartheid so firmly remains that most of Africans live in areas with various constraints and disadvantages and suffer from poverty.

The “townships”, which were built for Africans migrating from remote hometowns, are one cause of chronic poverty in urban areas. Urban areas in the Republic are composed of two parts, namely, the highly developed city centres based on city planning and the “townships” which are peripheral areas surrounding the city centres. As envisaged, “townships” are far from the city centre and public transport is scarcely available; access of “township” inhabitants to job opportunities is limited. In addition, since there is a shortage of houses in those areas, the slum population has been growing because of the illegal extension of houses and overcrowded room sharing by several families. In this context, chronic unemployment and devastated residential areas give rise to chronic poverty in the urban areas of the Republic.

In general, unemployment is regarded as a risk for poverty or a determinant of temporary poverty. In the Republic, however, since those with prolonged joblessness caused by structural factors are identical to the chronic poor, such entrenched unemployment can be considered as a determinant of chronic poverty.

(2) Determinants of Transient Poverty: Risks and Vulnerability

Generally natural disasters and epidemics of infectious diseases are typical determinants of temporary poverty. In the Republic, HIV/AIDS infection is considered as the most critical factor for vulnerability, since it has become the most serious social and economic problem.
HIV/AIDS increases the risk of falling into poverty and even impoverishes patient households. Households with a patient infected by HIV/AIDS face the loss of an income earner for their livelihood and a tight household budget through expanded medical expenditure. Furthermore, social discrimination pushes HIV/AIDS patients and their families into poverty because they can be deprived of jobs and residences. According to a survey of HIV/AIDS patient households, more than 50% of these households are starving and more than two thirds are unable to gain income but need to spend more than ever on medical treatment and funerals. The findings of the survey prove that HIV/AIDS brings about higher risks of poverty.

The number of HIV/AIDS patients in 2004 was 5,024 thousand which accounts for 11% of the total population. Out of these, 4,728 thousand were aged between 18 and 46. This means that 18% of the working population, which could contribute to economic growth, is infected by HIV/AIDS. The accumulated number of AIDS deaths up to 2004 was 1,211 thousand, and AIDS orphans who have lost their parents to AIDS was 1,126 thousand. HIV/AIDS massively affects health indicators such as population growth, life expectancy at birth, infant mortality rate, and infection rates of other communicable diseases.

Moreover, the spread of HIV/AIDS infection affected the macro economy of the Republic. One of direct impacts is a decline in the labour population and productivity, and there is a concern that the phenomenon will have an adverse impact the economic growth of the Republic eventually.

The problem of illegal immigrants from Zimbabwe and Mozambique has also led to the exacerbation of poverty and security in the Republic. Although there are no official statistics on illegal immigrants, it is estimated that approximately 8 million illegal immigrants have flowed into the Republic. At present, it is difficult for them to be absorbed into the labour market of the Republic for as low wage workers because of huge domestic unemployment there. In some cases, violent conflict between local people and those illegal immigrants has occurred. These conflicts and an unstable situation have brought about the deterioration of security.
Chapter 2  Poverty Reduction Efforts and Performance by the Government of South Africa

Since democratisation in 1994, the government of the Republic has implemented policies with specific focus on reducing the serious economic and social inequality caused by Apartheid, and on ensuring political and social stability. In particular, in poorer provinces with “homelands,” the government has been making continuous efforts to improve the basic infrastructure and social services including the provision of free education and basic services as well as social allowances. On the other hand, an economic slowdown in the 1980s brought about serious unemployment, and the exacerbation of both social inequality and poverty has given rise to social instability including an increase in the number of crimes.

This chapter presents an overview on the government policies for poverty reduction and the overall attainment of those efforts by the government based on analyses concerning national budget allocation for the poor and the progress of goals set by the national development plan and Millennium Development Goals (MDGs).

2.1. Policy Framework for Poverty Reduction

2.1.1. General Conditions

The Republic has a dual economic structure composed of the first economy and the second economy. While the first economy is highly developed by the mining industries and the financial sector controlled by capital of European origin, the second economy is regarded as typical of those of developing countries commonly characterised by low productivity and unemployment.

In the past, the Republic enjoyed the exploitation of abundant rare minerals such as gold and diamonds, giving it a presence in both the African and international economies. However, soon after economic sanctions against Apartheid were imposed, the Republic’s economy fell into slump and unemployment and social instability spread. In recent years, the economy of the Republic has been steadily growing since the Mandela administration was established.

The economic structure of the Republic is similar to those of developed countries: the service industries, including trade, finance, transport and telecommunication have the largest share of GDP, accounting for 45%. Most service industries have been showing a steady high growth. In the meantime, the agriculture sector, which includes forestry and fishery, accounts merely for 3% of the total GDP. Agricultural growth is unstable and even shows a minus growth.

Although the Republic faces domestic problems, including economic and social inequality and poverty, the Republic has as an economic power which accounts for 40% of the total economic output in the Sub-Sahara region and plays a critical role in the development of the Sub-Sahara regional economy, in particular the Southern African regional economy.

2.1.2. Development Plans and Poverty Reduction Strategies

The government of the Republic has carried out a variety of policies in accordance with the Reconstruction and Development Programme (RDP). In 1996, the Growth, Employment and Redistribution strategy (GEAR) composing of fiscal soundness, monetary policy, and the liberalization of trade and labour market policy centres, was introduced. GEAR aims to resolve the problems of unemployment and poverty through economic growth with the targeted rate of 6% per annum. However, it failed to achieve the target economic growth until 2000
and employment did not increase, and even decreased, for the same period. As a result, it can be seen that it is difficult to solve the structural problems of the Republic only by the economic growth approach of GEAR. Learning from these lessons, Accelerated Shared-Growth South Africa (ASGISA), in which halving unemployment by 2014 is required, has been under preparation. In addition to GEAR, the government formulates the Government’s Programme of Action as an action plan for implementation RDP, which includes an annual budget and implementation plan. The programme is implemented by line ministries.

2.1.3. Sector Strategies
Sector strategies and policies for poverty reduction are summarised as follows.

Residence and Social Services
The government has been promoting the transfer of land ownership and providing subsidies for the construction of houses. At the same time, the government has been also implementing infrastructure development for water supply and the expansion of the water supply service through the community supply program and subsidies for local government. Besides this, the free water policy, which provides 6,000 litres of free water per month per household, has been introduced in order to ensure access to water for poor households.

Education
The Constitution of the Republic, which was promulgated in 1996, stipulates that the right to a basic education is the entitlement of all the population. The government established criteria for the exemption of tuition for primary education in 1998 and pursued it nationwide in order to ensure that it benefited children from poor households. In addition, school meals are provided for 20% of students, with priority for students from poor households. In the post-Apartheid regime, the betterment of the school environment has been accelerated since the government has allocated the largest budget to the education sector: (almost 20% of all the government expenditure yearly from 1985 to 2003). When it comes to the construction of schools, the poverty status of each province is considered.

Health Care
The Health Sector Strategic Framework for five years (1994-2004) was formulated with a focus on the improvement of access to health services. In this regard, the Department of Health aims in particular to improve access to primary health care (PHC) and is implementing the policy of free health care targeting women and infants under 6 years. In terms of combating HIV/AIDS, the HIV/AIDS/STD Strategic Plan for South Africa (2000-2005) targets changes in social awareness of HIV/AIDS; encouraging HIV tests; disseminating preventive measures for STDs; improving the quality of the lives of those who are HIV positive and AIDS patients.

Social Security
The government of the Republic provides social allowances for the old-aged, disabled people, children and so forth. The allowance has been an important income source for low income families, particularly for Africans, since the time of Apartheid. In many cases, it is the only regular income source for those poor households. The recipients of the social allowance are strictly targeted based on requirements including a means test.
2.1.4. Fiscal Framework and Public Expenditure for Poverty Reduction

As for budget allocation of the government, expenditure on education is the largest, accounting for approximately 20% every year. Public spending on social welfare and security has increased year by year and was allocated the second largest share, of 13%, in 2003. The amount allocated for social security and welfare included expenditure for social allowances. While the budget for HIV/AIDS programmes has dramatically increased, the share of public expenditure on health in total, which accounts for nearly 10% of total public expenditure, has seen no significant change. The share of public spending on public services, including water supply, sanitation, waste management and electricity, accounted for 11.5% of total government expenditure in 2003.

There are two main forms of direct intervention for poverty reduction by the central government: the provision of social allowances and public work programmes. Both expenditure on the social allowances and the number of its recipients substantially expanded between 1994 and 2003. Thus, it is considered that these increases have contributed to reducing the poverty headcount ratio and the disparity of the living standard of the poor from the poverty line. The social allowances, however, have not necessarily reached all the poor since most of lowest income group have not received them. In terms of unemployment, which is another critical issue for poverty reduction, the unemployment insurance has not played a role in supporting the jobless poor as most of them have never had jobs and the necessary qualifications to receive the insurance. In this context, the government introduced an employment creation approach through public works programs. Since 1998, public spending on public works has expanded 10 times. It is recognized that the programs contributed to improvement of the livelihood of the poor as well as to the development of basic infrastructure in communities. The programs also created 124,000 jobs, which were mostly short-term. Besides the social allowances and the public works programs, the government has been providing grants for infrastructure development targeting the poor, such as water, health, waste disposal, etc., and implementing the redistribution of land.

2.2. Capacity for Poverty Reduction

At the central level, the Republic has made an effort to build a democratic nation since 1994 by reviewing conventional rules and regulations, and by restructuring the government itself. Nevertheless, there has not been a comprehensive framework for implementing RDP, and the government is therefore required to establish a mechanism for coordinating and managing the implementation of RDP. Apart from the central government, the Development Bank of South Africa (DBSA) and the National Development Agency (NDA) have been implementing interventions for poverty reduction in the Republic.

At the local government level, fiscal decentralization has been promoted. In the past, the central government allocated a budget for each department which then distributed funds to provincial offices by sector. Since 1997, the central government has directly allocated budgets to provincial governments, who are authorised to independently determine the details of a budget. The provinces with larger populations and a higher poverty headcount ratio are given a bigger budget. The capacity of local governments for planning and management is not sufficient. In particular, a shortage of civil engineers hampers the implementation of basic infrastructure development.

2.3. Progress of Poverty Reduction

The profile verifies the outcomes of poverty reduction intervention by the government of South Africa based on the achievements of MDGs, and the relationships between poverty and
2.3.1. Achievement of MDGs

MDGs, a set of 8 goals identified from the perspectives of the alleviation of poverty and hunger, education, health care, gender, environment and global partnership, are to be accomplished by 2015.

For “the alleviation of extreme poverty and hunger,” the Republic aims to reduce poverty through economic growth. Poverty reduction in the Republic, however, has not yet progressed, presumably due to the target of the economic growth rate required for poverty reduction having been missed. Social welfare policies, including social allowances, have contributed to supporting the livelihood of the poor to some extent.

Despite the fact that the government has selectively allocated budgets to education and health care, it is recognised that public spending on the social sectors are not necessarily directed at the poor in reality. In carrying out development policies, it is necessary to understand thoroughly the specific conditions and characteristics of poverty by province since there are large gaps among the provinces in terms of the achievement of educational and health indicators. Regarding some health indicators, such as maternal mortality, there is no appropriate data to monitor the actual situation; therefore, it is essential to grasp the current situation in order to achieve targets in the health sector.

Gender equality in education seems to be ensured, while the participation of women in the political domain remains low and therefore needs to be improved.

With regard to the targets concerning environment sustainability, access of the non-urban population to water and sanitation is still limited while the urban population has obtained improved access to water and sanitation. In terms of housing, poor households remain in the difficult conditions. Although the government has been providing subsidies for housing construction, the benefits have not reached the poor.

Concerning targets related to the building of a global development partnership, the Republic receives only a limited amount of aid per capita since the government limits the receipt of donors’ aid. In addition, the ratio of external debt service to exports is low due to the mobilization of financial resources in the domestic market. The monitoring indicators for communications show a high level since the Republic has an economic structure similar to developed countries. On the other hand, reduction of unemployment, in particular, youth unemployment, is the most critical issue in achieving the target of MDGs.

2.3.2. Economic Growth and Poverty

Due to incomplete data and constraints on the comparison of the poverty ratio calculated from IES 1995 and 2000, it is difficult to analyse the relationship between economic growth and poverty by using a statistical model. Nonetheless, the results of the correlation analysis reveal that employment opportunity and poverty are closely related. In particular, unemployment has a strong negative correlation with the income poverty of households. On account of these findings, this profile attempts to verify relationships between employment opportunity and economic growth at provincial level and to analyse how economic growth affects poverty in the provinces with higher poverty incidence.

In terms of GDP share by province, Eastern Cape, Free State and Limpopo, which have former “homelands” and a high poverty headcount ratio, have only a limited share of less than 10%. The factors leading to different effects of economic growth on poverty at a provincial level probably can be attributed to differences in economic structure amongst provinces affecting the labour market structure in each province.
In Eastern Cape, with the poverty incidence of over 70%, the provincial economic growth of 2% per annum cannot erase poverty in the province since a higher population growth rate than economic growth rate reduced the distribution of economic growth over the provincial population. In addition, the unemployment rate was 53% in 2001 in the province. Therefore, it is assumed that such limited economic growth without the expansion of employment has constrained poverty reduction because the provincial economy could not absorb the growing population of unskilled labour with low educational attainment.

In Free State, the economic growth rate was 1.3%, which was the lowest, and the unemployment rate in 2001 was 36.3% which was lower than in other poor provinces. However, currently the unemployment rate has been increasing while the employment growth rate is zero or negative in most years. Through these factors, although the provincial economy showed a slight growth, unemployment in the province, which is the key determinant of poverty, has been expanding due to the decrease in employment.

In Limpopo, the mining sector has a large share in the provincial economy. Since the rates of both economic growth and employment growth are notably high, economic growth in the province brought about the expansion of employment. Although the unemployment rate of 46% in 2001 was quite high, there was thereafter a limited increase in unemployment rate, which was less than only 1 point during the period between 1996 and 2001. It is highly possible that the limited increase in the unemployment rate could moderate an increase in the poverty ratio in the province.

2.3.3. Infrastructure Development and Poverty

In the Republic, the variables of infrastructure that strongly correlate with the economic conditions of households are as follows: habitation close to public transport; possession of fixed or mobile phones; access to safe water within yards; access to a free electricity supply. Proximity to public transport contributes to the vitalization of economic activities through the improvement of access for the population to employment and income generation opportunities. Thus, together with job creation, it is important to provide the poor with affordable public transport services in the poorer provinces in order to ensure physical access for the people in backward areas to employment opportunities.

Regarding the second variable listed above, it is assumed that the higher ownership rate of telephones does not lead to a lower poverty headcount ratio, but that this goes up following a declining poverty incidence. Therefore, the enhancement of telecommunication infrastructure development may be required yet for the next stage after the mitigation of poverty.

It is also understood that more households can have safe water within yards after the percentage of households below poverty line is reduced. This is can be seen through the fact that many households in the provinces with a low poverty ratio enjoy well-equipped residences where they have tap water, but that residences in provinces with a high poverty ratio are usually in poor condition. From the viewpoint of poverty reduction, provision of public tap water should be prioritized rather than an increase in individual tap water within yards in order to ensure access to safe water for the poor within certain a distance and time. In addition, it is also essential to promote the development of houses and relevant infrastructures in order to enable the poor have a healthy life.

Between poverty and the electricity supply, there is a negative correlation in that a higher poverty incidence leads to more access to a free electricity supply. In the Republic, the government has been implementing a policy to provide poor households with a certain volume of electricity free of charge in order to increase their accessibility to electricity. Thus, access to electricity has no doubt been increased in Eastern Cape and Limpopo which have a high poverty ratio. Despite this, it is considered that free provision of electricity to the poor is not
financially sustainable in terms of the operation and management of the power industry. Regarding such demerits, it is necessary for the government to cautiously reconsider the balance between the improvement of living conditions of the poor and the financial soundness of the power industry.
Chapter 3 Partnership for Poverty Reduction

This chapter outlines the partnership for poverty reduction in the Republic, including international donors, civil society and non-governmental organisations (NGOs), and the private sector, and, briefly shows the vision for future co-operation with partners.

3.1. International Donors

From 1948, many donor countries imposed economic sanctions including the halting of official development assistance (ODA) for the Republic in order to protest against Apartheid. In the meantime, only humanitarian aid continued through Christian societies and NGOs in order to support resistance against Apartheid. Due to the abolishment of Apartheid, foreign aid to the Republic has been resumed since 1993. However, the share of foreign aid in the national budget is limited. The government takes the position not to receive foreign loans because low-cost funds are available in the domestic financial market. In fact, the government received a larger amount of grant aid, including technical co-operation, rather than ODA loans.

The major donors to support the Republic are the European Union (EU), the United States (USA), the United Kingdom (UK), Germany and the Netherlands. The largest amount of aid is allocated to the social infrastructure sector. For the social sector, while the most of donors focus on governance/civil society and education, Japan and Ireland emphasize water and health care. In the economic sector, there are two main players: Germany and Japan. Germany mainly provides assistance to the banking and financial sector while Japan supports transportation and storage.

Any donors commonly prioritize support of the elimination of inequality which was a negative legacy of the former regime, in particular in Eastern Cape, Mpumalanga, Northern Province and KwaZulu-Natal, provinces which embrace “homelands” with a large poor population of Africans. In addition, considering the fact that the Republic is one of the countries with the largest population infected with HIV/AIDS, many donors focus on the issue of HIV/AIDS infection in the Republic and provide assistance for HIV/AIDS prevention and education as well as medical care for HIV/AIDS. Furthermore, Japan, UK and the United Nations Development Programme (UNDP) have strategies to extend their aid projects across the Southern African region based in the Republic since the Republic plays a key role in stimulating socio-economic development of the region.

3.2. Civil Society and NGOs

In the Republic, most NGOs have a strong political commitment to democratization since they were established to provide vulnerable and disadvantaged people with social services in substitution for the Apartheid administration. In this context, community-based organisations (CBOs) were established as self-help organizations managed by community members themselves in order to provide social services as well as to organize rebel campaigns with the support of NGOs. While those NGOs and CBOs with strong political commitment against Apartheid evolved, no such movements to improve their own livelihood could be observed among the people within the segregated areas who were mobilised as low cost labour.

After democratisation, the government has actively supported CBOs to reduce poverty through the provision of grant aid to their activities as well as their capacity development. Nowadays, many CBOs are capable of negotiating with the government in terms of their fund raising. On the other hand, many NGOs face financial difficulty because donors’ aid focused on support for the implementation of RDP rather than support for NGOs. As the government and CBOs have
strenthened their ties, it is inevitable that NGOs will begin to lose their function as financial intermediates linking the donors and CBOs. Therefore, NGOs have been shifting their main activity area from financial intermediation to the capacity development of CBOs as well as advocacy to the government.

In terms of the regulatory framework for NGOs and CBOs, the Republic enacted the Non-profit Organization Act in 1997. The NPO Directorate of the Department of Welfare is responsible for the registration of NGOs. The number of NGOs registered as of May 2005 is 29,000. In addition, the South Africa National NGO Coalition (SANGOCO) was established in 1995 in order to consolidate NGOs and to have more voice in development policy planning.

### 3.3. Private Sector

Besides the government and NGOs, the private sector also attracts attention as another actor tackling poverty reduction.

Outsourcing of public services, including water and electricity to the private sector is potentially effective to improve access for the poor to basic infrastructure when the private service providers can broadly provide better quality of services at low cost. Nevertheless, in the Republic, as of March 2006, local government is responsible for service delivery, including water, sanitation, electricity; waste management and private participation in these areas is still limited.

On the other hand, activities based on Corporate Social Responsibility (CSR), including HIV/AIDS control, crime control and support for school education, are incorporated into the corporate society of the Republic. In the background to activities for HIV/AIDS control by the business society in the Republic, is the fact that HIV infection and AIDS deaths of employees caused lower productivity and economic loss for companies while the HIV/AIDS programs by the government do not cover the workers employed by the companies. These activities by the business society are indispensable for the sustainable growth of economic activities in the social reality of the Republic.

The government imposed on private companies to primarily employ local workers and has been implementing various affirmative actions to improve employment inequality. In addition, for public procurement, employment share for disadvantaged groups, including Africans, the Coloreds, and women is one of the criteria for bidding appraisal. Moreover, the government passed the Employment Equity Act in 1998 which obliges the private companies to provide equitable employment. Those actions reflect government policy to tackle poverty and inequality by all stakeholders not only in the public sector but also in the private sector.

### 3.4. Participatory Development

Non-white people, who are the majority of the poor, were not able to participate in policy and decision making during the Apartheid regime. In their society, community organizations have not been developed, even informal self-help organizations. Therefore, the government has been encouraging the poor to participate in the policy-making of local governments through the establishment of the Ward Committees. The international donors also incorporate participatory components in their projects.