POVERTY REDUCTION STRATEGIES IN SOUTH AFRICA

by

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Declaration

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I declare that **POVERTY REDUCTION STRATEGIES IN SOUTH AFRICA** is my own work and that all the sources that have been used or quoted from have been acknowledged by means of complete references.

Signature (Mr B.N. Mbuli) ……………………..

Date ……………………………………………..

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Abstract

Between 45-57% of South Africans are estimated to be engulfed by poverty. In an attempt to identify policy instruments that could help change this status quo, the various strategies that have been implemented in countries (e.g. China, Vietnam and Uganda) that are known to have been relatively successful in reducing poverty are reviewed. In the process, this dissertation discusses the literature regarding poverty, with a particular emphasis on the definition, measurement and determinants thereof. Furthermore, South Africa's anti-poverty strategies are discussed. It turns out that these have met limited success. This is largely due to insufficient pro-poor economic growth, weak implementation/administration at the municipal level, slow asset redistribution, high income/wealth inequality, low job generation rate by SMME's, high HIV/AIDS infection rate, public corruption and inadequate monitoring of poverty. Therefore, if meaningful progress towards poverty reduction is to be achieved, the government needs to deal with the foregoing constraints accordingly.

Key Terms

Poverty; poverty reduction; anti-poverty strategies; poverty alleviation; safety nets; absolute poverty; chronic poverty; transient poverty; relative poverty; inflation; social security system; head count ratio; gini-coefficient; pro-poor economic growth; globalisation; unemployment; human capital; unskilled labour; productive assets; trickle-down effect principle; basic needs; HIV/AIDS; land reform programme; infrastructure investment; household; natural disasters; household head; SMME; population growth; former homelands; market access; good governance; apartheid; democracy; South Africa; China; Vietnam; Uganda; African National Congress.

Table of Contents

Chapter Two: Literature Review: Definition and Measurement of Poverty

Chapter Three: Determinants of Poverty

Chapter Four: International Best Practices

Chapter Five: South Africa's Poverty Reduction Strategies in the Post-Apartheid Era

Figures

Tables

Chapter One
Introduction

1.1. Introduction

> *"No political democracy can survive and flourish if the majority of its people remain in poverty, without land, without their basic needs being met and without tangible prospects for a better life. Attacking poverty and deprivation will, therefore, be the first priority of the democratic Government"* (African National Congress, 1994: 5).

> *"Endemic and widespread poverty continues to disfigure the face of our country. It will always be impossible for us to say that we have fully restored the dignity of all our people as long as this situation persists. For this reason, the struggle to eradicate poverty has been, and will continue to be, a central part of the national effort to build the new South Africa"* (President Thabo Mbeki, 2004).

To most South Africans (and to some parts of the international community for that matter), April 27th 1994 signified an unprecedented political transformation in South Africa. This is when this country finally emerged triumphant from more than a century of *de facto* and *de jure* apartheid oppression, which meant that there would be the advent of a new, democratic political dispensation. What is even more impressive about this political transformation is that it came about with minimal violence. Hence, South Africa's democracy is held in high regard throughout the world, especially on the African continent.

Notwithstanding this unique political transformation, however, the truth of the matter is that the first democratically elected government, led by the African National Congress (ANC), inherited a country that was described by the World Bank as one of the world's most unequal economies, with a gini co-efficient measuring 0.58 (Hunter et al, 2003). The ANC-led government also inherited a country that was characterised by vast inequalities in the quality of education, healthcare and basic infrastructure, such as access to safe drinking water, sanitation and housing. For instance, while only a quarter of all Blacks had access to piped water in their houses, Asians and Whites had universal access in 1995 (Hoogeveen & Özler, 2004). Over and above this, the country was disfigured by widespread poverty, with almost half of the South African population being categorised as poor in terms of the national poverty line of R 354 (Klasen, 1997). Even though such problems may have been common in many societies throughout the world, the uniqueness of the South African situation was that these problems were primarily engendered by the four decades of apartheid legislation built on the earlier policies of colonialism (May, 1998).

In 2004, South Africa celebrated a decade of democracy and the demise of apartheid. While significant progress has been made in education, healthcare, housing and provision of basic services[1], the general consensus among development practitioners[2] and institutions[3] is that poverty is still widespread in South Africa. Depending on the poverty line, the method employed in measuring poverty, and whether poverty is measured at the household or individual level, the extent of this phenomenon is estimated to range between 45 and 57% (Human Development Report, 2003; Taylor Committee, 2002; HSRC & Whiteford, 2004). Given the foregoing estimates, common wisdom dictates that this is an obvious area of concern in the post-apartheid era. Fortunately, the government acknowledges that a lot more effort needs to be made in order to eradicate or at least reduce this social ill (see for example Mbeki, 2004). What is also encouraging is that the State President, Thabo Mbeki (in line with a number of ANC policy documents, most notably the White Paper on Reconstruction and Development) unequivocally

[1] Leibbrandt et al's (2004) analysis of both the 1996 and 2001 censuses gives a detailed progress report on this.

[2] See for example May (1998); Aliber (2001); Woolard and Leibbrandt (2001); Whiteford & van Seventer (1999); and Meth and Dias (2004).

[3] These include the Department of Social Development, the National Treasury, Statistics South Africa and the World Bank.

proclaimed, in his 2004 inaugural speech, that tackling poverty has always been, and still is, at the forefront of the ANC's political agenda (see the above quotes).

Therefore, in light of the severity of poverty in this country, this dissertation focuses on examining the various issues that pertain to this problem. Among other things, this will include a discussion on various measurements and determinants of the problem. In addition, an investigation of salient international best practices with regard to poverty reduction will be conducted in relation to initiatives that have been introduced by the South African government since the advent of democracy. In so doing, the dissertation seeks to identify what has worked elsewhere, thus making it possible to outline what needs to be done in order to improve the effectiveness of (or even add to) South Africa's various anti-poverty instruments.

However, before any of the above can be done, it will be useful to first discuss, in brief, the extent and distribution of poverty during the post-apartheid era (as it has been revealed by the various studies that have been conducted in this regard). The rationale for doing this is premised on the belief that having a reasonable understanding with regard to the milieu wherein South Africa's various poverty reduction strategies have been (or are being) applied can be of great help when attempting to ascertain whether or not they are adequate to deal with South Africa's poverty dilemma.

1.2. An overview of the extent and distribution of poverty in South Africa

The various studies that have attempted to give a crude estimate of the extent of poverty in South Africa have yielded results that are at variance with each other. Available estimates with regard to the prevalence of poverty in South Africa range from 45 to 57%, depending on the poverty line that has been used (StatsSA, 2000; UNDP, 2003; May, 2000; Woolard & Leibbrandt, 2001; Taylor Committee, 2002; HSRC & Whiteford, 2004). What is also clear from these respective studies is that although they have engendered estimates that are at variance[4], there seems to be a consistent trend with

[4]This is mainly attributed to the fact that these various studies use different poverty lines.

regard to ‘where’ and ‘who’ the poor in South Africa are. In more specific terms, what is apparent from these various studies is that poverty in South Africa has, inter alia, rural, regional, race, age, gender, illiteracy and unemployment dimensions. In addition, the poor tend to live in large households (with many dependents), and usually have inadequate access to basic services.

1.2.1. Where are the poor in South Africa?

Poverty in South Africa has strong (i) rural and (ii) regional dimensions.

(i) *Poverty in South Africa’s rural areas.* The common finding in the literature is that in South Africa, the majority of people living in rural areas are poor and the majority of the poor live in rural areas. Substantively, about 70% of people living in rural areas are living in poverty, compared to about 30% of people in urban areas. Although less than 50% of the total population lives in rural areas, 70% of all poor people in South Africa live in rural areas[5] (May, 2000).

(ii) *Poverty in South Africa’s nine provinces.* What is also evident in the literature is that poverty is unevenly distributed among South Africa’s nine provinces. For example, the 2003 Human Development Report found that, with the exception of Gauteng and the Western Cape, over half the population in all provinces live in poverty. The highest poverty rates are in the Eastern Cape and Limpopo Province[6]. The incidence of poverty in these two provinces is estimated to be 68.3% and 60.7% respectively. In Gauteng and the Western Cape, where the proportion of the population below the poverty line is lower, poverty rates are estimated to be 20% and 28.8% respectively. Out of the 21.9 million poor in South Africa, 59% live in the three provinces of Eastern Cape, KwaZulu-Natal and Limpopo (Human Development Report, 2003).

[5] May defined the ‘poor’, in line with the RDP White Paper (1994), as the poorest 40% of households, and ‘ultra-poor’ as the poorest 20% of households. According to these definitions, households who earn less than R 352.53 per adult are regarded as poor, and households who earn less than R 193.77 per adult are regarded as ultra-poor.

[6] This comes as no surprise if one takes cognisance of the fact that these provinces were part of the former homelands. The other provinces that also formed part of the former homelands include North-West Province and Kwa-Zulu Natal.

1.2.2. Who are the poor in South Africa?

Post-apartheid South Africa continues to show a persistent correlation between poverty and the following factors: (i) race (ii) age (iii) gender (iv) poor education (v) unemployment (vi) large household size (with a high dependency ratio) and (vii) inadequate access to basic services.

(i) *Poverty and race in South Africa.* Poverty in South Africa has a strong racial dimension. As May (1998) would argue, while it is not confined to one racial group, it is, however, concentrated mainly among Blacks. As it has been illustrated in the 2003 Human Development Report, in 2002, the percentage of Blacks, Coloureds, Asians and Whites who were poor was 56.3%, 36.1%, 14.7% and 6.9% respectively.

(ii) *Poverty and age in South Africa.* What is also evident from the literature is that, due to their reliance on adults for provision of basic needs, the impact of poverty is greatest on the youth and adolescents. For example, Whiteford and van Seventer (1999) found that, in 1996, approximately 67% of children in the age groups 0-5 years and 6-15 years were living in households earning less than the Minimum Living Level (MLL)[7]. Similarly, Woolard (2002), whose analysis was based on the 1999 October Household Survey, found that almost 10 million (or 58%) children are poor (using a relative poverty line, which defines the poorest 40% of households as poor).

(iii) *Poverty and gender in South Africa.* Poverty in South Africa also has a strong gender dimension. Evidence shows that the poverty rate among females tends to be considerably higher than that among males. For instance, the 2003 Human Development Report shows that, in 2002, about 50.9% of the poor were females, compared to 45.9% who were males. Moreover, what does emerge clearly from the South African household surveys is that households headed by women are more likely to be poor. For example, May's 1998 report

[7] For details on how this poverty line is constructed, see Table 2-1.

showed that the poverty rate among female-headed households was 60%, while it was 31% among male-headed households. Similarly, Woolard (2002) found that a household headed by a resident male has a 28% probability of being poor, whereas a household with a *de jure* female head has a 48% chance of being poor, and a household with a *de facto* female head (because the nominal male head is absent) has a 53% chance of being poor.

(iv) *Poverty and low levels of education in South Africa.* There is a very strong correlation between the level of education and the standard of living in South Africa. According to Woolard (2002), in 1998, 58% of adults with no education were poor; 53% of adults with less than seven years of education were poor; 34% of adults with incomplete secondary schooling were poor; 15% of adults who had completed secondary school were poor; and only 5% of adults with tertiary education were poor.

(v) *Poverty and unemployment in South Africa.* Poverty and unemployment are also closely related in South Africa. According to Woolard (2002), the unemployment rate among those from poor households is 52%, in comparison with an overall national rate of 29%. In addition, labour force participation is lower in poor than non-poor households. More than half of the working-age poor (or about 5 million adults) are outside of the labour market. As a result, the percentage of working age individuals from households below the poverty line who are actually working is significantly lower than the average. Only 24% of poor adults (about 2 million people) are employed, compared with 49% (or 8 million) from non-poor households.

(vi) *Poverty and large households in South Africa.* In a study done by the World Bank in 1995, entitled "*Key Indicators of Poverty in South Africa",* it was revealed that large households with many dependants are much more likely to be poor in South Africa. Significantly, this study found that the average household size among the poor is 5.9, compared to only 3.5 among the non-poor. Moreover, the dependency ratio (the number of children below 16 and those aged above 64 combined, divided by the number of people aged 16-64)

is more than twice as high among the poor than among the non-poor (1.1 among the poor, compared to 0.5 among the non-poor).

(vii) *Poverty and lack of access to basic services in South Africa.* Poor households lack access to basic services. Among other things, Woolard (2002) found that, in 1999, 75% of the non-poor had electricity, compared to 27% of the poor; 73% of the non-poor had access to adequate sanitation (flush, chemical or VIP toilet), compared to 38% of the poor; 77% of the non-poor had piped water, compared to 47% of the poor.

1.3. Problem statement

In 2003, South Africa's gross domestic product (GDP) was equivalent to nearly one-third of sub-Saharan African GDP on a purchasing power parity (PPP) basis, and to 38% of sub-Saharan African nominal GDP at market exchange rates (Arora & Vamvakidis, 2005). In light of this, the view that South Africa is one of the economic powerhouses on the African continent is plausible. What is even more impressive about South Africa is that, with a gross national income[8] (GNI) per capita of US$2,750 in 2003, when using the World Bank's Atlas approach to correct for exchange rate fluctuations, it is classified by the World Bank as an upper middle-income country.

This classification is misleading, however, because it is based on some aggregate value, such as average per capita income, which conceals the fact that the experience of the majority of South African households remains either one of outright poverty or continued vulnerability to becoming poor. For instance, serious inequalities still persist, with a gini-coefficient ranging from between 0.635 (as estimated by the Human Development Report, 2003) and 0.77 (as estimated by HSRC and Whiteford for 2001, but published in 2004). In addition, the number of people living in poverty is staggering, with almost half of the population living below the national poverty line in terms of the national poverty line of R 354 (as estimated by the 2003 Human Development Report). Furthermore, South Africa fairs very poorly in terms of social indicators vis-à-vis other middle-income

[8] Formerly known as the Gross National Product (GNP).

countries[9], and this has resulted in South Africa being ranked 119th out of 173 countries in terms of its Human Development Index (HDI) in 2002, down from its ranking of 93rd in 1992 (Human Development Report, 2003). Against this background, it would be safe to assume that, in spite of the best efforts of the government ever since the demise of apartheid, poverty still remains one of the most obstinate social problems facing the policy authorities in South Africa. What is of even greater concern to the South African government is that, as international history has shown (see for example the Human Development Report, 1997: 94), if the disparity between the haves and have-nots persists for protracted periods of time, it could create social unrest (May, 1998). This could, in turn, taint the achievement of the peaceful transition to democracy.

Given the abovementioned situation, this dissertation seeks to review South Africa's poverty reduction strategies, with a view to examining consistency in terms of salient international best practices. Based on the findings of the foregoing exercise, this dissertation will attempt to outline what more needs to be done in order to reverse or correct the inherited socio-economic vestiges of the system of racial exclusivity at the desired rate.

1.4. Objectives of this study

The primary objective of this dissertation is to contribute towards a better understanding of the various measurements and causes of poverty and, in the process, to identify policy instruments that could help reduce the incidence, severity and magnitude of poverty in a country such as South Africa. In other words, the objectives of this dissertation could be broken down into the following components: -

(i) An examination of the incidence and magnitude of poverty in South Africa. Here, the discussions will highlight a number of social as well as human development indicators in order to strengthen the author's arguments.

(ii) A discussion of the causes of poverty in the country, as stated in the literature.

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[9] See Table 2-5 in Chapter 2.

(iii) A review of salient international best practices with regard to poverty reduction strategies. In this regard, the dissertation will discuss both the theoretical recommendations as well as the practically implemented best practices.

(iv) A discussion of South Africa's poverty reduction strategies. This will be done with a view to commenting on the efficiency of these respective instruments, as well as examining their consistency with international best practices.

(v) An outline of what still needs to be done in order to improve the poverty reduction rate in South Africa.

1.5. Outline of this study

This dissertation will be structured into six chapters. Chapter one is introductory, and discusses the situation of poverty in the country. It has hence sought to establish the rationale for studying the subject matter and reviewing the poverty reduction strategies that are currently in place in South Africa.

Chapter two is concerned with a review of literature on poverty, i.e. its definition and measurement. The question of who is considered to be poor and how poverty is defined in the South African context will be explored here. In reviewing the literature on poverty, this dissertation does so against the background that many issues of measurement and incidence are still being hotly debated. This chapter, therefore, plays a crucial role in terms of the subsequent chapters, because successfully targeting the poor with the aim of reducing poverty demands that they first be accurately identified and described.

In line with the above, this literature review will briefly discuss the various concepts that are closely linked to poverty, namely: inequality, vulnerability, economic exclusion (economic disempowerment) and underdevelopment. Furthermore, this chapter will look at the definitions of the different types of poverty, such as absolute poverty, relative poverty, transient poverty and chronic poverty. Once these definitions have been examined, a working definition of poverty will be proposed. Thereafter, measurement issues will be discussed. This discussion will include an exploration of the traditional monetary approach, as well as the more broad-based human development and human poverty approaches.

Chapter three discusses theoretical as well as empirical determinants of poverty. This is because it is essential to have a good understanding of the causes and roots of poverty, so as to design effective policies aimed at combating it. Broadly speaking, the literature suggests that poverty is likely to be the result of several mutually reinforcing factors that together define its scope and pervasiveness. As such, this chapter will divide the various causes of poverty into two broad categories, namely: those that are exogenous to both the individual and government, and those that can be influenced by policies at the macro or micro level. The discussion on the exogenous determinants of poverty will mainly focus on the negative effects of globalisation. The examination of the macro level causes of poverty will include environmental/situational causes (natural disasters, rural location and internal migration); economic causes (stagnant/shrinking economic growth and inflation); and social causes (rapid population growth and inequality). Lastly, the discussion concerning the causes of poverty at the micro level will include demographic causes (large household size with a high dependency ratio, the age and gender of the household head); economic causes (unemployment, underemployment and lack of access to productive assets and markets); and social causes (ill-health and inadequate access to education and decent shelter).

Before any of the foregoing issues are discussed, however, this chapter will start by shedding some light on the root causes of poverty in South Africa, thus identifying why almost half of the population in this country is unable to satisfy their basic needs, while a minority enjoys extreme prosperity.

The presentation of Chapter four is based on the belief that a key ingredient to sound poverty reduction policy-making lies in understanding why some economies have performed so much better than others in terms of escaping absolute poverty. In so doing, this dissertation seeks to contribute towards improving poverty reduction strategies that are currently in place in South Africa. This will be done by extracting lessons from the experience of other developing economies, including understanding the context of policy implementation. This will be done with specific reference to countries such as China, Vietnam and Uganda, which have achieved a certain degree of success in terms of poverty reduction.

Chapter five will discuss what the ANC-led government is doing to curtail the incidence of poverty in South Africa. For the sake of intelligibility, this chapter will examine the government's various anti-poverty strategies in terms of the following: (i) measures that foster pro-poor economic growth (macroeconomic stability measures); (ii) job creation measures (human resource development measures, pro-SMME[10] measures and special pro-employment programmes); (iii) infrastructure programmes earmarked to address household consumption basic needs (such as preschool and primary education, primary health care, water and sanitation, housing, electricity and other alternative sources of energy); (iv) contributory and non-contributory social security measures (occupational insurance measures, social assistance measures and other poverty alleviation measures); and (v) asset building or redistribution measures (land reform and provision of houses that can be used as commercial assets). In addition, comments on the overall performance of these various anti-poverty instruments will be made in this chapter, thus establishing whether or not they have made any significant in-roads thus far with regard to reducing poverty in South Africa.

Finally, chapter six will summarise the findings of this study and make concluding remarks. Policy recommendations aimed at reducing poverty in the country will also be made.

[10] These are small, medium and micro enterprises.

Chapter Two
Literature Review: Definition and Measurement of Poverty

2.1. Introduction

> *"Many people, including academics, campaigners and politicians, talk about the problem of poverty, and underlying their discussion is the assumption that identifying the problem of poverty provides a basis for action upon which all will agree"* (Alcock, 1993: 3).

As the above quotation suggests, the rationale for conceptualising poverty is mainly based on the premise that the concepts used to define poverty determine the methods employed to measure it. This later influences the policy and programme packages that are implemented to address it. In essence, this view implies that, in order for the South African government's poverty reduction strategies to be more effective, they need to be informed by what is meant by poverty in the South African context. In turn, this description can then be used to determine the extent of this problem. Thereafter, based on the findings of what it means to be poor in South Africa and the extent of this phenomenon, a comprehensive poverty reduction strategy can then be developed.

Notwithstanding the above view, the truth of the matter is that, although nobody can dispute the fact that poverty exists, there is no consensus thus far regarding the meaning thereof. This has to do with the fact that poverty is a multifaceted phenomenon (World Bank, 2001a; May, 1998). In light of this, it is therefore not surprising to find that the voluminous studies on poverty, especially those that have been done on South Africa, use different definitions of the problem. Hence, there is a myriad of policy recommendations by development analysts and institutions regarding how to effectively deal with this phenomenon.

Based on the aforementioned, it would be safe to assume that there is controversy surrounding the question of who is considered to be poor, and how poverty is defined in general and within the South African context. In light of this, as well as the fact that successfully targeting the poor with the aim of reducing poverty requires that they be accurately identified and described, it would thus be appropriate to examine various issues regarding the concept of poverty and its measurement in this chapter.

Using secondary sources of data, such as handbooks and relevant journal articles, an analysis of the different definitions of poverty, concepts that are closely linked to poverty, as well as the various methods used to measure poverty, will be conducted in this chapter. Furthermore, a thesis containing in-depth research into measurement issues regarding poverty (and inequality) in South Africa will be consulted, in order to supplement this study.

This chapter is, excluding the introduction, divided into three sections. Given the important role that the definition of poverty plays in formulating appropriate policies, the focal point of section one is the definition of terms. This section starts with a discussion of the various concepts that are closely associated with poverty. This exercise includes an analysis of the following concepts: inequality, vulnerability, economic exclusion and underdevelopment. Thereafter, the different definitions of poverty are explored. These definitions include absolute poverty, relative poverty, transient poverty and chronic poverty. Once all this has been done, a working definition of poverty is proposed.

In light of the significant role that the measurement of poverty plays in identifying the poor, thus assisting policy authorities in the formulation of well-targeted anti-poverty policies, section two is mainly concerned with measurement issues. In this regard, the traditional monetary approach, as well as the more broad-based human development and human poverty approaches, will be discussed. The focus of this discussion is on the three ingredients that are required to compute a poverty measure. These include choosing the relevant dimension and indicator of well-being; selecting a poverty line, that is, a threshold below which a given household or individual will be classified as poor; and finally, selecting a poverty measure to be used for reporting on the population as a whole or a population subgroup—and these will include the headcount ratio, the poverty gap ratio, the Human Development Index, as well as the Human Poverty Index.

The last section gives a summary of the main findings with regard to the definition and measurement of poverty which have come out of the preceding sections.

2.2. Defining poverty

Parallel to the historical developments that have led to the current consensus that poverty reduction (and alleviation) should be one of the prominent goals in almost every social expenditure programme in South Africa, there has also been a development concerning the definition of poverty. Unfortunately, however, no consensus has been reached with regard to the latter. This is due to the fact that defining poverty is very difficult, because even though poverty is a widely used concept, its definition is highly contested. Moreover, the word 'poverty' can be considered to have a cluster of different overlapping meanings, depending on which subject area or discourse is being examined[11]. In this study, however, the definition of poverty will be examined from an economic point of view.

Poverty is a multidimensional phenomenon that has different meanings for different people (irrespective of whether or not it is being examined within the same subject area). Poverty can be viewed as absolute or relative, as a lack of income or failure to attain capabilities. It can be chronic or temporary, is sometimes closely associated with inequality, and is often correlated with vulnerabilities, underdevelopment and economic exclusion. It is therefore not surprising to find that the question 'What does it mean to be poor?' evokes a different response from one person to another. According to O'Boyle (1999), these different responses are triggered by the fact that each person's answer is a reflection of a personal value system. Unfortunately, these value systems are bound to diverge, and when they do, wider agreement on any normative issue becomes more

[11] In other words, the definition of poverty is a function of the area of expertise, e.g. poverty can be defined from a theological, sociological or economic perspective, etc.

difficult, including how best to define poverty. This, however, is not to suggest that defining poverty is a thoroughly arbitrary, personal matter. Rather, according to Alcock (1997), this is to emphasise the fact that poverty is a contested problem, i.e. most people claim that their understanding of poverty is the correct one, based on a logical argument and/or scientific research. Against this background, students of poverty should thus acknowledge that it would be unlikely for them to find or advance a definition that is acceptable to everyone, because poverty is not a simple phenomenon that one can understand by adopting a single approach.

Nevertheless, even though poverty is a contested problem, it is still one that requires some response. Thus, deciding on a definition in this study is vital, because this definition will serve as a cornerstone against which poverty reduction policies that are currently in place in South Africa can be examined. However, before this definition can be framed, it would be appropriate to first discuss the concepts that are closely related to poverty, as well as the different types of poverty. The rationale for this exposition is based on the belief that before one is able to evaluate whether or not a poverty reduction strategy is in fact effective, it is essential to be clear about what the type of poverty which is being targeted entails. Of equal importance in this regard is clarity regarding the meanings of the concepts that are often used in conjunction with poverty.

2.2.1. Concepts closely related to poverty

Concepts such as inequality, vulnerability, economic exclusion and underdevelopment are so frequently used in conjunction with poverty that the conceptual differences between them have become blurred. Therefore, before attempting to review studies that have attempted to measure poverty in South Africa, much less examine policies and programmes for its reduction, it is imperative to be clear about what definitions are being applied.

(i) Poverty and inequality

Inequality differs from poverty but is also related to it. While inequality is concerned with distribution of wealth within a population group, poverty focuses only on those people whose standard of living falls below an appropriate threshold level (such as a poverty datum line) (Kircher, 2002; World Bank, 2000). This threshold may be set in absolute terms (based on an externally determined norm, such as calorie requirements) or relative terms (for example, a fraction of the overall average standard of living). Intuitively speaking, relative poverty is more closely related to inequality, in that what it means to be poor reflects the prevailing living conditions of the whole population. Moreover, most analysts[12] argue that the movement in the Gini Co-efficient Index[13] seems to closely follow that in poverty. However, this relationship can only be established in countries where comparative data is available. It is thus not surprising to find that the analysis of poverty often employs indicators of equality. This could be done in a number of ways, for example: through disaggregation[14]; associating distributional measures with other poverty indicators[15]; or by specifying some mathematical formulae[16]. The notion for doing so, as some analysts[17] would argue, is that high levels of inequality contribute to high levels of poverty in several ways, for instance:

- for any given level of economic development or mean income, higher inequality implies higher poverty, since a smaller share of resources is obtained by those at the bottom of the distribution of income or consumption;
- higher initial inequality may result in lower subsequent growth and, therefore, in less poverty reduction. For example, access to credit and other resources may be concentrated in the hands of privileged groups, thereby preventing the poor from investing; and

[12] See for example Hope (2004).
[13] This is the index that is used to measure inequality.
[14] Many indicators can be disaggregated according to gender, race or region.
[15] Such as per capita personal income and the Lorenz curve.
[16] Such as the Atkinson method.
[17] For example, Ravallion (1997) and Aghion et al (1999).

- higher levels of inequality may reduce the benefits of growth for the poor, because a higher initial inequality may lower the share of the poor's benefits from growth. In the extreme case, if one person has all the resources, then regardless of the rate of growth, the poverty of the remaining population will never be reduced through growth.

Based on the above arguments, it would be appropriate to acknowledge that, in most cases, it would be easier to reduce poverty under relatively egalitarian conditions[18].

(ii) Poverty and vulnerability

According to May (1998: 05), *"international experience of poverty alleviation programs suggests that poverty is not a static condition among individuals, households or communities. Rather, it is recognized that, although some individuals or households are permanently poor, others move into and out of poverty. This may be a result of life-cycle changes, specific events such as the illness of a main income earner, or deterioration in external economic conditions."*

In light of the above quotation, it is thus not surprising to find that the concept of vulnerability is increasingly applied in order to understand these processes of change. In fact, development practitioners[19] tend to use vulnerability as a proxy for poverty, because certain combinations of vulnerability may be strongly correlated with poverty, i.e. female-headed households, families living in remote and isolated mountainous regions, members of minority groups, illegal immigrants, illiterate individuals, seasonal employees and so on. It should, however, be noted that vulnerability is not the same as poverty. According to the World Bank (2000), vulnerability[20] is the present probability or risk of being in poverty or falling into deeper poverty in the future. This may be referred to as a downside risk. For instance, vulnerability is a function of two main

[18] Provided that these egalitarian conditions are accompanied by sufficient economic growth which is pro-poor.
[19] See for example Woolard (2002).
[20] These inherent vulnerabilities may entail factors such as different types of discrimination based on class, gender, ethnicity or other factors such as disability, region of residence and family configuration.

variables: exposure and response to downward pressures. According to Shaffer (2001), downward pressures are sometimes referred to as stresses and shocks, the former gradual and cumulative, and the latter sudden and unpredictable.

(iii) Poverty and economic exclusion

Poverty and economic exclusion are interlinked. For example, in South Africa, people were excluded from the formal economy through various mechanisms. These included the institutionalisation of a number of requirements, such as permits, that served as barriers aimed at limiting the participation of Blacks in the formal economy. Some of these requirements included trading with neighbouring states via a visa system, which was not easy to obtain. Most Blacks could not access credit from financial institutions because they could not meet the forced requirements to obtain a loan, due to a lack of securities that are only recognised in the formal economy, for example property, bonds, shares, etc. Most Blacks owned cattle, goats and chickens, which were all perceived to be risky assets. Due to these oppressive mechanisms, the economic development of a significant number of Blacks was severely compromised, which meant that they were vulnerable to being poor. This will be discussed in greater detail in chapter three.

(iv) Poverty and underdevelopment

The distinction between poverty and underdevelopment depends on how each is defined. When defined in broad human deprivation terms, poverty is often viewed as a form of underdevelopment, i.e. *"an economic situation in which there are persistent low levels of living in conjunction with absolute poverty, low income per capita, low rates of economic growth, low consumption levels, poor health services, high death rates, high birthrates, dependence on foreign economies, and limited freedom to choose among activities that satisfy human wants"* (Todaro, 2000: 768). In other words, if human development is about expanding people's choices (as it has been defined in human development reports since 1990), then poverty means that opportunities and choices most basic to human development are denied. However, the 1997 Human Development Report distinguishes between the two concepts by associating the former with individuals and the latter with a macro perspective. The contrast between human development and human poverty reflects two different ways of evaluating development. One way, the conglomerative perspective, focuses on the advances made by all groups in each community, from the rich to the poor. This contrasts with an alternative viewpoint, the deprivational perspective, in which development is judged by the way that the poor and deprived people fare in each community. Given the close relationship between these two concepts, it is thus not surprising that many poverty indicators are the same as those used to measure underdevelopment.

2.2.2. Different types of poverty

Policy is directly influenced by the way in which poverty is defined. Moreover, the extent of poverty is determined by the way in which it is defined. The aim of this section will therefore be to identify the different types of poverty (i.e. absolute poverty, relative poverty, transient poverty and chronic poverty).

(i) Absolute[21] and relative[22] poverty

There is a long tradition of debate about relative versus absolute definitions of poverty[23]. Relative and absolute definitions of poverty tap into fundamentally divergent notions of difference and deprivation (Shanahan & Tuma, 1994). Hence, absolute and relative standards typically produce different policy implications and accounts of the experience of poverty, and differ somewhat in terms of the extent of poverty determined (Townsend, 1980, cited in Brady, 2003). Nevertheless, poverty scholars increasingly conclude that in developed countries, a relative definition is more appropriate, whereas in developing

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[21] This notion of absolute or subsistence poverty is based on the seminal work which was pioneered by Booth (1887) and Rowntree (1901, 1941), who studied poverty in London and York respectively, during the 19th and early 20th centuries.
[22] Townsend (1970, 1974) is an articulate exponent of this view.
[23] See Sen (1979, 1983); Madden (2000).

countries[24], an absolute definition of poverty is relevant (Atkinson, 1998; Gordon, 1972; Hagenaars, 1991; Madden, 2000; Ravallion, 1998; Sen, 1992).

Absolute poverty is viewed as an objective and scientific definition that is based on the notion of subsistence[25]. In a narrow sense, it is a state in which a person cannot secure his long-term physical survival (Kircher, 2002). This measure is universal and not time-bound, and has the advantage of international comparability. An example of this would be the minimum amount of calorie intake which is recommended by prominent institutions such as the FAO and World Health Organization, or the $1 a day and $2 a day that is used by the Human Development Reports when examining the extent of absolute poverty throughout the world. However, in a broader sense, the definition of absolute poverty includes various needs besides pure physical survival, i.e. a state in which a person does not have enough to live on, based on socially acceptable living conditions, which include other essential goods besides nutritional requirements, e.g. clothing and shelter in hostile climates. It should be noted that the broader definition includes a certain amount of relativity. According to Kircher (2002), an example of this has already been provided by Adam Smith (1976: 870, cited in Kircher, 2002), who assesses that the ownership of certain things such as leather shoes might be necessary in one society to achieve social acceptance, while in another their possession is not relevant. Therefore, based on this view, the concept is considered to be absolute, in that it is derived from unfulfilled minimum needs which are relatively stable in a given society[26]. This explains why some of the rich countries, such as the United States (that use an absolute poverty datum line) have higher poverty datum lines than poor countries. Furthermore, this also explains why the official poverty rate in the early 1990s was close to 15% in the United States and also close to 15% in (much poorer) Indonesia (World Bank, 1990).[27]

[24]Many of these countries are vulnerable to famine, drought and crop failures, wars, natural disasters, widespread official corruption and general underdevelopment.

[25] This claim is in line with Rowntree's (1908: 86) definition, whereby he defined 'primary poverty' as *"…earnings insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency."*

[26] This view is consistent with Sen's (1993) argument that poverty can be an absolute notion in the area of capabilities, though relative in that of commodities or characteristics.

[27] Note that many of those people counted as poor in the United States would be considered to be comfortably well-off by Indonesian standards.

Alternatively, relative definitions of poverty are based upon comparison, often with some notion of prevailing living standards in the community being researched (Ravallion, 1998). In other words, the relatively poor are those people whose income or consumption level is below a particular fraction of the national average[28]. Examples of poverty definitions in this category include people in the lowest 20% of the income distribution or people earning less than 50% of the mean income.

Based on the above exposition, it would therefore be safe to assume that the applicability of a relative vs. an absolute poverty definition depends on the need for comparability between countries and the overall wealth of a country (for instance, if the average person cannot even sustain physical survival, the relative poverty definition becomes meaningless). Furthermore, in attempts to illustrate the global progress in poverty reduction, preference is usually given to absolute poverty criteria in a narrow sense[29], while in the assessment of national or regional poverty, absolute poverty in a broader sense or relative concepts are preferred (Kircher, 2002).

(ii) Chronic and transient poverty

The transiently poor (short-term) and chronically poor (long-term) are overlapping but distinct groups. According to Uccelli (1997), the latter is characterised by a deep-rooted, impoverished condition, which is the consequence of multiple deprivations over time, such as poor health, substandard nutrition and inadequate access to productive assets, and is often associated with persistent, intergenerational[30] poverty. As a result, chronic poverty is usually the more difficult one to address. For instance, Hulme and Shepherd (2003) note that a particular problem in contemporary poverty analysis, seeking to rapidly reduce poverty headcounts in an era of globalisation, is to see the poor as those who are not effectively integrated into the global market economy. Thus, as a result, the

[28] Therefore, relative poverty is a universal and permanent feature of human society.
[29] This is because it is much easier to monitor the global trend in poverty when the yardstick that is in use is consistent.
[30] Poverty that has been passed on from one generation to the next.

chronically poor are likely to be neglected in such an era, given the multiple factors that constrain their prospects, and the likelihood that market-based factors may contribute to their continued deprivation.

On the other hand, transient poverty normally results from a one-time decline in living standards, from which a household gradually emerges. Alternatively, it may show itself in fluctuations in well-being that result in frequent declines in living standards. For example, seasonal variations in food security may result in some households periodically falling in and out of poverty, sometimes quite regularly, over time (Woolard & Leibbrandt, 2001).

2.2.3. Moving towards a definition of poverty

The preceding sections, i.e. sections 2.2.1 and 2.2.2, have examined various salient terms that are usually used in conjunction with poverty, and in the process of doing so, a foundation upon which a working definition for this dissertation will be framed, has been established.

There are a number of definitions of poverty that have emerged over the years. However, according to the 1997 Human Development Report, the general consensus is that poverty has been mainly defined according to three different perspectives, i.e. the income perspective, the basic needs perspective and the capability perspective. In essence, poverty thus refers to different forms of deprivation of income and/or basic needs and/or human capabilities.

(i) *Income/consumption definition of poverty*. This approach to the identification of poverty is the most commonly used, especially in applied welfare economics[31]. It identifies poverty as follows: *"A person is poor if, and only if, her or his access to economic resources is insufficient…to acquire enough commodities to meet basic material needs adequately"* (Lipton, 1997: 127).

[31] See Lanjouw (1997), Lipton (1997) and Ravallion (1994).

For economists, the appeal of this approach lies in it being compatible with the utility-maximising behaviour assumption that underpins microeconomics, i.e. that the objective of consumers is to maximise utility, and that expenditures reflect the marginal value or utility that people place on commodities. Welfare can then be measured as the total consumption enjoyed, proxied by either expenditure or income data, and poverty is defined as being below some minimum level of resources, which is termed the poverty datum line (Laderchi et al, 2003).

(ii) *Poverty according to the basic needs perspective*. This approach to the identification of poverty takes the income approach one step further. It defines poverty as the deprivation of material requirements for the minimally acceptable fulfillment of basic human needs. *"Basic needs may be interpreted in terms of minimum specified quantities of such things as food, clothing, shelter, water and sanitation that are necessary to prevent ill health, under-nourishment and the like…"* (Streeten et al, 1981: 25, cited in Shaffer, 2001). Against this background, it is clear that this notion of deprivation goes well beyond the lack of private income, and instead includes basic needs that have to be provided by states or communities in order to prevent people from becoming poor. In addition, it also recognises the need for employment opportunities.

(iii) *Poverty according to the human capability perspective*. The capability approach[32] rejects monetary income as its measure of well-being, and instead focuses on indicators of the freedom to live a 'valued' life (Human Development Report, 1997). According to this framework, poverty is defined as the absence of some basic capabilities needed to function, where 'basic capabilities' are *"the ability to satisfy certain crucially important functioning's up to certain minimally adequate levels"* (Sen, 1993: 41). The relevant functioning in this context refers to the various valuable things that a person can do or be, such as living a long life, being healthy, well- nourished,

[32] According to Sen (1985, 1997, 1999), who pioneered this approach, development should be seen as the expansion of human capabilities, not the maximisation of utility or its proxy, monetary income.

adequately clothed and sheltered, interacting well with others in the community, and so on.

Based on these different perspectives, it is clear that the concept of poverty has been extended beyond its economic domain. Moreover, what is also apparent is that, in line with the view of this dissertation, some of these different perspectives also acknowledge the fact that poverty is a multidimensional phenomenon.

Nevertheless, even though (based on the different perspectives outlined above) defining poverty in a broader sense might seem to be an obvious alternative, most academic studies which have been conducted in South Africa have limited their definitions to dimensions of poverty that are easily and objectively measurable. This is mainly because when poverty is defined in a broader sense, measuring it becomes a complicated task, and as a result, policymakers face difficulties when evaluating poverty reduction strategies. Therefore, even though this dissertation acknowledges the fact that poverty is a multidimensional phenomenon, it will define poverty, in line with the Poverty and Inequality Report (PIR) that was published in 1998 (May, 1998: 3), as *"…the inability of individuals, households, or entire communities, to command sufficient resources to satisfy a socially acceptable minimum standard of living."*

Against the backdrop of the definition proposed above, an examination of the main methods utilised to measure or estimate the magnitude of this phenomenon can now be done, and this will be achieved in the following section.

2.3. Measuring poverty

There are two schools of thought that have emerged over the years with regard to measurement issues (Klasen, 2000). The one school has defined poverty primarily in financial terms, i.e. poverty is interpreted in terms of the command over commodities that resources afford people via income and consumption (Lipton & Ravallion, 1995; Ravallion & Chen, 1997; World Bank, 1990). The concern here is with resource adequacy, as suggested by Leibbrandt and Woolard (1999)[33]. The other has sought a more broad-based definition of poverty, not solely based on financial resources (e.g. Human Development Report, 1997; Dreze & Sen, 1989). The latter has relied on the seminal work done by Rawls, Sen and others in order to emphasise the fact that poverty should be seen in relation to the lack of important 'basic goods' (Rawls) or 'basic capabilities' (Sen), some of which cannot be purchased by money, as they are under-provided in a market system. Furthermore, this school of thought contends that financial resources are just one of the several means to achieve well-being, and efforts should therefore be directed at measuring well-being outcomes, rather than focusing on one of its imperfect proxies (Klasen, 2000). Against this background, it is therefore important to acknowledge that, just like defining poverty, there is no ideal or correct way to measure the extent of poverty within a society. This is because a crucial role is played by value or ethical judgements. Hence, a number of poverty studies that have been conducted on South Africa produce results which are similar in terms of the characteristics of poverty groups, but differ in terms of the degree of incidence among them. In this dissertation, however, the measurements of poverty will be reviewed in line with the definition that was adopted in section 2.2.3. Therefore, both the traditional monetary indicators, as well as some of the human development and human poverty indicators, will be examined.

2.3.1. Measuring poverty using monetary indicators

> "*The poverty measure itself is a statistical function that translates the comparison of the indicator of household well-being and the chosen poverty line into one aggregate number for the population as a whole or a population subgroup*" (World Bank, 2000).

According to Kingdon and Knight (2004), empirical research by economists on poverty in developing countries has generally been concerned with measurement in terms of income and consumption. Behind this metric lies the concept of the utility or welfare which people are assumed to derive from income and consumption. This approach

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[33] They refer to it as 'poverty proper'.

therefore entails dimensions of poverty that are easily and objectively measurable. Hence, this approach still dominates the field of poverty measurement. In light of this, it therefore comes as no surprise to find that a number of poverty measurement studies in South Africa have also followed this approach.

When measuring poverty using this traditional approach, there are three ingredients that are required in order to compute a poverty measure (Lipton & Ravallion, 1995; Ravallion, 1996; Leibbrandt & Woolard, 1999; World Bank, 2000). Initially, one has to choose the relevant dimension and indicator of well-being. Thereafter, one has to select a poverty datum line, that is, a threshold below which a given household or individual will be classified as poor. Later, one has to select a poverty measure to be used for reporting on the population as a whole or a population subgroup. These three ingredients are significant, as they have a direct influence at the policy-making level.

2.3.1.1. Choice of indicators for measuring monetary poverty: consumption and income indicators

When estimating poverty using monetary measures, one may have a choice between using consumption or income as an indicator of well-being (Ravallion, 1996).

(i) Using consumption/expenditure as an indicator

> *"…on average, consumption should provide a more accurate proxy for welfare over an extended time horizon… consumption decisions are based on permanent income and transitory changes in income have no influence on spending"* (Friedman's permanent income hypothesis, 1957).

Development practitioners such as Fields (1980), Lipton and Ravallion (1995) and Deaton (1997) believe that it is more appropriate to study consumption data than income, as they feel that income only measures the potential ability to purchase inputs, whereas consumption measures the flow of utility-producing inputs. In addition, they also believe that current consumption is a better indicator of permanent income, since income measured over a short time period may misrepresent the permanent economic position.

(ii) Using income as an indicator

One should not be dogmatic, however, about using consumption data for poverty measurement, as there are also weaknesses associated with it. For instance, it is highly unlikely that all governments will readily keep such data, because it is difficult to monitor. Moreover, the use of income as a poverty measurement may have its own advantages. For example, measuring poverty by income allows for a distinction to be made between sources of income. When such distinctions are made, income may be more easily compared with data from other sources, such as wages, thereby providing a check on the quality of data in a household survey. Furthermore, in some household surveys, consumption or expenditure data might not be collected or be detailed enough, thereby enabling income to be considered a better indicator of poverty measurement than consumption (World Bank, 2000). In addition, income is a better measure of poverty than consumption, in the sense that it is the opportunities made available to the individual through finances (budget constraints), and not what consumption decisions they then decide to make, which is important to the determination of poverty levels (Atkinson, 1987; Hagenaars, 1991).

Whatever the chosen monetary indicator may be, the next step is to define one or more poverty datum lines. However, given the fact that the literature is dominated by studies that have utilised consumption data for computing poverty measures, the focal point of the next sub-section will only be on poverty datum lines that are relevant to consumption data.

2.3.1.2. Poverty lines based on the consumption/expenditure approach

The poverty line defines the level of consumption (or income) needed in order for a household to escape poverty (see Table 2-1 for various poverty lines that are used in

South Africa). Based on this definition, it appears that the notion of a poverty line implies a distinct turning point in the welfare function. In other words, by rising from just below to just above the poverty datum line, households (and individuals therein) move from a state of considerable misery to an adequate, minimum level of well-being. However, how one decides on this level of consumption (or income) is the cause of much criticism, since it involves a certain degree of arbitrariness, yet has the ability to greatly impact on all the measurements of poverty.

Table 2-1: Measurement standards conventionally applied in South Africa

Category	Norm	Abbreviation	Content Cost per family of:
Income Poverty Line	Poverty Datum Line[1]	PDL	Food, clothing, fuel & lighting, washing & cleansing, rent, transport
	Minimum Living Level[2]	MLL	PDL plus: tax, medical expenses, education, household equipment replacement.
	Supplementary Living Level[3]	SLL	Increased MLL provisions plus: recreation & entertainment, personal care, pension, UIF, medical/burial contributions
	Household Subsistence Level[4]	HSL	The same as for PDL
	Household Effective Level[5]	HEL	HSL plus 50%
Other	Household Expenditure Datum Line[6]	-	Household expenditure as defined in the October Household Survey[7]

Sources: [1-5]Wilson and Ramphele (1989:17); [6]StatsSA (2000); [7]StatsSA (1996).

According to Ravallion (1998), there are two main techniques that are widely used to derive poverty lines in line with the consumption/expenditure approach to defining poverty. The first approach focuses on determining the amount of resources required in order to meet certain minimum nutritional requirements. These methods determine a food poverty line based on the cost of the food bundle required in order to match the daily calorie intake requirements (e.g. 2100 calories) determined by the World Health

Organization (WHO) (Ravallion & Bidani, 1994). An example of these techniques is the food energy intake (FEI) method, which requires observations of actual food consumption patterns (Thorbecke, 1998). Alternatively, another approach to building up a poverty line, while remaining in the spirit of trying to ensure that the line covers basic needs, is known as the cost of basic needs (CBN) approach (Lipton & Ravallion, 1995). The CBN dictates the following: -

- Stipulate a consumption bundle that is deemed to be adequate, with both food and non-food consumption; and
- Estimate the cost of the bundle for each subgroup (urban/rural, each region, etc.).

It should be noted that this is essentially the approach taken by Rowntree in his seminal study of poverty in York (see for example Rowntree, 1941). According to Meier and Rauch (2005), he calculated that for a family of five, i.e. a father, mother, and three children, the minimum weekly expenditure in order to maintain physical efficiency was 21 shillings 8 pence. The World Bank, which has been estimating global income poverty since 1990, has also used an approach similar to this one. For example, the World Bank uses a poverty line of $1.08 a day in 1993 PPP terms (usually referred to as "$1 a day in most studies). Another upper poverty line that is commonly used in lower-middle-income countries by the World Bank, in order to estimate global income poverty, is referred to as "$2 a day"[34]. However, both of these poverty lines, i.e. $1 and $2, described here are useful only as indicators of global progress. They do not assess progress at the country level nor do they guide country policy and programme formulation. Hence, country-specific poverty lines are usually higher than these international poverty lines that are used for international comparison. For example, for South Africa, Deaton (1997) used a poverty line of R 105 per capita in 1993 PPP prices; Hoogeveen and Özler (2004) used a food poverty line of R 211 per capita per month for South Africa; the 2003 Human Development Report has used a national poverty line of R 354 per month per adult equivalent (which was derived as the national poverty line for South Africa in 1995); Leibbrandt and Woolard (1999) used various expenditure poverty lines, such as the

[34] Note that this poverty datum line is double the amount of the lower poverty line.

'minimum and supplementary living levels per capita' poverty line of R 220.10, 'minimum living level' poverty line of R 164.20, the 'per adult equivalent household subsistence level' poverty line of R 251.10, '50% of national per capita expenditure' poverty line of R 201.82, as well as the 'population cut-off at the 40th percentile of households ranked by adult equivalent expenditure' poverty line of R 297.29.

2.3.1.3. Computing poverty indices

Given a set of information on either per capita income or per capita consumption indicators and a poverty line, the only remaining problem is deciding on an appropriate summary measure of aggregate poverty. There are many alternative aggregate measures of monetary poverty that can be computed. However, the monetary measures in this section will only be limited to the head count ratio (H), as well as the poverty gap ratio (P), since these measures are the ones which are commonly used.

(i) Head count ratio

The head count ratio is the most widely used index. It gives the proportion of the poor in the population (World Bank, 2000; Ravallion, 1996). That is, the proportion of individuals/households living on a per capita household income/expenditure below the poverty line. The head count ratio is illustrated by the following equation: -

$$H = \frac{q}{n}$$

Where H is the headcount index as defined above, q is the number of people living in poverty, and n is the number of households in a population.

The great virtue of the head count ratio is that it is simple to construct and easy to understand. Hence, studies that have adopted this approach are voluminous. In fact, most of the examples of various poverty lines in section 3.2.1.1 were used in line with this poverty measure. For example, using the headcount ratio, the World Bank (2000) estimated that out of 6 billion of the world's estimated population, 2.8 billion (i.e. almost half) was estimated to be living on less than $2 a day, and 1.2 billion (or a fifth of the world's population) was estimated to be living on less than $1 a day. The 2003 Human Development Report used a national poverty line of R 354, and found that the head count ratio of the poor was 48.5% in 2002. Various expenditure poverty lines used by Leibbrandt and Woolard (1999) yielded different headcount ratios (see Table 2-2 for their results). Hoogeveen and Özler (2004) also used various poverty lines of R 87, R 174, R 322, and R 593 (in 2000 prices) and, as expected, their headcount ratios also yielded different results (see Table 2-3 for their results).

Table 2-2: Comparison of selected poverty lines for South Africa (1993)

Type of poverty line	Amount/month cut-off (rand) 1985 prices	% of population below the poverty line
1. Population cut-off at the 40*th* percentile of households ranked by adult equivalent expenditure.	297.29	53.2
2. 50% of national per capita expenditure.	201.82	53.2
3. Minimum and supplemental living levels per capita set by the Bureau of Market Research (Unisa).	220.10	56.7
4. Minimum living level.	164.20	44.7
5. Per adult equivalent household subsistence level, set by the Institute for Development Planning Research, University of Port Elizabeth.	251.10	45.7
6. International Poverty Line (US$1 per capita per day) (1985 prices).	91.40	23.7

Source: Leibbrandt and Woolard (1999)

Table 2-3: Comparison of selected poverty lines for South Africa (2000)

Type of poverty line	Amount/month cut-off (rand) 2000 prices	% of population below the poverty line
1. $1 per day	R 87	11%
2. $2 per day	R 174	34%
3. Lower-bound poverty line	R 322	58%
4. Upper-bound poverty line	R 593	75%

Source: Hoogeveen and Özler (2004)

The headcount ratio index has its appeal, namely that it is easy to construct and understand. It has, however, at least two significant weaknesses:

- Firstly, the head count index does not take the intensity of poverty into account. To illustrate this weakness further, Kanbur et al (2003) provide the following example: -

Headcount poverty rates in countries A and B, assuming a poverty line of 125

	Expenditure for each individual in the country				Headcount Poverty Rate
Expenditure in country A	100	100	150	150	50%
Expenditure in country B	124	124	150	150	50%

Clearly, there is greater poverty in country A, but the headcount index does not capture this. As a welfare function, the headcount index violates the transfer[35] principle, an idea that states that transfers from a richer to a poorer person should improve the measure of welfare. That is, if a somewhat poor household were to give to a very poor household, the headcount index would be unchanged, even though it is reasonable to suppose that overall poverty has decreased.

- Secondly, the head count index does not indicate how poor the poor are, and hence does not change if people below the poverty line become poorer.

[35] According to Sen (1976), the following four axioms form the basis of what has become a widely accepted consensus regarding the basic requirements for a good poverty measure (i) *Monotonicity axiom*: If the income of a poor individual falls (rises), the index must rise (fall); (ii) *Transfer axiom*: If a poor individual transfers income to someone less poor than him-or herself (whether poor or non-poor), the index must rise; (iii) *Population symmetry axiom*: If two or more identical populations are pooled, the index should not change; (iv) *Proportion of poor axiom*: If the proportion of the population which is poor grows (diminishes), the index must rise (fall).

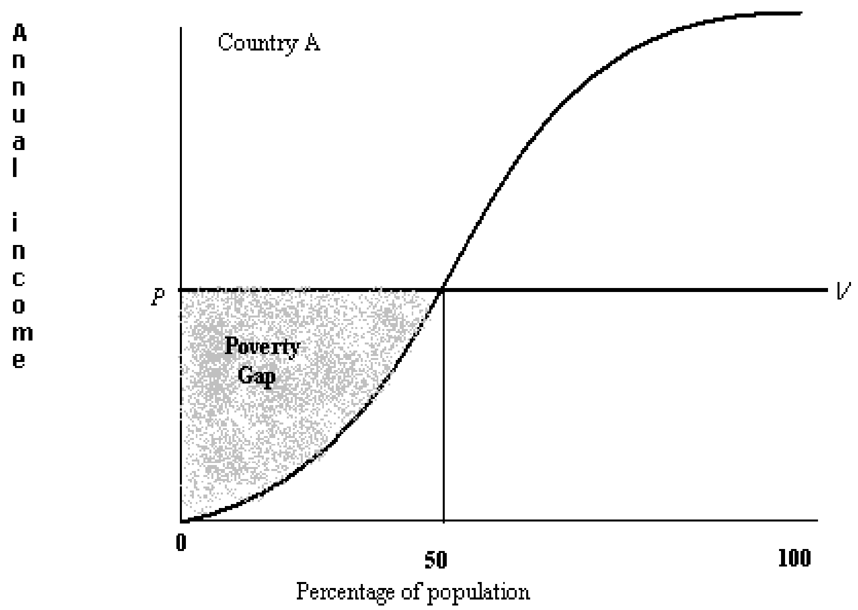
(ii) The poverty gap ratio

It is the headcount ratio's inability to indicate how poor the poor actually are, and the fact that it remains constant when a previously poor unit becomes poorer, which created a need for the poverty gap ratio. The poverty gap ratio is the difference between the poverty datum line and the income per capita of a specific household. This measure gives an indication of how far below the poverty line the income per capita of that specific household is. In essence, as the poverty gap ratio tends towards zero, the degree of poverty diminishes (Whiteford & McGrath, 1994). Total poverty is obtained by adding up the poverty gaps for each of the poor households. This figure gives an indication of an amount by which the annual per capita household income of the poor needs to be raised in order to get everyone's per capita income up to the poverty line (Ngwane, 2001). For a better understanding of this, consider Figure 1.1. This figure illustrates how one could measure poverty as the shaded area between poverty line, *PV*, and the annual income profile of the population. Even though in both country A and country B, 50% of the population falls below the same poverty line, the poverty gap in country A is greater than that in country B. Therefore, it will take more effort to eliminate absolute poverty in country A (Todaro & Smith, 2003). The poverty gap ratio (I) is illustrated by the following equation:

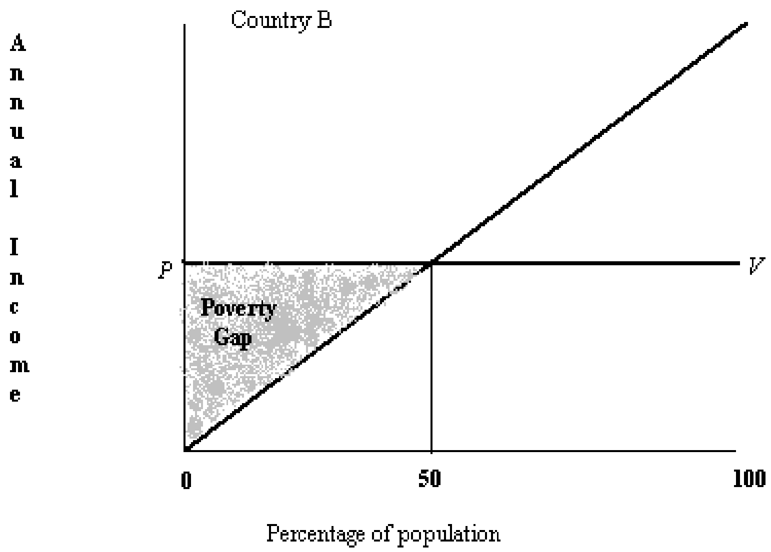
$$I = \frac{1}{zq}\sum_{i=1}^{q}(Z - y_i)$$

Where *I* is the poverty gap ratio; z is the poverty line; *q* is the number of people living in poverty (i.e. with household income per capita no higher than z); *Yi* is the household income per capita for the *i*-th household, arranged in order of income.

Figure 2-1



(a) A Relatively large poverty gap



(b) A relatively small poverty gap

Using this approach, Ngwane (2001) found that the average per capita household income of the poor in South Africa in 1995 needed to be raised by 30.55% in order to reach the poverty line (when using the $1 a day poverty line). The 2003 Human Development Report found that, for South Africa, the average per capita household income of the poor in 2002 needed to be raised by 18% in order to reach the poverty line (when using the national poverty line of R 354). McGrath and Whiteford (1994) found that the poverty gap ratio for South Africa and the TBVC[36] states was equal to 31% in 1991 (when using the MLL poverty line).

2.3.2. Human poverty and development approaches

In the previous section (i.e. section 2.3.1), the emphasis was placed exclusively on 'money-metric' poverty measures, i.e. measures that can only capture the amount of income available to households in order to acquire basic goods and services. Even though these money-metric indicators may be a significant dimension of poverty, i.e. with a higher income or consumption budget, a person may be able to improve the position of some of his/her monetary and non-monetary attributes, the truth of the matter is that these 'money-metric' poverty measures may somewhat conceal the highly differentiated experiences of the South African populace in terms of human development, especially when it comes to access to basic services (e.g. housing, literacy, life expectancy and so on). Therefore, for a better understanding of the nature of poverty in a country such as South Africa, it is imperative to avoid utilising only money-metric poverty measures as the criterion for assessing poverty. Instead, this conventional approach to measuring poverty should be supplemented by other non-monetary measures, in order to be able to expose other dynamics of poverty that are usually overlooked when only money-metric poverty measures are applied. This section will therefore seek to elaborate on the instruments (i.e. Human Poverty Index and the Human Development Index) that are used to measure human poverty and development.

[36] This is an abbreviation referring to the following states: - Transkei, Bophuthatswana, Venda and Ciskei.

2.3.2.1. The Human Poverty Index (HPI) for developing countries

In an attempt to look beyond income poverty, the United Nations Development Program, in its 1997 Human Development Report, introduced the concept of the Human Poverty Index (HPI). This index for developing countries concentrates on deprivation in three essential dimensions of human life, which are also reflected in the Human Development Index (HDI). According to the 2007/2008 Human Development Report, these are: (i) a long and healthy life, (ii) knowledge, and (iii) a decent standard of living. In the following notation, P_1, P_2, and P_3 have been used to measure (i), (ii) and (iii) respectively.

Given that: -

P_1 = Probability at birth of not surviving to age 40 (times 100)

P_2 = Adult illiteracy rate

P_3 = Unweighted average of population not using an improved water source and children underweight-for-age

$\alpha = 3$

Then,

$$HPI = \left[\tfrac{1}{3}\left(P^{\alpha}_{1} + P^{\alpha}_{2} + P^{\alpha}_{3}\right)\right]^{1/\alpha}$$

See Table 2-4 for examples of HPI values for selected middle-income countries with a GDP per capita similar to that of South Africa. Based on what is depicted in Table 2-4, South Africa fares very poorly in terms of its HPI value, when compared with other middle-income countries, other than Botswana. Therefore, it would be safe to assume that a lot more work still needs to be done in order to improve the HPI value for South Africa.

Table 2-4: Comparison of HPI values for selected middle-income countries

Country	HPI value (%)	Population who will not survive to age 40 (% of total population) 2000-05	Adult illiteracy rate (% ages 15 and above) 1995-2005	Population without sustainable access to an improved water source (%) 2004	Children under-weight for age (% under age 5) 1996-2005
Thailand	10.0	12.1	7.4	1	18
Brazil	9.7	9.2	11.4	10	6
Botswana	31.4	44.0	18.8	5	13
Russian Federation	-	32.4	-	-	18.8
Costa Rica	4.4	3.7	5.1	3	5
Mexico	6.8	5.8	8.4	3	8
Malaysia	8.3	4.4	11.3	1	11
Latvia	-	19.8	-	-	-
Chile	3.7	3.5	4.3	5	1
South Africa	**23.5**	**31.7**	**17.6**	**12**	**12**
Poland	-	14.5	-	7.0	8.6

Source: *Human Development Report* (2007/2008)

2.3.2.2. Human Development Index (HDI)

According to May (1998), the shortcomings of income as an indicator of development led the United Nations Development Program (UNDP) to construct a composite index, which they named the Human Development Index (HDI). This index is composed of three equally weighted indices, and they include the following: (i) the life expectancy index, (ii) the educational attainment index, and (iii) the GDP index. In the following notation, *L*, *E*, and *ILI* have been used to measure (i), (ii) and (iii) respectively.

L = is the life expectancy index

E = is the educational attainment index

ILI is the income level index.

The HDI index is obtained by simply computing the average of the three indices, and this process results in the following equation:

$$HDI = \frac{(L + E + ILI)}{3}$$

According to the 2007/2008 Human Development Report, this index is measured on a scale of 0 to 1, with 0 being the lowest level of development and 1 the highest level. For instance, a HDI value of between 1 and 0.8 is regarded as a high level of human development; a value of between 0.799 and 0.5 is regarded as a medium level of human development; and a value of between 0.499 and 0 is regarded as a low level of human development. See Table 2-5 for examples of HDI values for selected middle-income countries with a GDP per capita similar to that of South Africa.

Table 2-5: Comparison of HDI values for selected middle-income countries

Country	Life expectancy at birth (years) 2005	Adult literacy rate (%) 1995-2005	Real GDP per capita (PPP US$) 2005	Life expect-ancy index	Educa-tion Index	GDP index	HDI value 2005	HDI rank
Thailand	69.6	92.6	8.677	0.743	0.855	0.745	0.781	78
Brazil	71.7	88.6	8.402	0.779	0.883	0.740	0.800	70
Botswana	48.1	81.2	12.387	0.385	0.773	0.803	0.664	124
Russian Federation	65.0	99.4	10.845	0.667	0.956	0.782	0.802	67
Costa Rica	78.5	94.9	10.180	0.891	0.876	0.772	0.846	48
Mexico	75.6	91.6	10.751	0.843	0.863	0.781	0.829	52
Malaysia	73.7	88.7	10.882	0.811	0.839	0.783	0.811	63
Latvia	72.0	99.7	13.646	0.784	0.961	0.821	0.855	45
Chile	78.3	95.7	12.027	0.889	0.914	0.799	0.867	40
South Africa	**50.8**	**82.4**	**11.110**	**0.430**	**0.806**	**0.786**	**0.674**	**121**
Poland	75.2	-	13.847	0.836	0.951	0.82	0.870	37

Source: *Human Development Report* (2007/2008)

As was shown in the discussion of the HPI, Table 2-5 also shows that the HDI value for South Africa is low in comparison with other middle-income countries.

2.4. Conclusion

This chapter has presented a review of relevant literature on the definition and measurement of poverty, an analysis that will prove to be a cornerstone in understanding the remainder of this study. Some of the important aspects that were covered in this chapter include the following: concepts closely related to poverty, different types of poverty, and the definition and measurement of poverty.

With regard to definitional issues, this chapter has highlighted the fact that poverty is a multidimensional phenomenon that has different meanings to different people. Furthermore, it has also been established that the way in which poverty is defined determines the methods employed to measure it, and the subsequent policy and programme packages to address it. Hence, the importance of identifying concepts that are closely related to poverty, as well as different types of poverty, is clear. Nevertheless, despite the debate on definitional issues, this chapter has established that the general consensus is that poverty can be defined according to three different perspectives, i.e. the income/consumption perspective, the basic needs perspective and the capability perspective. Thus, although the concept of poverty has been extended beyond its economic domain, this dissertation defines poverty as “the inability of individuals, households, or entire communities, to command sufficient resources to satisfy a socially acceptable minimum standard of living”.

With regard to measurement issues, this chapter has noted that, just like defining poverty, there is no ideal or correct way to measure the extent of poverty in a society, because a crucial role is played by value or ethical judgements. In parallel with this controversy, this chapter has established that there are two schools of thought that have emerged on measurement issues. The one has defined poverty primarily in financial terms, and the other has sought a more broad-based definition of poverty that is not solely based on financial resources. Generally speaking, in developing countries, most development analysts have been concerned with measurement in terms of the former approach. This is due to the fact that this particular approach entails dimensions of poverty that are easily and objectively measurable. When using this approach, there are generally three ingredients that are required in order to compute a poverty measure. These are choosing the relevant dimension and indicator of well-being; selecting a poverty line; and later, selecting a poverty measure to be used for reporting on the population as a whole or a population subgroup (and these only include the headcount ratio and the poverty gap ratio, because these are the measures which are commonly used to measure poverty when using the traditional approach). However, because these measures of poverty do not necessarily capture how other non-monetary dynamics of poverty (such as being illiterate, having a short life-span, lacking access to adequate healthcare, and having an indecent standard of living) affect the poor, the World Bank introduced the HDI and HPI indices.

Chapter Three
Determinants of Poverty

3.1. Introduction

> *"Once we recognize that poverty exists, then we… know that it must have a cause (or causes); and if we can identify the cause of poverty, then that should give us a basis to develop a policy response to it"* (Alcock, 1997: 36).

During the pre-1994 political struggle against the apartheid regime, one of the arsenals that were utilised by the ANC to galvanise the struggle for a democratic system was to frequently articulate, to a majority of the people, the benefits that they would derive if any political emancipation were to be consummated. As a result of this preponderance exercise, a myriad of optimistic expectations among the majority of the disadvantaged communities, particularly those that were hitherto poor, was created.

If one takes cognisance of the fact that the current government inherited an apartheid state machinery, which had been set up, on the one hand, to provide quality services for a privileged minority of the population, and on the other, to ensure deliberate, systematic underdevelopment of the majority of South Africans (Pillay, 2000), general wisdom would suggest that fulfilling these promises was, and is still, never going to be an easy task. However, as has been alluded to in the above quote, a deeper understanding of the underlying roots and causes of poverty, as well as circumstances that aggravate this phenomenon within and outside the South African economy, can be of great help in this regard. Such an understanding can go a long way in assisting the policy authorities, by providing them with a point of departure for the design of effective policy programmes aimed at enhancing the lives of the poor. In this context, this chapter therefore seeks to discuss the theoretical and empirical determinants of poverty that are of particular relevance to South Africa.

Table 3-1: Multiple classifications of the causes of poverty

Economic	Low productivity (macro and micro)
	Poor economic skills (macro and micro)
	Macro economic shocks (e.g. shrinking/stagnant economic growth; inflation, etc.)
	Micro economic shocks (e.g. unemployment/under employment)
	Adverse terms of trade (macro)
	Technological backwardness/lack of research and development (macro)
	Negative consequences of globalisation (macro)
Social	Discrimination (gender, age, ethnicity, caste, race, impairment) (macro)
	High fertility and dependency ratios (macro and micro)
	Poor health and HIV/AIDS (macro and micro)
	Inequality (macro)
	Lack of trust/social capital (macro)
	Absence of successful role models[37] (macro and micro)
Political	Poor political governance (macro)
	Poor macroeconomic governance, including poor resource management
	Insecurity (macro)
	Violent conflict (macro)
	Domination by regional/global superpowers (exogenous)
	Globalisation (exogenous)
Environmental	Low quality natural resources (macro)
	Environmental degradation (macro and micro)
	Disasters (flood, drought, earthquake, etc.) (macro and micro)
	Remoteness and lack of access (macro)
	Propensity for disease ('the Tropics') (macro)

Source: Modified from Hulme et al (2001)

What causes poverty? Unlike the definition of poverty, which continues to conjure up different meanings for different people (hence a consensus on this definition remains elusive), general concurrence among scholars and development practitioners regarding the factors that determine and sustain poverty has been more closely approximated (Burki, 1990: 5). Some of these factors are thought to be general, in that they can serve to create or intensify privation across all sectors of the economy and across different population groups. Others are thought to be more specific or localised, and their effects may be more apparent in particular population groups or in populations associated with

[37] In Hulme et al (2001), they call it 'culture of poverty', which used to be the interpretation of this phenomenon by some authors.

specific sectors of the economy. Furthermore, some of these factors or causes of poverty can be grouped into categories based on the channels through which they affect poverty levels. For example, they may originate from political or environmental issues, or they may be economic or social in nature (see Table 3-1). In most cases, however, poverty is likely to be the result of several mutually reinforcing factors that together define its scope and pervasiveness.

Therefore, against the background that the causes and consequences of poverty interact with and reinforce one another, the deliberation pertaining to the factors that sustain or cause poverty in this chapter will go, where necessary, beyond the limited scope of the definition[38] of poverty that is espoused by this dissertation. Moreover, for the sake of intelligibility, this chapter will divide these determinants of poverty into the following two broad categories: (i) those that are exogenous to both the individual and government, and (ii) those that can be influenced by policies at both the macro and micro level. However, before any of these determinants are discussed, this chapter will first start by shedding some light on the roots of poverty in South Africa. This will be done for the purposes of determining why almost half of South Africans are unable to satisfy their basic needs, while a minority enjoys extreme prosperity.

In the process of attempting to find out more about the underlying exogenous and endogenous causes of poverty in South Africa, this chapter will consult a number of secondary sources of data, including handbooks, journal articles and World Development Reports. In addition, internet searches will be undertaken in order to supplement the foregoing sources of data.

Excluding the introduction, this chapter consists of five sections. Section one is basically a summary of how colonisation and apartheid policies stripped the majority of their essential assets. The rationale for embarking on such an exercise is based on the belief that, as has been noted by the World Bank (2000/2001), being able to successfully avoid falling into poverty is a function of one's ability to access productive assets. Against this

[38] See Section 2.2.3 in Chapter 2.

background, as well as the fact that the essential assets of the majority of Blacks were mostly eroded during the colonial/apartheid era, attempting to understand the nature of poverty in South Africa from a historic viewpoint is a worthwhile exercise.

Section two focuses on the negative effects that globalisation has on the poor. To this end, this section will illustrate that: (i) the poor in countries with an abundance of unskilled labour do not always gain from trade reform; (ii) financial crises are very costly to the poor; (iii) globalisation produces both winners and losers among the poor; and (iv) trade distortion at the international level has a detrimental effect on the poor in developing countries.

Section three is more concerned with the various factors that might perpetuate poverty at a macro level. Firstly, this section will review the various environmental/situational causes of poverty. In this regard, a discussion of the negative effects of (i) natural disasters (ii) being domiciled in rural areas, and (iii) internal migration will take place. Secondly, this section will look at two economic causes of poverty, namely: (i) stagnant/shrinking economic growth and (ii) inflation. Thereafter, two social causes of poverty will be discussed, namely rapid population growth and inequality.

The emphasis of section four is on the determinants of poverty at a household or individual level. This section will begin with a discussion on the demographic causes of poverty. To this end, an examination of the negative effects of having (i) a large household size with a high proportion of dependants; (ii) a very old or young person as a household head; and (iii) a (single) female as a household head, will be made. Thereafter, the economic causes of poverty will be discussed. In this regard, the focal point of the discussion will be on the negative effects that are usually associated with (i) unemployment; (ii) underemployment; and (iii) inadequate access to productive assets and markets. Once all this has been done, social causes of poverty such as (i) ill-health, (ii) inadequate access to education, and (iii) inadequate access to decent shelter, will be examined.

The last section encapsulates the findings with regard to the underlying determinants of poverty in South Africa.

(3.2) The roots of poverty

> *"In South Africa we can regard (Black) poverty as the carcass left over from (White) acquisition" (*Terreblanche, 2002, paraphrasing Kurien, 1978).

Although income (or access to money) is not the only measure of poverty, in a world that has (by and large) moved away from a subsistence and barter economy to a market one, it is certainly among the salient determinants of poverty status. This is attributed to the fact that a household's access to most measures of well-being (e.g. nutrition, health, education and so on) is usually a function of income. This correlation, in part, reflects the power of money to provide goods and services. In this context, it follows then that the World Bank (2000/2001) espouses that the basic rational understanding of the roots of poverty should be built on the ability to access productive assets[39] and the return on these assets. According to the World Bank (2000/2001), individuals and communities have access to assets in different forms and ways. It is the returns to individuals, households and communities that are generated using these assets that are the ultimate determinants of individual and collective well-being. Where such assets are absent or deficient or where low returns are achieved, extreme poverty is the result. Therefore, in light of this view, it would be useful to understand the nature of poverty in South Africa from an historic point of view, since, as it will be illustrated in the following sub-section, the asset base of the majority of Blacks was, by and large, eroded during the colonial/apartheid era. It has to be noted, however, that this sub-section does not purport to review the full economic history of South Africa. Instead, it will be confined to illuminating some of the historical events (and their effects) pertaining to the economic disempowerment of Blacks, which have reverberated into the post-colonial/apartheid era.

[39] These include productive assets such as natural assets (land), physical assets (infrastructure), human assets (labour, skills & good health) and financial assets (savings and access to credit).

3.2.1. A synopsis of how colonisation and apartheid policies engendered economic disempowerment among Blacks in South Africa

Black economic disempowerment in South Africa is rooted in military conquests and political exclusion, which took a colonial and racial form and was buttressed by continuing repression of political and social organisations. It all began (i.e. the conquests) when the Dutch East Indian Company (DEIC) first came, in the 1650s, to settle in the southern tip of Africa (which later developed into the city of Cape Town) for the purposes of providing fresh food and meat for its ships' crew and passengers en route to and from the Far East. Its motives were ostensibly, therefore, economically inclined, although it brought few assets to serve as the base for developing an economy. The company occupied what was felt to be vacant land in the Cape Colony. This occupation resulted in it taking over valuable grazing land (productive asset) of the African tribe known as the Koi (Koikhoi, Hottentots) nation, to whom the land belonged. Naturally, the resistance by the Koikhoi resulted in wars, which the local inhabitants lost because they possessed inferior ammunition (when compared to that possessed by the invaders). As a result, the Koi nation was shattered by this confrontation. Some of the survivors fled into the deserts and some were captured as slaves or servants. *"This take-over strategy set the tone of the relationship between Black and White in South Africa for hundreds of years, a tone of confrontation"* (Setai, 1998: 1).

Initially, the impact was limited to the Cape, and mainly at the expense of Khoikhoi pastoralists (Ross, 1999). However, over two centuries thereafter, there was a gradual expansion (into the north and east of the interior) by the Dutch and then the British (who took over, in the early nineteenth century, the Xhosaland and Natal as an outgrowth of British imperialism), which exerted enormous pressure on the Bantu-speaking African groups (i.e. Blacks). According to Aliber (2001), the most direct consequence of this pressure was the dispossession of land by Whites, through which African farmers were forced either to retreat to other areas such as Basutoland, become sharecroppers (especially on land owned by whites of British descent) or farm labourers (especially on land owned by farmers of Dutch descent). The other aspect of this pressure was the introduction of price controls by the colonial authorities for marketed meat (so that the White settlers would not have to compete with the African groups, who could undersell the settlers' prices), which was also an effort to cripple the economy of the African people. In spite of this, African agriculture continued to thrive for a time, and indeed posed a highly resented source of direct competition to White farmers. The colonial authorities were baffled by this resilience, and this, in turn, led them to acquire further African land (including some of the livestock therein), as well as to curb sharecropping (Keegan, 1986; Trapido, 1986). Repeated attempts to resist the occupying powers further weakened the African societies through the loss of human assets. Over and above this, the surviving indigenous inhabitants further lost significant human assets through exposure to unfamiliar diseases, notably smallpox, which resulted from contact with colonial authorities and settlers. Moreover, when slaves died of smallpox, the settlers intensified their efforts to enslave more people from these African groups as replacements. Some other hitherto unfamiliar diseases such as foot and mouth disease and rinderpest also affected the livestock of local inhabitants, with the latter wiping out 90% of the region's livestock (Ross, 1999). This further undermined the asset base of the African population, for whom livestock formed a critical source of sustenance (Aliber, 2001; Ross, 1999; Setai, 1998; Keegan, 1986; Wilson & Ramphele, 1989).

The groundbreaking discovery of diamonds in 1867, and some of the world's largest gold deposits in the latter half of the 19th century (1887, to be exact) completely changed the landscape of the South African economy. This discovery transformed the South African economy from a closed, agrarian economy[40] to one able to start out on a path of industrialisation and establish international economic linkages (van der Berg & Bhorat, 1999). In order for this to happen, however, this novel mining industry required a large, mass-based workforce, which (in turn) triggered the demand for unskilled labour to mushroom. This prompted the settlers to seek political control of the region (and this was done under the pretext that this control would enable them to meet this massive demand).

[40] In other words, farming was no longer the mainstay of the economy. Instead, the core of the economy was now mining.

In an attempt to attain this political control, as well as to facilitate the supply of unskilled labour from the indigenous groups who, in spite of the conquests, still had considerable economic autonomy (through subsistence farming), a plethora of laws and policies were introduced. This resulted in a variety of oppressive and economically inequitable and inefficient laws, culminating in the most stringent law of all, *The Land Act* of 1913. This Act forbade Africans from owning land in designated 'White' areas, and resigned Africans to 'reserves', which accounted for a mere 7% (which was later extended to about 13% through the 1936 Native Trust and Land Act) of the total land area of South Africa. This Act also limited the number of African families that could work/live on White farms. It is worth noting that the land in these African reserves was (in contrast to that found in White areas) rocky and thus not conducive to farming, which meant that the self-sufficient economy that the indigenous groups relied on was severely compromised and their asset-base eroded. This, combined with, among others, the implementation of *The Draft Vagrancy Law*[41] that was passed in 1834, as well as the Glen Grey Act[42] of 1894, meant that the economic options of Africans were severely limited. As a survival remedy, Africans were compelled to sell their labour to the mines and White farms. This resulted in an influx of about 180 000 mineworkers into the mining industry, half of whom were from South Africa, and another half from Lesotho, Swaziland, Mozambique and elsewhere (Aliber, 2001).

It is also important to note that in these mines, the White mine workers (who often competed with Africans for jobs) were represented by the Union of South Africa (this was a political partnership between English-speaking and Afrikaner Whites), which, not surprisingly, did not look after the interests of the African majority (Terreblanche & Nattrass, 1990: 6). As a direct result of this, the working conditions of the Whites and Africans were not the same, and this was articulated through a series of laws that were passed by the minority government. For example, the Mines and Works Act essentially

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[41] In terms of this Act, no independent African economic undertaking was to be recognised as a legitimate economic activity.

[42] This Act imposed a tax on all Africans who did not enter the mines on a three-month contract (Ncube, 1985: 14). To augment this labour tax, poll and hut taxes were imposed on the African rural population, thus increasing the incentive to earn cash on the mines.

reserved skilled jobs on the mines for Whites, and thereby prevented the upward mobility of Africans on the mines. The Black Labour Regulation Act instituted a standard uniform wage rate for African mine workers and prevented African workers from breaking their contracts. This was buttressed by a provision which prevented employers from attracting workers through higher wages (Greenberg, 1980: 154). Hence, the racial wage gap in the various industries, particularly in the mining industry, widened consistently until the early 1970s (see Table 3-2).

Table 3-2: Real growth of Black wages and Black/White wage gap by industry

	Mining	**Manufacturing**	**Construction**
Annual growth of real Black wages:			
1961-70	0.72%	2.69%	2.96%
1971-80	13.18%	4.61%	2.83%
1981-85	-0.14%	0.81%	1.15
1985-1994	---	1.21%	-0.29
Black wages as % of White levels:			
1960	6%	19%	18%
1970	5%	17%	15%
1980	17%	23%	19%
1985	19%	25%	21%
1994	---	29%	30%

Source: Fallon (1992); StatsSA (1995)

With this quantum of mineworkers flocking into the urban areas, controlling African mobility remained a high priority for the government through most of the 20th century. The colonial government sought to balance the legitimate demand for African workers for mines and unskilled and semi-skilled work in urban areas, with the desire of keeping White settlements insulated from surplus Africans (Aliber, 2001). As a result of this strict control, townships adjacent to White towns were engendered, to which Africans and Coloureds were relegated.

In order to subject the African people to more suffering, in 1950, the Minister of Native Affairs, H.F. Verwoerd (who later became Prime Minister) introduced the more draconian Urban Labor Preference Policy (Aliber, 2001; Gelb, 2004). This policy was intended to facilitate a split among families for long periods, with men working on the mines or in the cities, and women remaining in the rural areas. This of course had devastating effects on the well-being of Africans in the rural areas. Not only did conditions deteriorate as more and more people were forced to settle there, it also became extremely difficult for most women to maintain their households without the presence of their husbands. They had to raise children on their own, which included a myriad of responsibilities, such as subsistence farming for food security, providing shelter to keep the children insulated from hostile weather conditions, treating children suffering from a number of diseases, most of which were attributed purely to the poor living conditions that they were subjected to every day of their lives. What exacerbated the conditions of some of these people was that they were landless and, as a result, they were fully exposed to poverty. Hence, the former homelands are the locus of poverty in South Africa's post-apartheid era.

According to Aliber (2001), the logical conclusion of this process came in the 1960s and 1970s, when the apartheid government elevated the status of the African reserves to ten putatively self-governing homelands, of which some were declared 'independent states'. These homelands were thus set up with their own assemblies, government departments, rights to confer citizenship, and so on. The idea of 'separate development' was that they would also have their own economies. What is noteworthy is that the resources allocated for these states were minimal, as most of the development efforts were channelled towards high-income White urban enclaves, thereby neglecting the majority of the Black population. As a result, this 13% of the country's land area remained isolated and undeveloped. Moreover, economic opportunities were extremely scarce in these reserves, and this resulted in the migrant labour system being the most utilised survival strategy, which of course came at a very high personal cost. Furthermore, basic services were almost non-existent (or very poor) in these (Black) reserves. For example, the apartheid regime introduced the *'Bantu'* education policy that was, together with other services[43], extremely poor in quality[44]. It (i.e. *'Bantu'* education) focused on limited technical and vocational skills. Although the number of African children in school grew, they remained concentrated in the lower grades. Between 1950 and 1960, for example, enrolment doubled, but the proportion in Grades 1-4 remained at 73% (Christie & Collins, 1984: 178). Even after per capita spending on education increased from the mid-1970s onwards, educational outcomes for Africans were still poor. In 1989, the African pupil: teacher ratio was 38:1, compared with 17:1 for Whites, while 52% of teachers in the African school system were under-qualified. Consequently, Africans' pass rate for the school-leaving examination was 41%, compared with 96% for Whites (Hofmeyr & McLennan, 1992: 176). At the post-secondary level, Blacks were excluded from established English-language universities from the 1950s onwards, and only admitted to segregated 'bush colleges' set up in the 1960s. This poor education, in essence, systematically crippled the advancement of the African populace. It ensured that advanced skills were concentrated in White hands (see for example Table 3-3), and as a result of this, the majority of Blacks were left largely unskilled and hence lacking in human assets. This resulted in the shortage of skilled labour in certain sectors of the South African economy (which is still the case, even in the post-apartheid era) and ensured that Blacks were the source of cheap labour in general. In 1980, for example, while Africans made up 73% of the population, they only garnered 24.9% of the income. In contrast, Whites had 64.9% of the income, while making up 15% of the population (Wilson & Ramphele, 1989). The policy of employment segregation also meant that Blacks could only occupy certain types of jobs, which were largely menial.

In addition to this, market forces limiting Black access to finance (so they could, for example, start their own businesses) were reinforced by legislation[45]. For example, according to Gelb (2004: 21), the 1950 Group Areas Act explicitly restricted firm

[43] In 1980, for example, the infant mortality rate among whites was 12 deaths per 1000 births, while among the Africans, the rate ranged from 94 to 124 deaths. Moreover, while 1% of White households were without electricity, some 80% of African households were without electricity (Wilson & Ramphele, 1989).
[44] Church-based schools were available until the 1950's.
[45] In all, there were more than 500 laws and over 800 bylaws and regulations that restricted the activities of black entrepreneurs (Horrell, 1977; Robertson, 1986; Williams, 1989).

ownership by Blacks to specified areas in cities and towns, and subsequent regulations prevented Black entrepreneurs from owning more than one business, establishing companies or partnerships, or owning business premises, even in Black areas. African firms were further restricted to certain markets, only 25 activities – mainly retail supply of food and fuel – being allowed, before the restrictions were partially relaxed in 1976. The spatial and racial restrictions on property ownership resulted in Blacks lacking collateral to borrow for asset acquisition, and the risks of ownership were increased by the insecurity of urban residential and workplace tenure (Riley, 1994: 12-16, cited in Gelb, 2004). As a direct result of this, there are very few Black South African firms in the medium-size category. Significantly, according to 2005 research conducted by the Black Business Executive Circle (cited in the Business Report, 2006), only five companies on the Johannesburg Stock Exchange (JSE) had 51% Black ownership (i.e. among the top 200 companies). Their market capitalisation was only R 4.6 billion, or about 0.2% of the JSE's total market capitalisation. This research also revealed that there were only twenty-seven companies on the JSE which had more than 25% Black ownership. The market capitalisation for these was R 23 billion, equivalent to 0.78% of the JSE's market capitalisation.

With regard to other minority, non-white population groups, including Coloureds and Indians, Aliber (2001) contends that they faced similar but different forms of discrimination and economic oppression. Both groups were also subject to forced removals, restrictions on movement and settlement, and were denied the right to vote (except on a limited basis in the Cape Colony and then again, briefly, through the bogus tricameral parliament established in the 1980s). Although per capita spending on education, housing and services for these two groups was marginally higher than that of Africans, it was still significantly inferior to that of Whites. A significant proportion of Coloureds, concentrated in the Cape, relied on unskilled and semi-skilled farm work for sustenance, under conditions somewhat better than those of their African counterparts elsewhere in the country. Indians, most of whose forebears originally came to South Africa in the late 1800s as indentured labourers to work on the sugar plantations of Natal, diversified into a number of different economic niches, including trading, manufacturing, and professions.

Table 3-3: Share of White and African employment by occupation (1969 & 1977)

	White 1969	White 1977	African 1969	African 1977
Managers	8.22%	11.28%	0.39%	0.46%
Professional/semi-professional	10.11%	11.52%	1.89%	2.53%
Clerical, white collar	42.74%	43.29%	6.29%	9.17%
Supervisors	4.71%	5.24%	0.48%	1.15%
Skilled manual	22.98%	22.72%	2.86%	4.97%
Semi-skilled manual	8.68%	4.91%	16.73%	19.67%
Unskilled manual	2.56%	1.06%	71.37%	62.04%
Total economically active	100%	100%	100%	100%

Source: Simkins and Hindson (1979)

*Note that, due to rounding off, figures may not all add up to exactly 100%

Based on the foregoing discussion (and with the benefit of hindsight), it was inevitable that high levels of (Black) poverty and inequality would characterise the country for many generations to come. Therefore, the assertion that the causes of poverty are rooted in the colonial/apartheid era is plausible. In this context, it would thus be appropriate to use this historical context in the subsequent sections as a base, when elucidating upon the causes and aggravators of poverty in South Africa.

3.3. Global or exogenous determinants of poverty

As has already been indicated above, a good understanding of the factors that cause or perpetuate poverty can be of great help in terms of devising strategies that would effectively deal with this phenomenon. Unfortunately, at times, even strategies that are informed by such an understanding may still not be enough to arrest this phenomenon.

This is mainly attributed to the fact that, due to globalisation, some of the factors responsible for poverty emanate from issues or developments that occur in the global arena. These are usually exogenous in nature, meaning that they are beyond the control of the various national governments. In essence, therefore, due to the fact that they have a limited effect in the global context, good national (poverty reduction) policies are bound to be insufficient, unless they are complemented by a supportive international environment. Against this background, it would thus be useful to illuminate some of these (negative) exogenous factors that are engendered by globalisation, with the view to ascertaining how these may exacerbate the plight of the poor in developing countries such as South Africa.

3.3.1. The negative effects of globalisation and poverty

> *"Growth really does help the poor: in fact it raises their incomes by about as much as it raises the incomes of everybody else. … In short, globalization raises incomes, and the poor participate fully"* (The Economist, 2000: 94a).
>
> *"There is plenty of evidence that current patterns of growth and globalization are widening income disparities and hence acting as a brake on poverty reduction"* (Justin Forsyth, Oxfam Policy Director, Letter to *The Economist*, 2000: 6b).

While globalisation is now widely regarded as economically benign, in the sense that it plays a catalytic role in accelerating growth and invariably the reduction of poverty globally[46], the question that is often raised by anti-globalisation critics is whether or not the actual distribution of gains is fair and, in particular, whether or not the poor benefit proportionately less from globalisation, and could under some circumstances actually be

[46] There is compelling evidence that globalisation has played an important catalytic role in accelerating growth and reducing poverty in developing countries (Frankel & Romer, 1999; Dollar & Kraay, 2000; Sachs & Warner, 1995).

hurt by it[47] (Khor, 2002; Watkins, 2002). As a matter of fact, their perception is that *"trade accentuates not ameliorates, deepens not diminishes, poverty in both the rich and the poor countries"* (Bhagwati & Srinivasan, 2002: 02). Hence, the extent to which the poor benefit from globalisation is still a raging issue of academic and public debate. The above two quotes exemplify the extremes of this debate.

There are several recent surveys that have attempted to review the evidence on the relationship between globalisation and poverty (see for example Winters et al, 2004; Goldberg & Pavcnik, 2004; and Ravallion, 2004). However, the authors of these surveys acknowledge that they can only review the indirect evidence regarding the relationship between globalisation and poverty. This is due to the fact that the studies, which test for the direct connections between the two, are very sparse. The few studies which do examine the links between globalisation and poverty typically use computable general equilibrium models to disentangle the relationship between trade reform and poverty. While such research provides an important contribution to our understanding of the channels through which globalisation could affect poverty, Harrison (2005) argues that it is extremely important to be able to look at actual ex post evidence of the impact of trade and investment reforms on the poor. Nevertheless, the broad themes (most of which have to do with the negative impact of globalisation on the poor) that emerge from some of these surveys[48] can be summarised as follows:

(i) *The poor in countries with an abundance of unskilled labour do not always gain from trade reform.* Many economists have used the Heckscher-Ohlin (HO) framework in international trade to argue that trade liberalisation will raise the incomes of unskilled labour in (labour-abundant) poor countries. The notion of this framework is that if the abundant factor in developing countries is unskilled labour, then the poor (unskilled) in developing countries have the most to gain. However, in their chapter on the theoretical relationship between

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[47] There is an online debate on 'Globalization and Poverty' that was organised by the World Bank Development Forum in mid-2000. Nearly all participants in the debate emphasised the negative impact of globalisation on the distribution of income and wealth between and within countries.

[48] This section draws heavily from Harrison's (2005) paper on "Globalization and Poverty".

trade and poverty, Davis and Mishra (2004) argue that most researchers who use this framework to argue that globalisation is good for the world's poor make a number of heroic assumptions—such as that: (i) all countries produce all goods; (ii) goods imported from abroad and domestically are close substitutes; (iii) comparative advantage can be fixed vis-à-vis all trading partners—which may not necessarily hold in reality. As an illustration, they contend that a poor country in a world with many factors and many goods may no longer have a comparative advantage in producing unskilled labour-intensive goods. This idea is easy to understand in the context of three countries—for example, the United States, Mexico and China. Although Mexico might have a comparative advantage in producing low-skill goods in trade with the United States, its comparative advantage switches vis-à-vis trade with China. In addition, the country studies show that labour is not nearly as mobile as the HO trade model assumes - for comparative advantage to increase the incomes of the unskilled, they need to be able to move out of contracting sectors and into expanding ones. Another reason why the poor may not gain from trade reforms is that developing countries have historically protected sectors that use unskilled labour, such as textiles and apparel. This pattern of protection, while at odds with simple interpretations of HO models, makes sense if standard assumptions (such as factor price equalisation) are relaxed. Trade reforms may result in less protection for unskilled workers, who are most likely to be poor. Finally, penetrating global markets, even in sectors that traditionally use unskilled labour, requires more skills than the poor in developing countries typically possess.

(ii) *Financial crises are very costly to the* poor. In Indonesia, poverty soared following their currency crisis in 1997. According to Lanjouw et al (2001), there was an 11% increase in poverty in Indonesia from October 1997 to October 1998. This is contrary to expectations that greater integration in global financial markets would smooth fluctuations in consumption. Cross-country evidence also suggests that financial globalisation leads to higher consumption and output volatility in low-income countries. One implication is

that low-income countries are more likely to benefit from financial integration if they also create reliable institutions and pursue macroeconomic stabilisation policies (including the use of flexible exchange rate regimes). However, foreign investment flows have very different effects from other types of capital flows. While unrestricted capital flows are associated with a higher likelihood of poverty, foreign direct investment inflows are associated with a reduction in poverty.

(iii) *Globalisation produces both winners and losers among the poor.* Against the background that globalisation has many facets/aspects, as well as the fact that the poor are a heterogeneous group, it is dangerous to generalise the effects thereof on the well-being of the poor. Hence, empirical results can defy generalization, even within a country or region. For example, according to Harrison (2005), in Mexico, while (as a result of globalisation) some small and medium corn farmers experienced a decline of about fifty percent in their income in the 1990s, large corn farmers gained. Jenkins (2006) found similar results in his analysis of the impact of globalisation on employment and income opportunities for the poor across different countries. He found that the growth of labour-intensive export of manufactured and agricultural products does create employment opportunities, particularly for low-income women and migrants from rural areas, as horticulture exports in Kenya or garment exports in Bangladesh and Vietnam reveals. On the contrary, he also found that opening up to global competition has also led to job losses and deterioration in working and employment conditions, as the case of textile industries in South Africa illustrates[49]. In addition to this, within the same country or even the same region, a trade reform may lead to income losses for rural agricultural producers and income gains for rural or urban consumers of those same goods. This is usually the consequence of (as will be illustrated below) 'food dumping' by farmers from developed countries, who are subsidised to a large extent by their relevant governments.

[49] Between 1996 and 2004, South Africa lost 75 000 clothing and textile jobs due to opening up to international competition from countries such as China (*Mail&Guardian*, 2005, cited in Desai, 2005).

(iv) *Trade distortion generates poverty.* The effects of import liberalisation on the viability of agriculture, particularly that practised by small farmers of food crops, have become an important field of study in recent years. This is due to the increasing concerns of farmers and their organisations, civil society organisations involved in development, and policymakers in governments of the developing world. Such concerns have emerged because, while the ideology of neo-liberalism says that the maximum liberalisation of tariff and regulatory controls is as good for the party taking these measures as it is for the potential entrants into a newly liberalised domestic market, in practice, globalisation is a highly uneven and unequal process of liberalisation. In many developing countries, the liberalisation of imports has resulted in intense competition from imports that have threatened to displace some of the products of small farmers from their own domestic market. This is because the competition emanating from imports has not been fair in many cases. Imports coming from developed countries are usually heavily subsidised, and thus their prices are artificially cheapened. On the other hand, farmers of developing countries are usually not subsidised. Hence the problem of food dumping. For example, in the Philippine, the Congress, as elucidated in Resolution No. 570 of the House of Representatives (2003), recognised that the removal of quantitative restrictions and the more than halving of average nominal tariffs in the agricultural sector has caused imported vegetables to flood the domestic market with an almost three-fold increase from 42,000 metric tons (MT) in l995 to 115,000 MT in 2000. Local farmers could have easily raised these vegetable imports. The United States, Australia, New Zealand, the Netherlands, Singapore and China were identified by this Resolution as the sources of cheap vegetable imports. Moreover, while global negotiations at the World Trade Organization (WTO) have been moving rapidly towards free markets in foreign investment and services, developed countries intervene in textile and agricultural markets in order to create obstacles for exports by developing countries in areas where they are currently competitive. For example, according to Oxfam (2002), average tariffs applied

by industrialised countries to developing countries are some four to five times higher than the tariff applied to trade between industrialised countries. The reason is straightforward: products in which developing countries have a competitive advantage are subject to the highest import taxes. For the most part, the products involved are labour-intensive goods, where export production has the greatest potential to reduce poverty.

3.4. Macro level determinants of poverty

At the macro level, there are numerous characteristics that might be associated with poverty. The relationship of these characteristics with poverty is country-specific. In general, however, poverty is high in areas/countries characterised by natural disasters, geographical isolation, non-gainful internal migration, stagnant or shrinking economic growth, high levels of inflation, high levels of population growth, and high levels of inequality.

3.4.1. Environmental/situational characteristics

The different areas where people live pose both opportunities and constraints or hazards. People who fail to realise opportunities in their respective communities, particularly in the rural areas, usually fail to mitigate the negative effects (that are created by the constraints or hazards in these respective areas) that accompany these opportunities, and this could lead to low income, which could result in poverty if it (i.e. low income) is sustained for long periods of time. If a community is to be lifted, it is therefore important that all aspects (both positive and negative) of a location are considered. In light of this, the ensuing sub-sections seek to discuss how these constraints (including exposure to natural disasters and residing in rural areas) could lead to poverty if they are not managed successfully.

3.4.1.1. Natural disasters (floods, droughts, etc.) and poverty

Everybody is exposed to natural hazards and hence to disaster risks. However, the level of exposure and the ability to cope with disaster is varied, with poverty being the result in some instances. In light of this, this section seeks to understand how natural disasters can cause or aggravate poverty. This will be achieved by discussing, in brief, why the impacts of natural disasters affect poor people and rich people differently, and how these disasters actually affect poor people and poor societies.

(i) Why do the impacts of natural disasters affect poor people and rich people differently?

Levels of vulnerability are highly dependent on the economic status of individuals and communities. Since the poor and the near poor have a weak asset base, they are likely to be the most vulnerable sector of society. They experience proportionally higher losses when a disaster strikes, because they have less capacity to recover. The foregoing could be attributed to a number of reasons[50], including the following:

- Poor people live in less well-constructed houses than their better-off compatriots, and these are more susceptible to destruction by wind, flood or earthquake than stronger, more expensive housing.
- Poor people very often live on lands that are marginal and subject to flooding or drought.
- They have few or no savings to protect themselves in crises, and they cannot afford insurance because of their low earnings. Furthermore, the fact that they have inadequate access to credit makes it difficult for them to recuperate.
- They have few options for escape when a natural crisis is predicted, because such options cost money. They have less schooling than richer

[50] These reasons are illuminated in Mary B. Andersons' (1999) background note on the 'impacts of natural disasters on the poor' that she submitted for use in the development of the World Bank's WDR 2000/2001.

people and thus enjoy fewer employment options when a natural event undermines their livelihoods. They may suffer from ill health or malnutrition.

- Many of the important decisions about what to spend in order to reduce disaster vulnerability are made not by individuals but collectively, by towns, regions and nations. Disaster preparedness, prevention and response policies and programmes can reduce—even eliminate—vulnerability. However, in many societies, because the poor are marginalised politically and do not participate fully in decision-making structures, their interests are overlooked or minimised in relation to the interests of those who have power and access to decision-making.
- Wealthy contractors can sometimes bribe government inspectors to ignore building code violations, and the poor have little power to protest and few choices about where to live, since these buildings are the only ones they can afford.
- Because disaster preparedness and prevention cost money, wealthy people may vote not to undertake a flood plain project, for example, if they live on high ground, although the poor live in vulnerable locations. Collective decisions about society's disaster policies are often dominated by those who have private resources and less to lose in the event of a crisis. Often, the decisions and actions of one group affect the disaster vulnerability of other groups.

(ii) How do natural disasters affect poor people and poor societies?

According to Anderson (1990), there are two ways in which the costs[51] of natural disasters are more severe for poor people and poor societies than for those that are better off.

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[51] In her paper on 'Analyzing the costs and benefits of natural disaster responses in the context of development', Anderson (1990) asserts that these disaster costs are assessed according to three categories: direct costs (such as losses of capital stock and inventories); indirect costs (such as lost income, employment or services that result from damaged productive capacity); and secondary costs (representing

Firstly, although the actual value of property that can be lost through disasters in wealthy societies is higher than in poor societies, losses as a percentage of wealth (individual or national) are higher for poor people. Monetary valuations of property losses do not tell the whole story. For example, if the only national university in a poor country is destroyed by a natural crisis, 100% of the higher education facilities are lost, whereas the loss of a single university in the United States might cost more dollars to replace, but it represents a less significant loss in terms of total national wealth. One can make similar calculations at the individual level.

Likewise, with regard to indirect costs, losses for the poor may have more devastating impacts, although the monetary value assigned to losses of the rich may be higher. For example, if one school teacher in the United States dies in a catastrophe, the monetary loss of his or her expected lifetime earnings would be higher than that for an individual school teacher who dies in a disaster in Tanzania. However, if the latter were the sole teacher in a village, the proportionate loss to education for a group of children would be more significant than in the wealthier country.

In terms of secondary costs, monetary calculations can also be misleading. For example, if a disaster results in food shortages and thus increases in food prices, better off people may actually spend more on food than poor people, but the latter may experience a greater impact on total income, because they spend a higher proportion of their income on food.

The second way in which the effects of disasters fall more heavily on poor people than on rich people is through the mutual reinforcement of disasters and poverty. Disasters are both a cause and effect of poverty, and poverty is both a cause and effect of disasters. For example, environmental degradation increases the likelihood of some disasters, such as floods, drought or ocean wave damage. However, poor countries cannot afford to take the

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decreases in economic growth and development that occur as a result of such things as increased debt, inflation, price changes that have redistribution effects, and the like).

initiative to curtail such damage, and its continuation perpetuates vulnerability to future disasters that, in turn, contributes to further degradation. Repeated loss of commercial crops, destruction of industrial sites or dislocation of a workforce can undermine incentives for investment in economic enterprises. However, such investment is essential if the cycle of unemployment and poverty is to be broken. Destruction of local goods often necessitates increases in imports. The cost of increased international debt falls more heavily on poor countries, which then have fewer remaining resources to invest in domestic production. Repeated and frequent losses from natural disasters undermine creativity, motivation and other entrepreneurial incentives that form the basis of poverty reduction.

3.4.1.2. Rural location and poverty

One of the most salient facts about the poor in most developing countries is that they are disproportionately located in rural areas and, according to Ravallion (2002), this trend is likely to prevail for protracted periods of time. The World Bank (1990), for example, reported that, on average, in Africa and Asia, about 80% of all target poverty groups are located in rural areas, and for Latin America the estimated percentage was about 50%. In light of these alarming averages, it is thus not surprising to find that data from individual country studies also reveals a similar trend. For example, according to the World Bank (1990), during the 1980's, rural poverty was six times that of urban poverty in Kenya, while in Mexico, it was 30% higher during the same period. Around 1980, a staggering 98% of China's poor lived in rural areas (Ravallion & Chen, 2004). In South Africa, the 1995 OHS/IES also revealed that 74% of the poor reside in rural areas, compared to only 16% in urban areas (this is largely due to the forced removals and influx control measures, which were devised for the purposes of restricting rural-urban migration to breadwinners only - see section 3.3.1). Against this backdrop, this section will try to illuminate possible reasons why poverty is concentrated in rural areas.

3.4.1.2.1. Factors contributing to low income and poverty in rural areas[52]

There are several factors that might explain why poverty is higher in rural areas than in urban areas, and those worth mentioning include the following: lack of resources and technology; urban bias; vulnerability to natural disasters; and lack of access to basic services.

(i) *Lack of resources and technology*. Rural areas are heavily dependent on agricultural production, which in developing countries is characterised by low labour productivity, because of minimal capital per worker and inadequate technology. Small farm owners, in general, receive limited credit (compared to large farm owners) and tenants, sharecroppers and landless labourers receive almost none. Moreover, there is little research and development to improve technology appropriate for small farmers. Therefore, due to the combination of these factors, low aggregate earnings are usually the result.

(ii) *Urban bias.* At the heart of the apartheid policies, there was a subtle premise of multi-faceted discrimination against non-Whites, especially Africans. According to the ideology of apartheid, each race was to be kept apart, and each was to develop separately. This segregation tactic was then, in turn, utilised to target development efforts at high-income White urban enclaves, thereby neglecting the majority of the Black population, who were mainly domiciled in the former rural homelands. This constituted a disproportionate spending on services, including education, medical care, training, housing, infrastructure (such as tarred roads) and general public services (access to clean water) for these urban areas. Consequently, things such as years of schooling (a major indicator of skill and productivity) and life expectancies (an indicator of the quality of the health care system) are lower in rural than in urban areas. Hence, average incomes in urban areas are higher than in rural areas.

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[52] This section draws heavily from Nafziger (1997).

(iii) *Vulnerability to natural disasters.* Natural disasters such as drought or flooding tend to affect rural areas more severely than urban areas. Although at first it might be thought that these phenomena would only affect transient poverty, they affect the stock of capital of communities, which in turn has a permanent adverse effect on poverty rates (see the preceding section on how natural disasters can generate more poverty).

(iv) *Lack of access to basic services.* The poor are frequently physically or figuratively on the periphery when it comes to access to the most basic opportunities and services needed in order to facilitate survival. As a result, they usually find themselves having to travel large distances to access services such as schools and clinics, and when seeking a job, they subsist away from home because job-seeking imposes a price, which the extremely poor frequently cannot pay. Furthermore, lack of income and markets in remoter (i.e. areas that are not easy to access) poor communities curtail business opportunities and give rise to a vicious cycle of poverty, which also encompasses incapacity to pay for services.

3.4.1.3. Internal migration and poverty

Owing to the combination of factors that have been alluded to in the preceding sub-section (3.5.1.2.1), as well as the lack of gainful employment (or economic) opportunities, most of the people that are domiciled in rural areas understandably migrate to urban or other rural areas that are perceived to have better opportunities. In South Africa, for example, the rural-urban and rural-rural migration labour system has its roots in the development of mining and industrial sectors, and also in the early primitive stages of commercial capitalist agriculture, which took place on farms that were owned by Whites[53]. The notion is that, because they are perceived to be capital-rich, these areas generate a high marginal productivity of labour, and therefore wage rates that are generally high. In essence, therefore, migration offers the promise of higher earnings and

[53] According to Cohen and Kennedy (2000), the South African migrant labour system, at least until 1989, was probably the largest in the world.

thus better living conditions for the family back home (assuming that the migrants[54] will send remittances back to the people that they left behind).

Notwithstanding the foregoing view, it is important to note, however, that migration does not always yield the expected higher returns. This is because realising these higher returns is, inter alia, a function of the migrants' means (assets and resources) and strategies (networks and planning). Moreover, the impact of migration is context-specific. Therefore, under certain circumstances, migration can actually cause poverty or aggravate the very same adversities that the migrants were trying to circumvent in the first place. For this reason, this sub-section seeks to discuss, in brief, the migration-poverty link, with a particular emphasis on how migration can cause or aggravate poverty.

3.4.1.3.1. Migration as a cause of poverty

There are a number of ways in which migration can cause poverty or at least deteriorate the living standards of the already poor and the near poor. Those that will be discussed here include, among others, forced removals, migration that occurs through irregular channels, overcrowding in the labour markets (of various destinations), and brain drain.

(i) Forced removals

According to Skeldon (2003), one of the most obvious ways in which migration can cause poverty is through forced removals that occur without adequate planning and support. These forced removals have a direct effect on the livelihoods of the poor, in a sense that they strip the poor of their much-needed essential asset, i.e. their house (see section 3.5.3.3 regarding how inadequate access to lodgings can limit economic opportunities for the poor). In many cases, the forced relocation is essentially the product of development, mainly through the creation of lakes and reservoirs that are the result of

[54] Migrants are people who, in an effort to improve their lives, move for a temporary or permanent period of time from their place of birth, and who do not necessarily enjoy the same rights and entitlements available to non-migrant individuals in that place. (This definition was developed by the DFID to encompass the range of movements undertaken by people, particularly the poor).

the construction of dams, although displacement for roads and urban expansion is also important. For example, it is estimated (globally) that between 90 and 100 million people were involuntarily displaced by infrastructural development projects during the last decade of the twentieth century (Cernea & McDowell, 2000: 02). In India alone, some 20 million people are estimated to have been displaced over a period of about 40 years, the majority of whom became impoverished (Cernea, 2000: 12), while in China, over a similar period of time, well over 30 million people were displaced (Meikle & Zhu, 2000: 128).

(ii) Migrating through irregular channels

Many migrants, particularly those who migrate through irregular channels, find themselves in vulnerable positions before, during and after their journey. There are certain fundamental human rights that all migrants possess. In practice, however, many migrants are unable to exercise the rights to which they may be entitled under international and national law. This is worsened by the fact that these migrants usually lack the necessary mechanisms to buffer their plight, at least in the short-term. Consequently, the foregoing combination, in turn, makes migrants vulnerable to exploitation, malnutrition, starvation and other afflictions, all of which constitute the hallmarks of poverty.

(iii) Oversupply of labour in destination regions

Problems may arise when a destination region's capacity to absorb large flows of labour, particularly the unskilled, is limited. 'Migration myths' or exaggerated accounts of achievement at destination stimulate flows and further intensify problems of oversupply of labour in destination regions, leading new migrants to suffer from inadequate housing and employment, and to remain or become more vulnerable (Kothari, 2002; Skeldon, 1997). In the South African context, this is exacerbated by the fact that, as it has been indicated in the analysis conducted by Burger (2004: 56-57), among others, since 1994, those sectors of the economy that have employed large numbers of unskilled labourers, such as mining and agriculture, have shed large numbers of jobs[55] (meaning that jobless migrants had nothing to remit). Instead, the sectors (such as finance, real estate and business services) that have been adding large numbers of new jobs are those that employ workers who are more skilled. Consequently, the demand for unskilled workers has slumped and, in contrast, the demand for semi-skilled and skilled workers has boomed (since the majority of labour is unskilled, this has led to high structural unemployment rates in South Africa). Moreover, loss of social support networks (as well as traditional family support) in such situations results in migrants depending on exploitative patrons, such as *mastaans* in urban Bangladesh, who function as intermediaries between the vulnerable and more formal institutions, charging rent for access to employment, housing and services, security and high interest rates on loans, which in the long-term deny migrants their independence and rights (Wood, 2003).

(iv) Brain drain

A more difficult dimension of migration leading to an extension of poverty relates to the loss of innovative and educated community members - in essence, a 'brain drain', particularly at the village level. According to Skeldon (2003), it has, however, proven singularly difficult to empirically demonstrate a fall in either agricultural production or productivity upon rural-to-urban migration at the village level. Much of the difficulty is derived from the fact that a lot of migration may be circular in nature. Both educated and non-educated workers moving from the village to town either return at a later stage or move to extend the resource base of their families, by incorporating new resources elsewhere.

3.4.2. Economic characteristics and poverty

The focal point of this section will be on examining the effect that the overall economy can have on poverty and the poor. The two important phenomena that will form the basis

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[55] Within those sectors, the skill demands for the remaining jobs have been climbing.

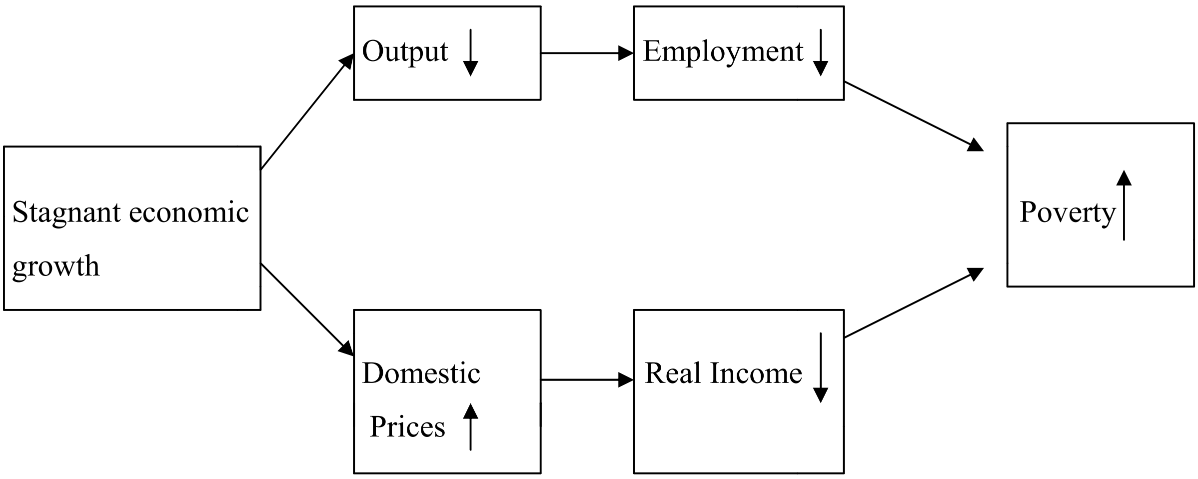
for this discussion on the relationship between poverty and the state of the economy are stagnant economic growth and high inflation rates.

3.4.2.1. Stagnant/shrinking economic growth and poverty

The theoretical relationship between shrinking/stagnant economic growth, measured by decreased output per capita, and the number of people below the poverty line, is fairly straightforward. As can be seen in Figure 3-2, it can be generally assumed that a decrease in economic growth affects poverty through two main channels: output reduction and domestic price increases or a higher inflation rate (the former will be elaborated on in the following sub-section). The first one is called the unemployment effect of an economic crisis: a fall in output reduces employment opportunity or creates a higher unemployment rate, and thus increases the poverty rate, *ceteris paribus*. The rise in the poverty rate is also expected, provided that everything else remains the same, to have a positive correlation with the increase in domestic prices through the decline in real income - this is the so-called real income effect. In support of this, most of the existing empirical studies on the impact of stagnant/shrinking economic growth on poverty in developing countries examined such impact through output fluctuation, though with different methods of analysis or different models. For instance, with a vector auto-regression technique, and by using annual data for the period 1981-1999 in Brazil, Agénor (2001) examined whether or not output contractions have an asymmetric effect on poverty. The result indicates that poverty responds asymmetrically to a drop in output, showing less sensitivity when the economy is initially in a downturn.

Various arguments have been proposed to explain why this is usually the case (Tambunan, 2005; Agénor, 2001; Neri & Thomas, 2000). The most important arguments are the following ones. Firstly, the poor often lack the means to protect themselves when an economy experiences a recession. They lack assets (such as bank deposits and land) and often have no direct access to credit markets (or face prohibitive borrowing costs when they do), in order to soften the impact of a recession. Secondly, due to their lack of education and skills, the poor tend to be less mobile (across sectors and regions) than better-educated workers, and are therefore often unable to switch jobs and capitalise on available employment opportunities. Thirdly, indirect sources of income and public transfers may decline during crises, because during such episodes, the ability of relatives (or communities) to engage in income redistribution may be reduced, and governments may be forced to drastically adjust their fiscal accounts with across-the-board cuts in expenditure.

Figure 3-1: Conceptual framework: stagnant economic growth and poverty



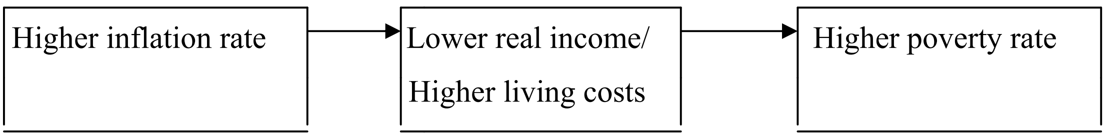
Source: Modified from Tambunan (2005)

3.4.2.2. Inflation and poverty

> *"Given the extent to which the vast majority of households rely on the market for their purchase of key commodities including food, inflation is clearly an issue of relevance to poor and non-poor alike"* (McKay & Sowa, 2004: 16).

In the literature, inflation (i.e. an increase in the general level of prices for basic goods) is often viewed as a type of tax, and one that has a more severe effect on the poor than the rich. The essential *a priori* argument is that the rich are better able to protect themselves against, or benefit from, the effects of inflation than are the poor. In particular, the rich and more sophisticated are likely to have better access to financial instruments that hedge in some way against inflation, while the (small) portfolios of the poor are likely to have a larger share of cash[56] (Fischer & Easterly, 2000). Consequently, higher inflation is thus likely to decrease the purchasing power of the poor. This decrease in real income in turn exposes the poor to higher consumption burden/living costs, thus creating a fertile ground for a vicious poverty cycle if these higher costs are not accompanied by a commensurate increase in income (see Figure 3-2).

Figure 3-2: Conceptual framework: inflation and poverty



Source: Tambunan (2005)

In line with the above analogy, there are a number of empirical studies that have tested this positive correlation between inflation and poverty using different methods of analysis. For instance, Levinsohn et al (1999) studied this issue in Indonesia during the 1997 economic crisis, and they found that the poor had indeed been the hardest hit, and urban poor households faced a higher cost of living than their rural counterparts. Datt and Ravallion (1996, 2002) found, in a cross-time, cross-state study of India, that observations with higher inflation rates also had higher poverty rates. They attributed this effect primarily to adverse shocks on the real wages of unskilled labour. Agenor (1998) also found poverty rates to be positively related to inflation in cross-country data. Cardoso (1992) argued that the inflation tax does not affect those already below the poverty line in Latin America, because of their negligible cash holdings. However, she found that higher inflation is associated with lower real wages in a panel of seven Latin American countries. An additional fragment of evidence comes from Rezende (1998:

[56] According to McKay and Sowa (2004), this argument might not be applicable to lower income countries, where many of the poor might not hold their assets in financial terms, and where few of the poor work in formal employment, or in instances where many of the rural poor may obtain much of their consumption through non-markets channels, notably from consumption of their own production.

568), who points out that the gini-coefficient in Brazil increased steadily with rising inflation in the 1980s, and then declined with the successful inflation stabilisation during the period 1994-1996. Epaulard (2003) also indicates that a high rate of inflation (above 80%) is associated with higher elasticity of the poverty rate in any economic downturn.

3.4.3. Social characteristics

At a national level, there are copious social ills or characteristics that are associated with poverty. These include, inter alia, high population growth and high levels of inequality. This section will attempt to describe how these macro level characteristics can cause or aggravate poverty.

3.4.3.1. Rapid population growth and poverty

Population growth per se is not a problem if the resources are available (or, even better, if it is accompanied by a commensurate increase in resources) to cope with the additional people requiring public services, employment, housing and so on. However, in a country such as South Africa, where the budget is already stretched and where there are high levels of poverty, population growth becomes an issue because not only does it exacerbate poverty, but it makes it harder for the government to address it. Based on this reality, it would be useful to discuss the link between poverty and population growth.

3.4.3.1.1. Rapid population growth-poverty link

The links between rapid population growth and persistent poverty have been well established (Eastwood & Lipton, 1999, 2001; Pernia & Quibria, 1999; Orbeta, 2002; Lipton & Ravallion, 1995; Balisacan, Mapa & Tubianosa, 2004). Rapid population growth – of 2% or higher per year (Pernia & Associates, 2004) – hinders development for two interrelated reasons. Firstly, because it reduces growth in per capita incomes and thus savings, it reduces the funds available for investment in productive capacity. This under-investment, in turn, reduces overall economic growth and prospects for poverty reduction

(Coale & Hoover, 1958; Birdsall, 1988). Secondly, at the aggregate level, rapid growth of a population increases the availability of labour in an economy, relative to land and physical capital (Birdsall & Griffin, 1993; Bloom, Canning & Sevilla, 2003). As has been indicated in a number of studies[57], this results in a relative decline in the wages of labour, particularly those of unskilled labour, if they are members of a large cohort. This is likely to worsen inequality and hurt the poor, who are more reliant on labour income. Moreover, rapid population growth, more often than not, outpaces the capacity of industries (particularly those that employ unskilled labour, i.e. the mining sector, the manufacturing sector and so on) to absorb new labour, thus compounding unemployment and underemployment. In 2003, the Philippine economy generated 566,000 new jobs, of which 60% were in the services sector. Despite this job creation, unemployment levels rose because the job market was inundated with 624,000 new entrants (ADB, 2004). Similarly, between the years 1995 and 2002, the number of jobs generated by the South African economy increased by only 1 600 633 (16.75%), compared to an increase of 5 005 647 (37.24%) in the number of people of working age[58] (StatsSA, 1995, 2002).

In support of the above exposition, there are a number of empirical studies that have found an inverse relationship between rapid population growth and poverty. For example, de Dios et al (1993) identified high population growth as one of the reasons for poverty in the Philippines. They argued that high population growth aggravates poverty, as it disproportionately affects the poor, who tend to have larger families. Eastwood and Lipton (1999) showed in their study that high fertility not only retards economic growth, but also skews the distribution of income against the poor. Bloom, Canning and Malaney (2000) illustrated how demographic transition can have an impact on poverty via economic growth, concluding that the demographic structure of East Asia – slower

[57] For example, Behrman and Birdsall (1988) show this with regard to males in Brazil.
[58] According to Abedian (2004), this rapid growth of the labour force in South Africa can be attributed to two main factors: (i) Firstly, the number of women in employment has increased by one third, and those seeking employment has also risen. (ii) Furthermore, education and the extension of urban services have contributed to a demographic shift away from rural areas, again resulting in more job-seekers.

population growth and a higher ratio of working age people[59] – was responsible for about a third of the region's increase in income per head.

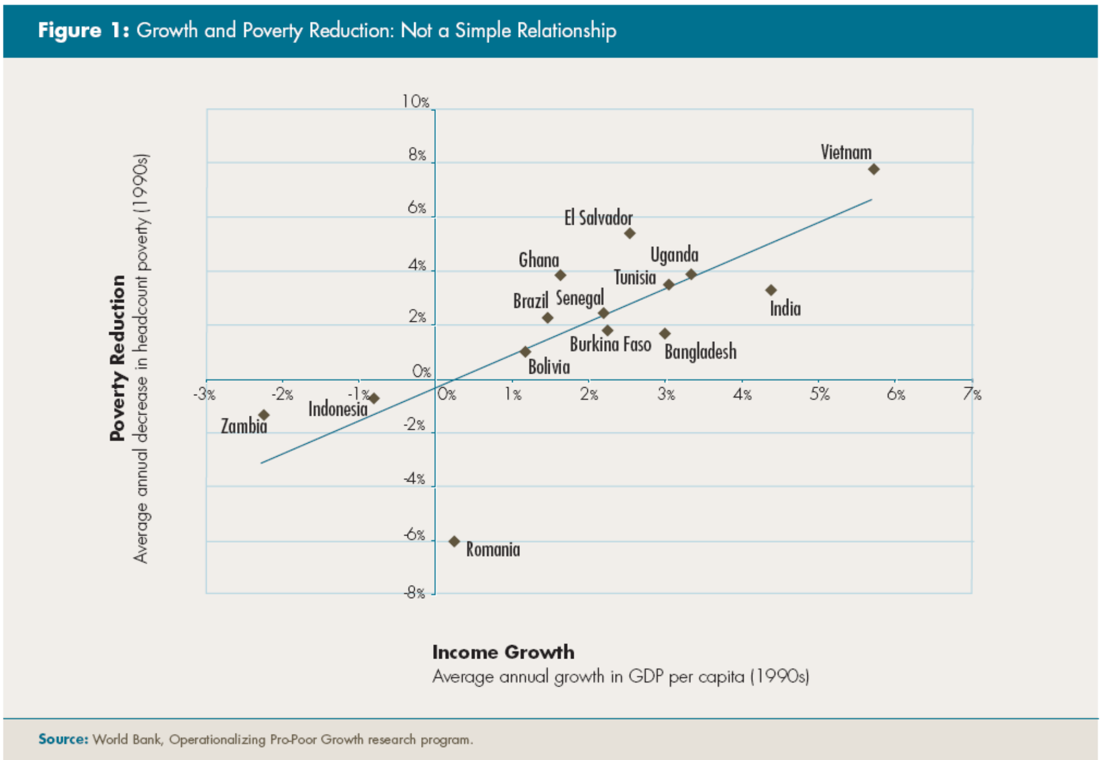
3.4.3.2. Inequality and poverty

It is generally believed that when inequality increases (if other things are kept constant), poverty increases as well, thus dampening the beneficial effect of economic growth on poverty (Bautista, 1999; Paci, Sasin & Verbeek, 2004). This general consensus is based on the belief that in an economy where inequality is persistently low, the poor will naturally tend to obtain a higher share of the gains from growth than in an economy in which inequality is high (Ravallion & Datt, 1999). Hence, the same rate of economic growth might be less effective in reducing poverty in one setting than in another. In essence, therefore, as Whiteford and McGrath (1994) illustrated in their study on "*Distribution of Income in South Africa*", where inequality is high, the rich usually become richer and the poor become poorer, thus further increasing the gap between the rich and the poor.

Empirical evidence from a number of studies that have been conducted with regard to this issue substantiates the above view. For example, in the 1990s, Bangladesh experienced an average annual growth rate more than twice that of Ghana, yet the poor in Ghana saw their incomes rise substantially more than the incomes of the poor in Bangladesh (see Figure 3-3). While Senegal and Burkina Faso experienced the same average rate of annual growth between 1995 and 2002, the different rates of poverty reduction were such that it would take Senegal 28 years to halve poverty, while it would take Burkina Faso 40 years to achieve the same goal (Lucas & Timmer, 2005). In another study by Deolalikar (2000), in which provincial data from Thailand was used, it is suggested that, while economic growth has a strong positive effect on poverty reduction, income inequality has a sharply negative effect.

[59] If the ratio of the non-economically active population is higher than that of the working age population, pressure is put on government at the macro level to provide for these dependents. This leads to resources being diluted, thus lowering economic growth which is essential for poverty reduction.

Figure 3-3: Growth and poverty reduction



Source: World Bank (2000/2001), cited in Lucas and Timmer (2005)

3.4.3.3. Public corruption[60] and poverty

There are a number of channels through which corruption causes poverty. These can be broadly categorized into two groups, namely: - (i) economic factors and (ii) governance factors.

(i) Economic factors

Corruption affects poverty by first impacting economic growth factors, which, in turn, impact poverty levels (Chetwynd et al, 2003). Economic theory and empirical evidence both demonstrate that there is a direct causal link between corruption and economic growth (see, for example, Tanzi & Davodi, 1997; Mauro, 2002; Barro, 1996). Corruption

[60] That is corruption in both the government and the market.

impedes economic growth by discouraging foreign and domestic investment, taxing and dampening entrepreneurship, lowering the quality of public infrastructure, decreasing tax revenues, diverting public talent into rent-seeking, and distorting the composition of public expenditure.

In addition to limiting economic growth, there is evidence that corruption also exacerbates income inequality; regression analysis has shown a positive correlation between corruption and income inequality (see, for example, Gupta et al, 1998). According to Chetwynd et al (2003), explanations for this link are that corruption distorts the economy and the legal and policy frameworks allowing some to benefit more than others; there is unfair distribution of government resources and services; corruption reduces the progressivity of the tax system; corruption increases the inequality of factor ownership; and lower income households (and businesses) pay a higher proportion of their income in bribes than do middle or upper-income households.

As it has been demonstrated in the preceding sub-sections, economic growth and income inequality are important because they link corruption to poverty. The absence of economic growth (or negative growth) increases poverty. Inversely, an increase in GDP produces an increase in the income of the poor. However, income distribution is an important mediating factor because economic growth may not always benefit the poor.

(ii) Governance factors

Chetwynd et al (2003) assert that corruption also affects poverty by influencing governance factors, which, in turn, impact poverty levels. In line with the view held by the World Bank (2000/2001), they contend that corruption reduces governance capacity, that is, it weakens political institutions and citizen participation and leads to lower quality government services and infrastructure. The poor suffer disproportionately from reduced public services. When health and basic education expenditures are given lower priority, for example, in favour of capital-intensive programmes that offer more opportunities for high-level rent taking, lower income groups lose services on which they depend. Also, corruption is consistently correlated with higher school dropout rates and high levels of infant mortality (see, for example, Gupta et al, 2000; Mauro, 2002).

3.5. Household or individual level characteristics and poverty

At a household or individual level, there are a variety of characteristics that are usually associated with poverty (i.e. educational level, household size and structure, health, race, sex, age and labour force status). As will be shown below, *"disadvantages in any of these attributes could lead to poverty, and thus, these individual economic handicaps are rightfully considered causes of poverty"* (Perlman, 1976: 152).

3.5.1. Demographic characteristics

At a household (or individual) level, demographic factors (i.e. household size with a high dependency ratio; age structure; and the gender of the household head) usually play a significant role in determining the poverty status, as measured by household consumption per person, of the members therein. In fact, the inverse relationship between these demographic factors and poverty is a common finding in the literature. Against this background, it would be appropriate to provide a brief explanation of how these factors are correlated with poverty.

3.5.1.1. A large household size with a high proportion of dependants

It is generally believed that larger households, particularly if they possess a high proportion of dependants (that is, children under 15 years and adults of 65 years and over), are more likely to be poor relative to smaller ones. This belief is based on the idea that children and the elderly are a distinct threat to the financial security of a family (Schiller, 1995). Additional children and the elderly do not only increase the need for more income, but also limit the ability of parents (or other members who are in the work force) to earn it. More children imply a greater demand for homemaker services such as childcare, meal preparation, transportation and other household activities. The same goes for the elderly, who can no longer participate in the labour force because of their age. They also need to be given special attention, especially with regard to medical care. As the burden of caring for these dependants grows, it becomes more difficult for the economically active household members to supply their labour to the outside job market. If they choose to pay someone else to provide these household services, they may find that the net income from outside employment is too small, especially if the household has a low or non-existent asset base. In a case where a household resides in a rural area, where subsistence farming or a subsistence economy is predominant, the large household size tends to increase competition for land resource use between food crops and cash crops, which may be coupled with declining soil productivity. This may result in low output, low household income and the perpetuation of poverty (Okurut et al, 2002).

In light of the aforementioned, the general belief that larger households (with a high proportion of dependants) are more prone to poverty is plausible. In fact, there are a number of empirical studies that show an inverse relationship between household size and poverty. For example, the Cambodian CSES of 1993/94 shows that the poor tend to live in larger households, with an average family size of 6.6 persons in the poorest quintile, compared to 4.9 in the richest quintile (Kanbur et al, 2003). Okurut et al (2002) also found that poor households in Uganda have bigger household sizes compared with non-poor households. In Brazil, Fishlow (1972) reported that 29% of all families had 6 or more members, and over half of such families fell below the poverty line. Similarly, for Malaysia, Anand (1977) noted that the incidence of poverty rose with family size, ranging from 24% in a household of one to 46% in households with ten or more people. The World Development Report (World Bank, 1990) observed that in Pakistan in 1984, the poorest 10% of households had an average of 7.7 members, while the corresponding national average was 6.1. In a micro-level study of poverty in India, Dubey, Gangopadhyay and Wadhwa (1999) found a significantly positive effect of household size on the incidence of poverty.

3.5.1.2. Age of the household head and poverty

The well-being of the elderly, in this day and age, is largely a function of their productivity and ability to save during their prime years of productivity. In light of this, it is to be expected that poverty will increase amongst the elderly. This is because the productivity of these individuals decreases, and they usually have few savings to compensate for this loss of productivity and income. This is more likely to be the case in developing countries such as South Africa, where savings are low, mainly because of low income and a poor savings culture. However, the relationship between age and poverty might not be linear, as it would be expected that incomes would be low at a relatively young age[61], increase during middle age, and then decrease again. Therefore, according to life-cycle theories, one expects to find that poverty is relatively high at a young age, decreases during middle age, and then increases again in old age[62].

In light of this, it is understandable why it is a common finding in the literature that the poor tend to live in households that are headed by either young people or the elderly. For example, the Cambodian CSES of 1993/94 found that the poor tend to live in younger households, with the bottom quintile having twice as many children under 15 per family as the top quintile (Kanbur et al, 2003). In their study of the determinants of poverty in Egypt, Datt and Jolliffe (1999) also found similar results. They found that household living standards increase with the age of the head up to 62 years in rural areas and 74 years in urban areas, and decline thereafter[63].

3.5.1.3. Gender of the household head and poverty

As is suggested in the literature (Buvinic & Gupta, 1997; Appleton, 1996; Agarwal, 1994; Bruce & Dwyer, 1988; Lipton & Ravallion, 1995), due to the fact that they

[61] The young usually lack the required necessities, i.e. tertiary education, advanced skills and experience, to acquire well-paying jobs.
[62] Perlman (1976) argues that, although there are obvious differences between the young and the old, these two extremes of the life-span share one common poverty-inducing characteristic: they are both non-working periods in life.
[63] Datt and Jolliffe (1999) argue that these results in part reflect lifecycle phenomena such as higher earning capacity, with greater experience and smoothing of consumption over the lifecycle.

typically have less access to productive resources and assets such as land, credit, financial, physical and human capital, women make up a majority of the world's poor, and South Africa is no exception in this regard. One of the main reasons why this phenomenon is prevalent in South Africa lies in past apartheid policies, such as the draconian 'Urban Labor Preference Policy' of the 1950's, whereby most women in rural areas often headed their respective households with a very limited asset base to rely on, thus creating a fertile ground for these households to be trapped in poverty for protracted periods of time[64]. Nowadays, issues such as the mortality of male heads, resulting from Aids and high levels of unemployment[65], perpetuate this phenomenon even further. Against this background, it is only natural that female-headed households are often suspected to be poorer than male-headed households (Folbre, 1991; Human Development Report, 1995; United Nations, 1996; World Bank, 2001). As a matter of fact, in line with this suspicion, evidence from studies that have been done pertaining to the profile of the poor in South Africa suggests that the incidence of poverty is indeed higher in female-headed households. For example, May's 1998 Poverty and Inequality Report showed that the poverty rate among female-headed households was 60%, while it was 31% among male-headed households. Similar findings are found elsewhere. For example, in their review of sixty-five household studies on headship and poverty in Africa, Asia and Latin America, Buvinic and Gupta (1997) found female-headed households to be disproportionately represented among the poor in 38 cases, with the greatest concentration of over-representation occurring in Latin America during the eighties.[66]

3.5.2. Economic characteristics

Apart from income or consumption – which is typically used to define whether or not a household is poor – there are a number of other economic characteristics that are

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[64] See section 3.3.1 with regard to how this policy affected these households economically.
[65] See section 3.5.2.1 for an illustration of how unemployment impacts on the well-being of people in South Africa in general.
[66] It is worth noting that female household heads are a heterogeneous group, which includes widows, divorced women, single women, abandoned women and women whose husbands have migrated in search of employment. Therefore, some women in this group are more susceptible to falling into poverty than others. Moreover, the percentage of women in each group differs across countries, cultures and regions of the world (Joshi, 2004).

associated with poverty, most notably household employment status, as well as other productive assets owned by the household.

3.5.2.1. Lack of gainful employment opportunities and poverty

> *"While a situation of unemployment may be considered a problem in its own right, it has been argued that the problem of unemployment lies most particularly in its correlation with poverty…"* (Dewar & Watson, 1981: 10).

Given that there are deficiencies in the asset base of the majority of individuals and communities in South Africa[67], as well as the fact that our country does not have (and perhaps cannot afford) a comprehensive social security safety net for all its citizens (Desai, 2005), one of the primary mechanisms through which the poor can insulate themselves from being affected by the adversities engendered by having inadequate earnings is by participating in the labour market. This is because there is literally no way, other than through crime and charity, to obtain the resources necessary to reproduce life for most South Africans, other than to sell their labour. However, labour force[68] participation is not a guaranteed ticket out of poverty (Schiller, 2001). In fact, the reality is that millions of South Africans who do participate in the job market usually fail to elude poverty, and the two principal reasons for this are unemployment and underemployment. In light of this, it would thus be worthwhile to discuss the relationship between an individual's and household's poverty status and their unemployment/underemployment status.

3.5.2.1.1. The unemployment-poverty link

Loss of employment or failure to obtain employment usually reduces income and consumption. In most cases, this reduction means foregoing in some measure the bare

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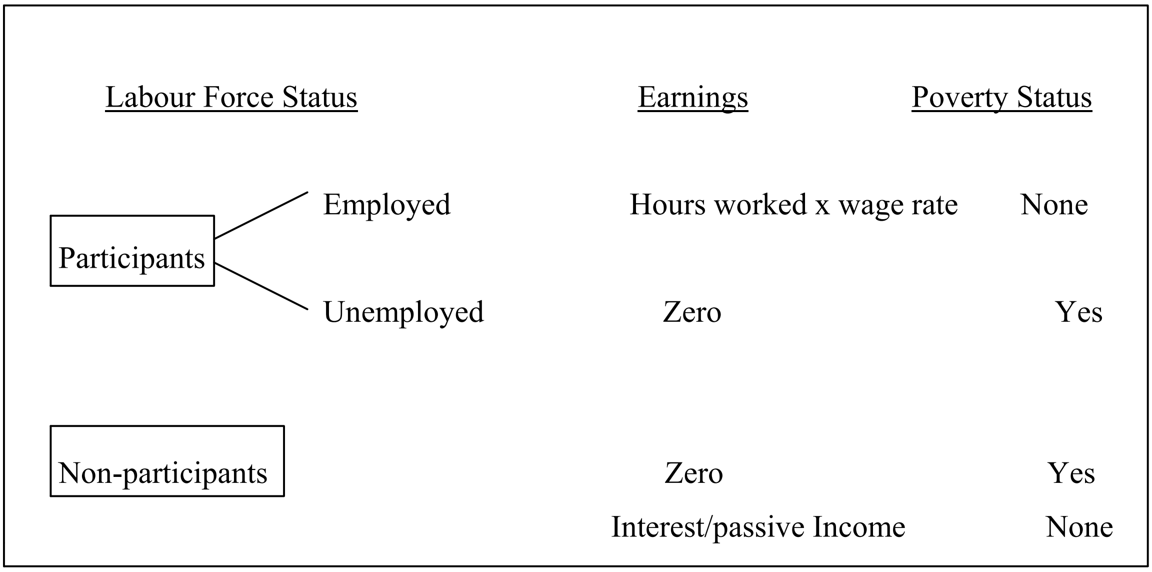
[67] See section 3.3.1.

[68] The labour force basically consists of persons who are working or looking for work: it incorporates the employed and the unemployed (Gunderson & Riddell, 1988).

essentials of life. For an illustration of how this process of economic deterioration takes place, see Figure 3-4 below.

Figure 3-4: Labour force status and earnings and poverty status



Source: Modified from Schiller (2004)

This figure provides an overview of the relationship between labour force participation and earnings. What is worth noting is that people who do not participate in the labour market (non-participants) may either have zero earnings or generate passive income, while participants have a greater probability of obtaining wages. Moreover, what is also apparent from this figure is that, in order for participants to be able to circumvent the adversities of poverty, they must be able to find full-time jobs that pay decent wages or at least find jobs that enable them to work sufficient hours to stay out of poverty. In other words, those participants who are unable to find work are likely to be poor, because it is very difficult for them to maintain an effective purchasing power when earnings fall to zero, especially if they lack alternative income-yielding assets.

Table 3-4: Unemployment by race, gender and location (%)

Unemployment rates	Ultra-poor	Poor	Non-poor	All
(Broad) unemployment rates by:				
Race				
African	59.4	52.7	24.5	36.9
Coloured	46.1	36.7	17.0	21.8
Indian		67.5	12.8	13.7
White		75.0	4.5	4.7
Gender				
Female	65.9	59.1	25.3	37.4
Male	51.6	44.0	12.9	22.4
Location				
Rural	56.3	48.8	22.4	36.7
Urban	65.7	57.5	16.8	24.0
Total broad unemployment rate	58.7	51.5	18.4	29.3
Total narrow unemployment rate	34.9	30.6	11.0	16.4
Labour force participation rate	43.4	45.8	61.6	55.3
Share of working adults aged 16-64	17.7	21.9	48.3	37.9

Source: Woolard (2002)

In support of the above analogy, there are a number of empirical studies that show that the incidence of poverty tends to be more severe amongst households with unemployed members than those with employed members. A case in point in this regard can be taken from the working paper that was prepared for DFID (S.A) by Dr Ingrid Woolard in July 2002. In this paper, when using 1999 OHS data, Woolard revealed that, as is depicted in Table 3-4, the unemployment rate among those from poor households was 52%, in comparison with an overall national rate of 29%. In addition, labour force participation was lower in poor than non-poor households. More than half of the working-age poor (or about 5 million adults) were outside of the labour market. As a result, the percentage of working age individuals from households below the poverty line who were actually working was significantly lower than average. Only 24% of poor adults (about 2 million people) were employed, compared with 49% (or 8 million) from non-poor households.

It should be noted, however, that being unemployed does not necessarily mean that a person is poor. In fact, frictional or temporary unemployment of up to 3% or 4% of the labour force is considered a normal occurrence[9]. However, when a person who is the breadwinner of a family fails to find a job in the short-term, unemployment is likely to be an important determinant of poverty in his/her household.

3.5.2.1.2. Underemployment-poverty link

In view of the fact that in most economic systems, workers are paid in relation to the value of their contribution to the output of the employer or purchaser, the underemployed are likely to receive low earnings. Unfortunately, these low earnings are usually not enough for the underemployed to elude poverty. This is especially so because the earnings for the underemployed are usually inadequate to cover not only immediate needs, but also for lengthening non-work periods in the lifecycle. Moreover, the fact that the underemployed are usually epitomised by illiteracy, lack of experience, lack of advanced skills, relegation to geographically handicapped areas and so on, frequently thwarts their chances of acquiring better-paying jobs.

3.5.2.2. Inadequate access to productive assets and markets and poverty

Against the background that the basic, rational understanding of the roots of poverty is usually built on the concept of assets and the return on these assets (see section 3.3), it is only natural to suspect that many of the poor, particularly those that reside in rural areas, are in that state because they lack access to productive resources, including land, human, physical and financial capital needed to undertake high-return production strategies. However, having access to such resources does sometimes not guarantee high or gainful returns. This is attributed to the fact that the returns on these assets are largely dependent on, inter alia, access to markets, whereby outputs from production can be traded.

[9] Millions of job searchers could be ex-students who are looking for their first job or they could be middle-class women returning to the labor market after their kids have entered school. Moreover, some people quit their jobs and then look for something better. In such circumstances, unemployment may not be accompanied by economic hardship, much less poverty, more especially if other family members are working.

Unfortunately, smallholder/emerging farmers, particularly on the African continent, usually face limited access to markets for their outputs[69], and are often relegated to the margins and outside the formal sector of the economy (hence poverty is prevalent in the former homelands). The results are high transaction costs, low returns on productive resources and increased vulnerability, which can easily translate into poverty if circumstances allow.

3.5.3. Social characteristics

Aside from demographic and economic indicators, several social indicators are associated with poverty and household living standards. The most widely used ones are measures of health, HIV/AIDS, education and shelter. In the following sub-sections, an examination of how these relate to poverty will be conducted.

3.5.3.1. Ill-health and poverty

Ill-health can cause poverty through three major channels: (i) loss of production by sick individuals, (ii) financial cost of healthcare, and (iii) the opportunity cost of caring for the sick.

(i) *Loss of production by sick individuals.* Poor health can impair labour participation, which can, in turn, disrupt people's income-generating capabilities. The idea is that those who are suffering from malnutrition (i.e. one of the health indicators) often feel weak and lacking in energy, and are more susceptible to infection and other illnesses than those who receive the minimum dietary energy requirements (Dasgupta, 1993; Chowdhury and

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[69] According to Oluoch-Kosura et al (2004), this is usually the result of the existence of rudimentary market systems, which are unable to provide the requisite stimuli for the evolution of commercially oriented smallholder production systems beyond the narrow and subsistence-based strategies currently characterising many rural areas in most developing countries, particularly those found on the African continent. Another reason could be that most smallholder farmers, particularly in Africa, find it very difficult to compete with farmers in developed economies, particularly those in the United States. This is due to the fact that most farmers in these countries receive substantial subsidies from their respective governments, which then enables them to price their goods lower, relative to farmers in other developing countries. This in turn makes it almost impossible for smallholder farmers to compete with them successfully in gaining a market share in large markets such as Europe.

Chen, 1977). In line with this view, the daily wage rates in Cote d'Ivoire have been estimated to be about 19% lower among men whose health status makes them likely to lose a day of work per month because of illness than daily wage rates of healthier men (World Bank, 1993). Strauss and Thomas (1998) also provided a thorough review of the relationship between nutrition, productivity and wages, and they concluded that there does appear to be a causal relationship between health and productivity. Furthermore, the literature also suggests that nutrient deficiencies, particularly in childhood, can retard physical and cognitive development, and often undermine schooling due to absenteeism and early dropouts (see section 3.6.3.2 for an illustration of how poor education can lead to poverty). For instance, in a review of the literature examining the impact of poor nutrition on the development of the brain, Lewis et al (1986) and Politt (1997, 2001) concluded that most studies point to certain key nutrients, such as iron and Vitamin A, as being vital for cognitive development. Similarly, in a study of Tanzanian schoolchildren, Bhargava and Yu (1997) found that nutritional status was a significant predictor of educational test results.

(ii) *Financial cost of healthcare.* Households (or members thereof) cope with illness in different ways. How they cope is a function of the opportunities afforded to them by their capabilities and asset stores, relative to the medical costs of the illness. Moreover, their ability to cope is also mediated by a number of household characteristics, including the dependency ratio. Therefore, against the background that most near-poor households in developing countries such as South Africa have a depleted asset base and are largely dependent upon returns from their labour, a decline in real wages of working household members (induced by lower productivity) may hinder the ability of these members to better manage the health costs of that illness, thus exposing the particular household to destitution. In addition, since the affected households usually dispose of productive assets such as cattle or land as a way of coping, the tendency is for such households to be unable to recover. As a result, they usually collapse and thus fall into poverty (Human Development

Report, 2003). As a matter of fact, studies in East Asia have shown that 50% of financial crises in poor families are triggered by catastrophic illnesses including TB, HIV and severe malaria (World Bank, 1997).

(iii) *The opportunity cost of caring for the ill.* The third cost element is more indirect in nature. It has to do with the choice that household members, particularly women, have to make with regard to their allocation of time between production (Leslie, 1992; Taylor et al, 1996), meeting the household's needs, childcare and care of the ill. This affects the resources of near-poor households, thus causing a shortage in one area or the other.

3.5.3.2. HIV/AIDS and poverty

The HIV/AIDS pandemic is no longer only a symptom of poverty, but it has also emerged as one of the most obvious causes of poverty in recent times, particularly in developing countries such as South Africa. Substantively, many studies in South and Southern Africa have clearly demonstrated that HIV/AIDS contributes to a rise in poverty (see, for example, Loewenson & Whiteside, 2001). This is largely attributed to the fact that this phenomenon is a major cause of ill-health (Tumwesigye, 2003). Moreover, it is costly because many of the opportunistic infections associated with AIDS (TB, pneumonia, and others) are expensive to treat. As such, it has not only caused many people in the developing world to be unable to contribute productively to their households' livelihoods, but many of the infected have become a drain on their families' financial resources. Moreover, thousands have died as a result of this phenomenon[70], thereby imposing crushing shocks and stresses on the livelihoods of those remaining behind. In fact, many households have ceased to exist because of AIDS deaths (Turner, 2005). Those affected households that struggle on, often headed by old people or orphans[71], typically suffer poverty because they are usually epitomised by insufficient capacity to generate meaningful income.

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[70] In 2006, an estimated 350 000 South Africans died of HIV/AIDS (Media club, 2007).

[71] In 2006, it was estimated that South Africa has more 1 000 000 orphans (Media Club, 2007).

Duraisamy et al's (2003) study is one of the best cases in point that can be utilised to buttress the foregoing analogy. They found that medical treatment expenditures constituted a significant economic burden for a sample of affected households in south India, with roughly 40-70% of AIDS-related expenditures being financed by borrowing. Similarly, studies of AIDS-affected households (most of them near-poor or already poor) in African countries such as South Africa and Zambia show that their monthly income fell by 66%-80% because of coping with AIDS-related illness (UNAIDS, 2004). In a recent study of 700 South African households affected by HIV/AIDS, more than half of the affected families did not have enough food to stave off starvation. Two-thirds of the households reported a loss of income as a result of the disease and larger proportions of household income being spent on healthcare and funerals[72].

3.5.3.3. Inadequate access to education

According to human capital theorists[73], investment in education creates skills and credentials, which facilitate higher productivity that, in turn, increases the probability of obtaining higher future earnings amongst those who possess them, in comparison with those who do not. In fact, there is a strong and empirically verifiable positive relationship across most societies between the wages and salaries (or expenditures) people receive at work and the level of education which they have attained. For example, during the year of 1992 in Uganda, secondary school completers earned an average of 89% more from wage employment than primary completers did. University graduates earned five times as much as primary completers (Appleton, 2001a). In Venezuela, during the year of 1989, the age (i.e. 40 years) earning profiles by educational level was as follows: university graduates earned four times more than those who were illiterate, high school completers earned 55% more than their illiterate counterparts, and primary school completers earned 30% more than those who were illiterate (Psacharopoulos, 1995). In South Africa, a similar pattern was evident in 1995. On average, university graduates earned six times

[72] Research conducted by the Kaiser Family Foundation in 2002, cited in the Human Development Report, 2003.

[73] The foremost exponents of this theory include Becker (1975), Schultz (1960 and 1963) and Mincer (1958 and 1974).

more than those with no education, matric completers earned four times more than illiterates, high school dropouts earned two times more than illiterates, and primary school completers earned about 10% more than those with no education (Ngwane, 2001). Furthermore, numerous development analysts (e.g. Kothari, 1993; Nafziger, 1997) argue that the acquisition of education greatly increases a person's skills and capacity to enter the employment market. Hence, there is a positive relationship between educational attainment and employment in South Africa (see Table 3-5).

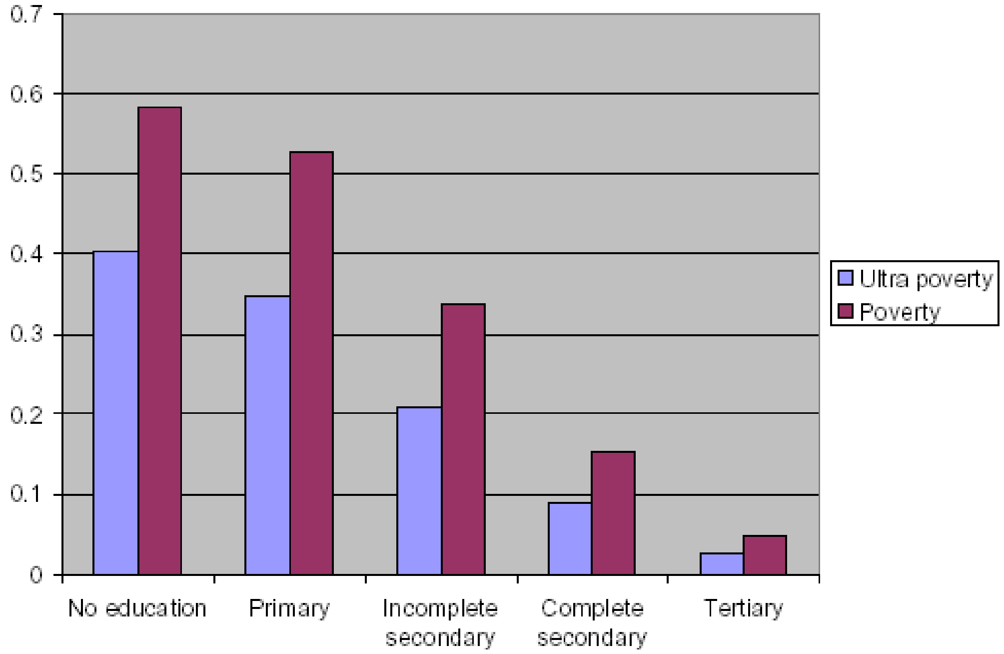
Table 3-5: Unemployment rates by educational level (1995 & 2002)

Educational level/year	**1995**	**2002**
No schooling	33.12	32.30
Primary	35.49	41.38
Incomplete secondary	33.85	48.39
Matric	25.28	39.51
Tertiary	6.44	15.37
Total	29.24	39.51

Source: StatsSA (1995, 2002)

In light of this, it would thus be safe to assume that the uneducated (and least educated) are likely to be susceptible to poverty. Significantly, according to Woolard (2002), in South Africa in 1998, 58% of adults with no education were poor; 53% of adults with less than seven years (primary) education are poor; 34% percent of adults with incomplete secondary schooling are poor; 15% of adults who have completed secondary school are poor; and only 5% of adults with tertiary education are poor (see Figure 3-5).

Figure 3-5: Poverty rates by average educational attainment of adult household members[74]



Source: Woolard (2002)

3.5.3.4. Inadequate access to decent shelter

Inadequate access to decent shelter by households may cause them to be unable to exploit the economic benefits that are associated with this productive asset (see section 5.6), thus making them vulnerable to a myriad of adversities which could lead to poverty. Furthermore, homelessness can lead to malnutrition and exposure to infectious diseases such as flu, which could compromise the earning potential of working household members as a result of lower productivity (see section 3.5.3.1). However, as is argued by Mullahy and Wolfe (2000), what may contribute most to the ill health of the homeless is the fact that being homeless renders treatment for illness difficult. Without a permanent residence, it is difficult for the homeless to be contacted or followed up on, and living on the street or in a shelter is not conducive to rest and recuperation. Even adhering to a medication regimen may be difficult when there is nowhere to store the medication.

[74] The author extracted these figures from the 1998 IES and OHS surveys.

3.6. Conclusion

A clear understanding of why some people are poor is essential if any in-roads are to be made towards (effectively) tackling the roots and causes of poverty. This chapter has discussed the theoretical as well as empirical determinants of poverty that are relevant to the South African context. However, since a basic, rational understanding of the roots of poverty is based on the concept of assets and the return on them, historical factors were also taken into account. This is because the asset base of the majority was largely retarded through colonisation and apartheid polices, which were orchestrated to disempower Blacks, particularly in economic terms. In essence, this discussion has attempted to determine why this country is characterised by high levels of (Black) poverty.

In summary, this chapter has shown that colonisation, in general, had a negative effect on indigenous people, especially in economic terms. It entailed, among other things, stripping people of their assets, especially land, and distorting economic markets (and social institutions), all which were a cornerstone to the livelihoods of these indigenous groups. This was further exacerbated by the introduction of apartheid policies. At the heart of these apartheid policies, there was a subtle premise of multi-faceted discrimination against non-Whites, especially Africans. According to the ideology of apartheid, each race was to be kept apart, and each was to develop separately. This segregation tactic was then, in turn, utilised to target development efforts at high-income White urban enclaves, thereby neglecting the majority of the Black population. Moreover, these policies were designed in such a way that they would have the potential of ensuring that the majority of the people would still be oppressed, especially in financial terms, even if the old regime were to be done away with. This was expressed and executed in a number of ways. For instance, these policies entailed the retention of economic power and privilege in White hands. Furthermore, the apartheid regime introduced the 'Bantu' education policy, which was extremely poor in quality and ensured the concentration of skills in White hands, and left Blacks largely unskilled. This resulted in the shortage of skilled labour in certain sectors of the South African economy, and ensured that Blacks were the source of cheap labour in general. The policy of employment segregation also meant that Blacks could only occupy certain types of jobs. With the benefit of hindsight, it was thus inevitable that one of the dominant themes of the apartheid legacy would be that high levels of (Black) poverty and inequality would characterise the country for many generations to come.

Against this backdrop, a number of key causes or at least correlates of poverty have been discussed. It turns out that these causes can be divided into two categories. Firstly, they can be grouped according to the channels through which they affect poverty levels: economic (economic growth, inflation, globalisation, unemployment and underemployment, inadequate access to productive assets and markets); social (rapid population growth, inequality, public corruption, inadequate access to shelter, education, HIV/AIDS and health); demographic (household size, age and gender of the household head); and environmental/situational (natural disasters, rural location, migration). Secondly, they can be classified according to the level (i.e. global, macro and micro) at which they can be affected by the various policies.

Chapter Four
International Best Practices

4.1. Introduction

Few problems have proven to be more intractable, for world leaders, development scientists (at the global as well as national levels) and policymakers alike, than that of poverty. Despite the fact that poverty elimination (or at least reduction) has taken the centre stage in the development rhetoric, the share of the developing country population living below the international poverty line, colloquially known as **$**1 per day at 1993 PPP, still remains at unacceptable levels. Reports for the most recent year, 2002, put this share below this line at about 21.7% (about one fifth of the world's population, assuming that nobody lives below the $1 per day in developed countries) (Chen & Ravallion, 2004; Global Monitoring Report, 2006). This means that the decline (a fall of 6.6% from 28.3% in 1981) in the incidence thereof has actually been very modest over the past 20 years or so (between 1981 and 2002, to be exact). Table 4-1 depicts the global progress in this regard.

What is evident from what is illustrated in Table 4-1 is that progress towards reducing poverty has not been uniform across the different regions. At one extreme, the East Asian and Pacific region has been extremely successful in tackling poverty, although this achievement also looked rather fragile during the economic crisis of the late 1990s. The total number of people who were pulled out of extreme poverty in this region since 1981 is more than 500 million. Similarly, the South Asian region has also experienced great success in reducing poverty, although not to the same extent as the East Asian region, due to rapid population growth. This region managed to reduce its poverty rate from 51.5% in 1981 to 31.2% in 2002, thereby pulling a total of about 43 million of the number of people there out of poverty. It is noteworthy, however, that in spite of the impressive performance by these two regions, in 2002, the poverty incidence in both of these regions still remained (with the exception of that of the Sub-Saharan region) relatively high (see

Table 4-1). In the Middle East and North Africa, although there was an increase in the total number of poor people in the 1990s, the poverty incidence has declined by more than half since 1981.

Table 4-1: Regional comparison of income poverty in developing countries

	People living on less than US$1 a day (million)				*Share of population living on less than US$1 a day (%)*			
Region	**1981**	**1990**	**2001**	**2002**	**1981**	**1990**	**2001**	**2002**
East Asia & Pacific (EAP)	795.6	472.2	271.3	233.58	57.7	29.6	14.9	11.6
South Asia (SA)	474.8	462.3	431.1	541.79	51.5	41.3	31.3	31.2
Eastern Europe and Central Asia (ECA)	3.1	2.3	17	7.42	0.7	0.5	3.6	2.1
Latin America and Caribbean (LAC)	35.6	49.3	49.8	64.93	9.7	11.3	9.5	8.9
Middle East and North Africa (MENA)	9.1	5.5	7.1	6.09	5.1	2.3	2.4	1.6
Sub-Saharan Africa (SSA)	163.6	226.8	312.7	327.61	41.6	44.6	46.4	44.0
Total	**1481.8**	**1218.5**	**1089.0**	**1181.43**	**28.3**	**27.9**	**24.5**	**21.7**

Source: World Bank (2004), Chen and Ravallion (2004), Global Monitoring Report (2006)

In contrast, progress has been rather disappointing in the remaining regions. The Sub-Saharan African region is in danger of not even meeting the poverty reduction target of MDG1—that is, halving the 1990 $1/day poverty rate by 2015. The poverty incidence in this region rose from 41.6% in 1981 to 44.6% in 1990, and has remained (on average) stagnant between then and 2002[75]. Similarly, in Latin America and the Caribbean, poverty rates rose slightly in the 1980s, but fell in the 1990s, ending near their 1981 levels by the year 2002. In Eastern Europe and Central Asia, high unemployment and declining output in many of the former, centrally planned economies drove extreme poverty rates up from near-zero in 1981 to 6% by 1999 (and $2 a day poverty rates from

[75] This could be attributed to a number of factors, including lack of sound macroeconomic management.

2% to 24%). However, poverty rates in this region have since declined, ending at 2.1% by the year 2002. Nevertheless, it is worth mentioning that, in spite of the fact that the poverty incidence has increased in these last two regions, in 2002, it still remained (with the exception of that of the Middle East and North African region) relatively low.

In view of the fact that progress towards poverty reduction has varied across the different regions, general wisdom would suggest that the same could be assumed about the progress made by individual countries within and across these respective regions. Not surprisingly, economies that have done extremely well with regard to poverty reduction are mostly found in the East Asian and Pacific region. These include, inter alia, China and Vietnam, both of which have managed to reduce their poverty incidence by more than half since the 1980s. Apart from the poverty reduction success that is apparent in most East Asian economies, there are a number of other success stories that can be found elsewhere, including in regions that have achieved little or no progress in this regard. Uganda is one such example[76]. Although this country is situated in a region, i.e. Sub-Saharan Africa, with the highest poverty incidence of 44.0% in 2002 (see Table 4-1), it has managed to reverse its poverty rate from 56% in 1992 to 35.2% in 1999/2000—although this rapid rate of poverty reduction has slowed down somewhat in recent years (see Table 4-8).

In light of the fact that the poverty reduction rate varies across different countries, it is only natural to ask the question: 'why have some economies performed better than others in tackling (absolute) poverty'? The rationale for asking this question is based on the belief that a key ingredient to sound poverty reduction policymaking may lie in understanding why success in this regard has been uneven across different economies. Moreover, such an understanding can enable South African policy authorities to learn valuable lessons, which they can, in turn, incorporate into their existing poverty reduction strategies.

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[76] Uganda's success in poverty reduction is largely attributed to its ability to grow the economy (through a series of economic and institutional reforms) at a rapid rate. Most importantly, this growth filtered down to the poor (see section 4.3.3).

Table 4-2: Reasons for choosing to examine poverty reduction in China, Vietnam and Uganda

China	Vietnam	Uganda
(i) Due to the fact that it is a country, which is highly populated, progress (pertaining to poverty reduction) translates into significant poverty reduction at a global level. (ii) It has managed to grow its economy at a rate of 8-9% since the late 1970s. (iii) The economic growth in the country has trickled down to the poor, thereby lifting over 500 million people out of poverty. (iv) It has managed to significantly improve its key socio-economic indicators, especially in the areas of health and education. (v) Like South Africa, poverty is mainly concentrated in rural areas that have poor infrastructure, agricultural land, etc. (see chapter 5)	(i) It has managed to overcome the negative effects of a war that lasted for 30 years by being able to achieve price stability and an annual economic growth rate of 7-8% between 1993 and 2004. (ii) Moreover, as a result of this growth, it has managed to reduce its poverty levels from 58.1% in 1993 to 19.5% in 2004. (iii) It has also managed to invest in other key developments that have benefited the poor, including infrastructure development in rural areas, electrification, access to education and health, better water supply, irrigation for poor farmers, access to telecommunication, and so on. (v) Like South Africa, poverty is mainly concentrated in rural areas that have poor infrastructure, agricultural land, etc.	(i) Although it is a landlocked country, its economy performed better than that of most other countries in the SSA, including South Africa. Long-term growth from 1982 to 1999 was 5.2% per annum, and this accelerated to 6.9% per annum in the 1990s. (ii) In spite of the fact that it is situated in a region with the highest poverty incidence, it has managed to make a serious dent in its poverty levels, as a result of this growth. (iii) Moreover, among other things, this country has managed to reduce its HIV infection rates by half. (iv) Poverty in this country is also concentrated in rural areas that have poor infrastructure, agricultural land, etc., like South Africa.

Against this backdrop, this chapter therefore attempts to discuss some of the implemented best practices with regard to poverty alleviation. In particular, the emphasis will be on cases in which interventions hold particular relevance to the context of South Africa. Correspondingly, poverty reduction strategies that have been implemented in China, Vietnam and Uganda will be examined (the reasons for choosing to examine strategies that have been adopted by these countries are outlined in Table 4-2 above). Once these poverty reduction strategies have been examined, some general conclusions will be made on how best to deal with absolute poverty. These conclusions will show that poverty can be mainly influenced by policies that foster the following outcomes: (i) macroeconomic stability, which engenders, inter alia, pro-poor economic growth and price stability; (ii) the creation of economic opportunities for the poor; and (iii) the provision of social safety nets that are targeted at the poor. However, since most of these policies, particularly those that have to do with structural adjustments, stem from ideologies that are mainly espoused by the Bretton Woods institutions, i.e. the World Bank and the International Monetary Fund (IMF), this chapter will first briefly examine the theoretical recommendations of the World Bank, as well as make mention of alternative solutions that are advocated by other prominent institutions such as Oxfam, various church organisations and the United Nations Economic Commission for Africa (UNECA). This will be done for the purpose of highlighting common elements within these various theoretical solutions.

In order to meet the objectives of this chapter, a variety of sources will be consulted. For gaining insight into the theoretical recommendations that are made by the World Bank, Oxfam and various churches, an extensive Internet search will be conducted. Furthermore, a number of academic papers and handbooks will be looked at, with a view to answering the question of exactly how China, Vietnam and Uganda have managed to achieve relative success in terms of reducing poverty.

The remainder of this chapter is divided into three sections. Section two briefly discusses the theoretical recommendations that are espoused by prominent institutions such as Oxfam, various churches and the World Bank. The reasoning behind this stems from the fact that the various anti-poverty strategies that are adopted by most developing countries are, more often than not, based on these theoretical recommendations.

In order to identify anti-poverty strategies that have worked elsewhere, section three focuses on implemented best practices. This section begins by reviewing various poverty reduction strategies that have been implemented in China, Vietnam and Uganda. Thereafter, common elements in these strategies are highlighted. These include the following: (i) creating economic opportunities for the poor, (ii) good governance, i.e. sound macroeconomic management that engenders macroeconomic stability, and (iii) social programmes (i.e. social safety nets) that are targeted at the poor.

Section four concludes the chapter. In this section, a summary of both the theoretical recommendations and implemented international best practices will be presented.

4.2. Theoretical recommendations on how best to reduce poverty[77]

As can be seen in Table 4-3, there are a myriad of theoretical recommendations that have been put forth by different development and religious institutions. Oxfam, which usually adopts a human rights-based approach to their work, proposes the following set of interventions as measures to improve the livelihood of the poor (Oxfam, 2001):

- Creating (employment and business) opportunities for the poor within markets.
- Beefing up the assets of the poor by protecting the natural environment, since it is necessary to achieving sustainable livelihoods; providing equitable healthcare and education, so as to increase their productivity and, invariably, their income or profits; caring and nurturing all children, in order to avoid, inter alia, malnutrition among children, which could impact negatively on their long-term productivity if not taken care of.
- Making globalisation work better for the poor and excluded people, by establishing and implementing new, fair rules for global trade.
- Good governance: strengthening institutions intervening in markets in the interests of the poor.
- Tackling (gender) inequalities.
- Creating Poverty Reduction Strategy Papers[78] (PRSPs), which prioritise more investment in health and education.
- Ensuring that the poor have food security.

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[77] Although these have evolved over the years, the discussion on the recommendations that are espoused by these development and religious institutions will be (with the exception of those of the World Bank) limited to the most recent ones.

[78] That is, an initiative led by the World Bank and the IMF for countries seeking debt relief or concessional finance from the International Development Association or the Poverty Reduction Growth Facility (World Bank and IMF, 2002).

Table 4-3: The best theoretical recommendations pertaining to poverty reduction

Oxfam	Churches	UNECA	World Bank
(i) Creating economic opportunities for the poor within markets. (ii) Beefing up the assets of the poor by protecting the natural environment; providing equitable health care and education; caring and nurturing all children. (iii) Making globalisation work better for the poor and excluded people, by establishing and implementing new, fair rules for global trade. (iv) Good governance: strengthening institutions intervening in markets in the interests of the poor. (v) Tackling (gender) inequalities. (vi) Creating Poverty PRSPs, which prioritize more investment in health and education. (vii) Assisting the poor to achieve food security. (viii) Tackling HIV/AIDS by making affordable (or even better, free) medication more widely available.	(i) Creating economic opportunities for the poor in the market economy. (ii) Fortifying the assets of the poor by reforming inadequate healthcare and education systems, distributing land to the poor, etc. (iii) Addressing unfair trade at a global level. (iv) Overcoming corruption. (v) Removing gender and ethnic inequalities. (vi) Allocating more donor funds to church organisations. (vii) Fighting diseases such as HIV/AIDS. (viii) Providing food and clean water to the needy.	(i) Integrating population, environment and science and technology policies into national development strategies. (ii) Promoting investments in the social sectors (such as education, health and employment-generating programmes) that target and reach the poor. (iii) Addressing gender inequalities. (iv) Building the capacity to use information technology so as to meet development goals. (v) Integrating regions in Africa in order to gain a competitive edge in the global arena. (vi) Improving governance. (vii) Establishing measures that will halt the prevalence of the HIV/AIDS epidemic, because it has dire economic consequences both at the micro and macro economic levels.	(i) Creating economic opportunities for the poor by building up their essential assets. (ii) Empowering the poor politically by, among other things, laying the political and legal foundations for inclusive development; creating public administrations that foster growth and equity; promoting inclusive decentralisation and community development; promoting gender equity; tackling social barriers such as class, race and gender stratifications; and supporting poor people's social capital. (iii) Enhancing economic security by helping poor people manage risks; developing national programmes to prevent, prepare for and respond to macro shocks—financial and natural; designing national systems of social risk management that are also pro-growth; and tackling the HIV/AIDS epidemic.

Selected sources: Oxfam (2001), various church organisations (2004-2006), UNECA (1999), World Bank (2000/2001), author's own interpretation.

- Tackling HIV/AIDS by making affordable (or even better, free) medication more widely available.

Apart from their religious recommendations[79], the various church organisations (2004-2006) believe that the following measures should be undertaken in order to deal with poverty: creating economic opportunities for the poor in the market economy; fortifying the assets of the poor by reforming inadequate healthcare and education systems, distributing productive land to the poor, etc.; addressing unfair trade at a global level; overcoming corruption; removing gender (and ethnic) inequalities; increasing the involvement/utilisation of churches in development projects, by allocating more donor funds to them; fighting diseases such as HIV/AIDS by providing infected people with the necessary medication; providing food and clean water to the needy, and so on.

The United Nations Economic Commission for Africa (UNECA) identified, in 1999, eight factors as being key to reducing poverty in Africa. These include the following:

- Integrating population, environment and science and technology policies into national development strategies.
- Promoting investments in the social sectors (such as education, health and employment-generating programmes) that target and reach the poor.
- Addressing gender inequalities.
- Building the capacity to use information technology, so as to meet development goals.
- Integrating regions in Africa, in order to gain a competitive edge in the global arena.
- Improving governance.
- Establishing measures that will halt the prevalence of the HIV/AIDS epidemic, because it has dire economic consequences both at the micro and macro economic levels.

[79] The churches believe that religious life is a fundamental dimension of people's lives. As such, they believe that the answer to how poverty can be eradicated lies in people changing their ways of sinful living.

Unfortunately, most of the above views (and more) are usually overshadowed by those of the World Bank. This is mainly attributed to the fact that donor countries usually insist that the World Bank review macroeconomic policies of recipient countries. This, in turn, enables the World Bank to exert its influence on macroeconomic policies in these countries. In essence, as long as other prominent institutions do not have the financial muscle to assist poor countries to, inter alia, rectify short-term balance of payment problems, they will continue to find it difficult to impose their alternative views on policies that are adopted by various developing countries.

In light of this, it is appropriate to ask the question: ‘what do the World Bank experts recommend as being the best way to deal with poverty’? In response to a seemingly perennial, deepening understanding of the complex nature of poverty, it is interesting to examine how the recommendations of the World Bank experts regarding poverty reduction have, accordingly, evolved over the past 50 years or so. In the 1950s and 1960s, many viewed large investments in physical capital and infrastructure as the primary means of development that would lead to poverty reduction. In the 1970s, awareness grew of the fact that physical capital was not enough, and that health and education were as important. The 1980 World Development Report expressed this understanding, and argued that improvements in health and education were important, not only in their own right, but also to promote growth in the incomes of poor people. The 1980s saw another shift of emphasis following the debt crisis and global recession, and the contrasting experiences of East Asia and Latin America, South Asia and Sub-Saharan Africa. Emphasis was placed on improving economic management and allowing greater play for market forces. This, in turn, encouraged the 1990 World Development Report to focus its fight against poverty on three main areas: firstly, promoting rapid, labour-intensive growth through economic openness, market incentives and investment in infrastructure; secondly, ensuring minimum levels of social services for poor people, including basic healthcare, family planning, nutrition and primary education; and thirdly, a comprehensive approach to poverty reduction also called for well-targeted actions offering safety nets for people exposed individually (illness, old age) or collectively (natural disasters) to shocks (World Bank, 2000/2001).

In the 1990s, governance and institutions moved to the centre stage, as did issues of vulnerability at the local and national levels. Consequently, the World Development Report of 2000/2001, which focuses on poverty reduction, proposed a three-pronged strategy for attacking poverty, namely: (i) promoting economic opportunity (this includes the developing of human, land and infrastructure assets that poor people own or to which they have access, thus enabling them to participate more meaningfully in the general economy), (ii) facilitating political empowerment (this includes laying the political and legal foundations for inclusive development; creating public administrations that foster growth and equity; promoting inclusive decentralisation and community development; promoting gender equity; tackling social barriers such as class, race and gender stratifications; and supporting poor people's social capital), and (iii) enhancing economic security (this includes formulating a modular approach—i.e. a mix of interventions—to help poor people manage risk; developing national programmes to prevent, prepare for and respond to macro shocks—financial and natural; designing national systems of social risk management that are also pro-growth; and, last but not least, tackling the HIV/AIDS epidemic) (World Bank, 2000/2001).

4.2.1. Common trends in the World Bank's recommendations and those of other institutions

What is apparent from the above discussion is that common elements can be drawn from these various recommendations. These common elements include the following:

- Creating economic opportunities for the poor;
- Improving the essential assets of the poor, particularly the human asset;
- Good governance;
- Addressing gender inequalities;

- Establishing measures to deal with pressing issues such as the HIV/AIDS epidemic.

4.3. What are the international best practices with regard to poverty reduction?

As is suggested in the literature, it is virtually impossible to find (or even conceive, for that matter) a single, abstract poverty reduction strategy that can be said to be successful *a priori* (see for example the 2000/2001 World Development Report). This has to do with the fact that the diverse causes or aggravators of poverty, as well as the types thereof, are usually context specific. In essence, if policy solutions to this end are to be effective, they need to not only provide an integrated approach to the diverse set of factors that influence this phenomenon, but to also be designed according to the context that circumscribes the society wherein they will be applied (White & Killick, 2001).

Notwithstanding the above, the arena of development rhetoric is replete with ‘success stories’ that make it possible to distill some general conclusions regarding how best to reduce poverty. Although these general conclusions might not guarantee success, they can, at the very least, provide a valuable point of departure when designing country-specific poverty reduction strategies. It is in view of this that this section seeks to examine how countries such as China, Vietnam and Uganda have managed (or continue to manage) to significantly reduce their poverty levels.

4.3.1. An overview of how China managed to reduce poverty during the 1981-2003 period

Remarkable annual economic growth levels of 8-9% since the late 1970s, coupled with well designed and implemented poverty reduction programmes, have provided China with the wherewithal to be able to uplift a total of about 402 million people out of poverty—when using the international poverty line of $1 per day—during the 1981-2002 period (World Bank, 2004). Precisely how this happened is the issue that is dealt with below.

According to Wang et al (2004), poverty reduction policies in China can be roughly divided into four phases, namely: (i) the rural reform of 1978-1985, (ii) the National Targeted Poverty Reduction Programmes of 1986-1993, (iii) the 8-7 Plan of 1994-2000, and (iv) the New Century Rural Poverty Alleviation Plan for 2001-2010.

4.3.1.1. Rural reform (1978-1984)[80]

The most pressing challenge during the early years of the post-1978 reform period was to create economic opportunities for the poor by boosting rural economic growth through rural reforms. The national economy was stagnating, and poverty was widespread throughout the country, exacerbated by the shocks of the ten-year long Cultural Revolution and the long-standing restrictions on economic activity. In order to boost the rural economy, the government of China launched institutional reforms for the purposes of creating a reasonable economic incentive system that would, in turn, engender economic opportunities for the poor in the rural economy that were aimed at expanding agricultural production, diversifying the rural economy, improving the rural standard of living and promoting new technologies. The fundamental institutional change was the land reform, characterised by the implementation of the household responsibility system in rural China, which allowed farmers to have use rights over productive land (i.e. the natural asset). Collectively owned and operated land was distributed to farmers based on family size and the number of family workers. Farmers had the right to choose their own crop mix and input levels, as long as they fulfilled government quotas for certain grain and cash crops. Any surplus output could be sold in the free markets. This system motivated farmers to reduce production costs and to increase productivity, since their efforts were closely linked to their income. This was accompanied by increases in procurement prices[81] and government encouragement of the establishment of free markets. Markets further stimulated agricultural production.

[80] This sub-section draws heavily from Wang et al (2004).
[81] Following the initial introduction of a contract system (by poor farmers in Anhui) in agricultural production in 1979, which linked income to work performance, the Chinese government significantly increased state procurement prices for 18 major farm products in 1979 - on average, by 25% for quota

Table 4-4: Rural poverty in China (1978-2004)

Year	**Number of poor (million)**	**Poverty incidence (%)**
1978	250	33.1
1984	128	15.1
1985	125	14.8
1992	80.1	8.8
1993	75	8.2
1994	70	7.6
1995	65	7.1
1996	58	6.3
1997	49.6	5.4
1998	42.1	4.6
1999	34.1	3.7
2000	32.1	3.4
2001	29.3	3.2
2002	28.2	3.0
2003	29.2	3.1

Source: States Statistical Bureau (SSB) (1980-2004)

The early rural reforms delivered remarkable results in terms of poverty reduction, as well as agricultural production and rural industries. A strong growth in grain yields (5.7% per year) and rural industries, accompanied by sharp increases in agricultural procurement prices, raised rural incomes by 15% a year in real terms. The growth in agricultural production and farmers' income was spectacular in some extremely poverty-stricken regions, such as the Huanghuaihai region in Eastern Fujian (Wang, 1994). As poverty in China was widely dispersed across China's rural areas in the early years of post-1979 reforms, rural income growth delivered nearly universal poverty reduction. Between 1981 and 1984, income poverty at the \$1/day level fell from 49 to 24%, and the number of rural poor declined from 250 million in 1978 to 125 million in 1985, measured in terms of the official poverty line of \$0.66 per day (see Table 4-4).

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sales, 50% for above-quota sales of grain and vegetable oil crops, and 30-35% for cotton. Since then, increase in state procurement prices has been the main mechanism for maintaining farmers' incentives to produce and sell their products to the state. For example, major upward adjustments to procurement prices were made in 1989-90, 1994-95 and 1996. On average, grain procurement prices were further increased by 16% in 1989, 44% in 1994 and 42% in 1996, while the cotton procurement price was increased by 27% in 1990, 65% in 1994 and 30% in 1995 (Wu, 1997).

4.3.1.2. The National Targeted Poverty Reduction Programmes (1986-1993)

By the mid-1980s, rural economic growth and living conditions appeared to lag again, particularly in the revolutionary, minority and border regions. This translated into poverty reduction being relatively slower. Consequently, these areas received special attention in the Seventh Five Year Development Plan (1986-1990) (Wang et al, 2004). This marked the beginning of China's targeted rural poverty reduction programmes.

The rural poverty reduction programmes launched in the mid-1980s comprised a wide variety of actors, initiatives and funding channels. The State Council's Leading Group for Poverty Reduction (LGPR) was established in 1986 to provide coherence for the large number of poverty reduction initiatives and, in particular, to expedite economic development in poor areas. As the basic unit for poverty targeting, the government designated poor counties. For the officially designated 'poor' counties, the central government created special funds to support a subsidised loan programme, food for work (FFW) programme, and budgetary poor area development fund grants. Subsidised loans covered both households and enterprises in industry and agriculture, the food-for-work programme was utilising surplus farm labour, mainly to develop infrastructure, and government budgetary grants supported investment in poor areas across all sectors (World Bank, 2001b). At the local level, most poor provinces, prefectures and counties had all established Leading Groups, and local governments were required to provide counterpart funds. Different agencies became responsible for different poverty reduction projects and activities (rural roads constructed under the FFW programme, for example, have been implemented by local staff of the Transport Bureau). Certain preferential taxation treatment was offered to poor regions, and this went a long way in boosting the financial assets of the poor (Leading Group for Poverty Reduction and Development (LGPR), 1989).

As can be seen in Table 4-4, rural poverty continued to decline during this period, although at a slower rate. By the end of the 'National Targeted Poverty Reduction

Programmes' phase in 1992, rural poverty had declined to 80.1 million, and the incidence of rural poverty had fallen to 8.8%.

4.3.1.3. The 8-7 Plan (1994-2000)

In 1994, the government introduced the '8-7 Plan' (National Plan for Poverty Reduction), aspiring to lift the majority of the remaining 80 million poor above the government's poverty line during the seven-year period of 1994-2000. This plan was introduced with the purpose of creating more economic opportunities for the poor, by means of augmenting their essential assets and thereby intensifying the poverty reduction policies that had commenced in the second half of the 1980s.

The 8-7 Plan outlined several objectives. According to Wang et al (2004), it aimed at (i) assisting poor households with land improvement, increased cash crop, tree crop and livestock production, and improved access to off-farm employment opportunities, (ii) providing most townships with road access and electricity, and improving access to drinking water for most poor villages, (iii) accomplishing universal primary education and basic preventive and curative healthcare, (iv) graduating better-off counties in the coastal provinces from the newly established list of nationally designated poor counties, (v) managing available funding successfully, with attention to the appraisal and financial viability of poverty reduction investment activities, recovery of loan funds and leakage of poverty reduction funding to alternative activities, and (vi) enlisting involvement and support from all government ministries and agencies, coastal provinces and major municipalities, and other domestic and international organisations. In implementing the 8-7 Plan, the government refined its selection of 'poor' counties and emphasised the responsibility of local government leaders for the effectiveness of poverty reduction activities in their jurisdictions. Since 1997, the annual funding for poverty reduction jumped by over 50% in real terms, which reversed a decade of decline in real funding for poverty reduction in China. The 8-7 Plan maintained the three channels of interventions launched in 1986: the subsidised loans programme, food-for-work programme and government budgetary grants. The subsidised loans programme accounted for the greatest increase in funding (Wang et al, 2004).

As a consequence of the above interventions, poverty reduction in China accelerated, particularly during the period 1994-1996. Table 4-4 shows that the number of rural poor declined from 70 million to 29 million between 1994 and 2001. According to Wang et al (2004), the rapid rate of poverty reduction during the 8-7 Plan period was a joint effect of economic growth (which was directly supported by the 8-7 Plan), agricultural price increases (related to the 1994-1996 government procurement reform[82]), rural-urban migration and poverty reduction efforts.

In addition to the reduction of poverty, there was also steady progress in human capital development in China in the 1990s. By 2001, adult literacy rates had risen to 85% and enrollment rates to 99% (net) in primary schools and 89% and 44% (gross) in junior and senior secondary schools respectively. During the period 1980-2001, the average years of schooling in the 15-64 year age group rose from 5 to 8 years. In terms of educational attainment, the share of the population with primary schooling remained at about 35%, but the shares increased from 15% to 34% for those with junior secondary schooling and from 6% to 11% for those with senior secondary and technical schooling. Major progress was also achieved in healthcare, with China overhauling lower middle-income standards by 2001. Average life expectancy at birth reached 70 years, infant mortality declined to 3.1%, and under-5 mortality fell to 3.9%. The share of one-year olds fully immunised against tuberculosis and measles reached 98%. Nearly 85% of the population has gained access to essential drugs, and less than 10% are undernourished (Wang et al, 2004).

[82] This is the period during which grain procurement prices were further increased by 44% (in 1994) and 42% (in 1996), while the cotton procurement price was increased by 65% (in 1994) and 30% (in 1995) (Wu, 1997).

4.3.1.4. China's current poverty reduction strategy: the New Century Rural Poverty Alleviation Plan (2001-2010)

Notwithstanding the impressive improvements in terms of poverty incidence in rural areas, by the year 1999, rural-urban and coast-interior disparities in poverty reduction had widened (see Table 4-5 below). Moreover, within some of these high-level poverty regions, particularly the western regions, poor households were, and still are, relatively scattered in poor villages, that were marked by poor agricultural land and weak infrastructure, rather than being concentrated in poor counties. The implication of this was that targeting poor counties was no longer effective.

In view of this, the Chinese government launched a New Century Rural Poverty Alleviation Plan for 2001-2010. This new plan targets poor villages rather than poor counties, emphasises the development of poor people's essential assets (particularly the human asset) in poor localities, and promotes participatory poverty reduction approaches. China's Rural Poverty Reduction and Development Compendium (2001-2010) was drafted and issued in 2001. Villages have been made the basic unit of targeting, and poverty reduction investments will cover poor villages in non-poor counties, while the list of poor counties has been updated in order to focus more on the western regions. The new plan emphasises, among other things, the development of science and technology, education and healthcare, recognising that illness has been the principal factor pushing rural households into poverty. Furthermore, the new plan calls for participatory poverty reduction approaches and village-based comprehensive development and overall progress (LGPR, 2001; Gao, 2001). Finally, the new plan has recognised, contrary to what has been stated in section 3.5.1.3.1, that rural-urban migration is a critical avenue for poverty reduction, and new policy initiatives are making it easier for rural inhabitants to benefit from new job opportunities arising in China's towns and cities.

The recent poverty statistics show that this current poverty reduction strategy has managed to reduce China's rural poverty slightly, from 32.1 million people in 2000 to 29.0 million people in 2003 (see Table 4-4).

Table 4-5: China's rural and urban poor by region (1999) (%)

Region	Share of China's rural poor	Share of China's urban poor
Western Provinces	46.6	23.0
Central Provinces	42.1	46.2
Coastal Provinces	11.3	30.8

4.3.2. An overview of how Vietnam managed to reduce poverty during the 1993-2004 period

Like China, there are two main factors that were responsible for Vietnam's success in poverty reduction during the 1993-2004 period. These are: (i) good economic performance, especially in rural areas, which has been attributed to the economic and institutional reforms of the late 1980s, and (ii) various targeted poverty reduction programmes that were initiated in 1992. These two factors will be discussed below.

4.3.2.1. The impact of economic growth on poverty reduction during the 1993-2004 period in Vietnam

At the end of the 1980-1988 period[83], the status quo of the Vietnamese economy was dire. Output expansion dropped, and the rates of inflation accelerated to several hundred percent per year, with a peak of 774.7% in 1986. The real income of the majority of government employees fell sharply. Poor weather and poor incentives led to a miserable agricultural harvest in 1987, with grain production down by nearly one million tons from the 1986 level. Regional food shortages caused real hardship in some areas. In the north, supply did not meet demand, leading to starvation in 21 provinces and cities in early 1988, affecting 9.3 million people, who represented 39.7% of farm households, of which 3.6 million people were subject to serious starvation (Nguyen & Chu, 1996).

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[83] This is during the time when the Vietnamese economy was regarded as a modified planned economy (MPE).

In order to remedy this situation, in the Sixth Party Congress in December 1986, the Vietnamese Congress approved the *doi-moi* (Renovation) programme, which was an official promulgation of socio-economic policies that began in the early 1980s. Up until March 1989, the implementation of this 'Renovation' programme was very slow. However, after March 1989, the Vietnamese government made significant changes in the direction of the *doi-moi*. Similarly to the various economic and institutional reforms that were undertaken in China, the *doi-moi* programme sought to create economic opportunities for the poor, as well as foster sound macroeconomic management that would engender a reasonable economic incentive system for private businesses to mushroom. Furthermore, the *doi-moi* programme was associated with the distribution of agricultural land to rural households, marketisation of the rural economy, and the creation of the right incentives for farm production (such as the relaxation of trade restrictions on rice exports; relaxation on internal barriers in order to allow rice to flow from the south to the north; reduction in fertiliser supply constraints, by allowing state-owned enterprises that earned foreign exchange to import fertiliser directly; and improved development of market infrastructure). *Doi-Moi* also eliminated production and consumption subsidies and streamlined the public sector (Dollar & Litvack, 1998; Weinns, 1998). In addition, this reform effort included the stabilisation of inflation and the liberalisation of foreign trade and investment (Dollar, 2002). What also accompanied the foregoing measures was the creation of a legal framework for the corporate sector through promulgating and amending business-related laws and regulations.

During the 1990s, as a result of the above reforms, Vietnam turned into one of the fastest growing economies in the world, with an average GDP growth rate of between 7-8% per annum during the 1993-2004 period. Inflation was kept under control at a low, single-digit level. Agriculture grew at slightly over 5.6%, while industrial value-added increased rapidly at an average rate of 11.2% per year, although from a very low base. The service sector grew by 7% per year. High agricultural growth during the 1990s has turned Vietnam from a rice-importing country into the second largest rice exporter in the world. Vietnamese agricultural competitiveness has improved to the extent that it has become a major exporter of agricultural products such as cashew nuts, coffee and pepper, in addition to rice. Vietnam has boosted its exports from 854.2 million US$ in 1987 to 11,540.0 million US$ in 1999.

Table 4-6: Poverty incidence in Vietnam

Percent	**1993**	**1998**	**2002**	**2004***
Poverty Rate	**58.1**	**37.4**	**28.9**	**19.5**
Urban	25.1	9.2	6.6	3.6
Rural	66.4	45.5	35.6	25.0
Food Poverty	**24.9**	**15.0**	**10.9**	**7.4**
Urban	7.9	2.5	1.9	0.8
Rural	29.1	18.6	13.6	9.7
Poverty Gap	**18.5**	**9.5**	**6.9**	**4.7**
Urban	6.4	1.7	1.3	0.7
Rural	21.5	11.8	8.7	6.1

Source: Fan et al (2004)

* GSO, 2004 VHLSS

As a knock-on effect of this remarkable economic performance, particularly in the agricultural sector, Vietnam has made substantial and steady progress in poverty reduction. The poverty rate dropped from 58.1% in 1993 to 37.4% in 1998, 28.9% in 2002 and 19.5% in 2004, while in the same years, food poverty declined from 24.9% to 15%, 10.9% and 7.4% (see Table 4-6). Rural and urban poverty declined sharply during the 1990s. The depth of poverty also declined in both rural and urban areas. According to Fan et al (2004), this decline in poverty in Vietnam reflects rising household expenditures and GDP per capita, due to an increase in real income (i.e. financial assets) during the 1990s. Income and thus expenditure levels improved significantly during the 1990s. The real annual per capita expenditure was 1,936 thousand Vietnamese dong (VND) (equivalent to 130 US$) in 1992-93, 2,764 VND in 1997-98, and 3,229 VND in 2002. The annual average household per capita expenditure rose by 7.4% between 1993 and 1998, and by 4.0% between 1998 and 2002. These figures indicate a considerable improvement in living standards during the 1990s.

4.3.2.2. The impact of national poverty reduction programmes on poverty reduction during the 1993-2004 period in Vietnam

Besides focusing on attaining macroeconomic stability (which generated, inter alia, economic growth), as well as creating economic opportunities for the poor by way of, for example, distributing land, the Vietnamese government also initiated a number of targeted programmes that were mainly aimed at assisting those who lacked the necessary assets to participate meaningfully in the general economy.

After recognising that poverty was a serious barrier to development, the VIIth Congress of the leading Communist Party of Vietnam (CPV) in 1991 called on the government to pay more attention to boosting the essential assets of the poor, by supplying better social services and improving infrastructure in poor regions. In 1992, the administration of Ho Chi Minh City initiated a hunger eradication and poverty reduction action plan. Soon thereafter, this plan was adopted and extended to some other provinces. As a result, hunger eradication and poverty reduction quickly became a nation-wide movement (Vu, 2005).

During the period 1992-1995, the government took various steps towards poverty reduction within a framework of 14 national development programmes, such as: reforestation, job creation, provision of preferential credit, eradication of illiteracy, reduction of child malnutrition, etc. The budget allocated to these national programmes was 2,855 billion VND, of which 1,328 billion VND (or 47%) was provided as credit for households, 629 billion VND (or 23%) for essential goods supplied to the poor to address immediate poverty (e.g. food, salt, clothes, blankets, kerosene, etc.), and 835 billion VND (or 30%) for the construction of communal infrastructure for long-term economic opportunities (rural roads, electricity grids, irrigation, schools, commune clinics, etc.). In addition to the state budget, local people voluntarily contributed 425 billion VND for poverty reduction activities (Ha, 2002). A special financial service institution, the Bank for the Poor (now renamed the Bank for Social Policies), was established in 1995 to encourage the economic development of the poor. In 1993, the Ministry of Labour, Invalids and Social Affairs (MOLISA) promulgated the national poverty line to guide the identification process of poor households, who were targets of poverty reduction policies and projects (Vu, 2005).

In 1996, the government established the National Targeted Program for Hunger Eradication and Poverty Reduction, with the aim of co-ordinating poverty reduction actions and mobilising more resources to fight against poverty. The National Targeted Program for Hunger Eradication and Poverty Reduction (HEPR) for the period 1998-2000 was approved in July 1998. For the period 2001-2005, it also included a job creation component, and was named the National Targeted Program for Hunger Eradication, Poverty Reduction and Job Creation (HEPR for short, or Programme 143). Another programme, the Programme for Socio-Economic Development in Communes faced with Extreme Difficulties (PDCED, also known as Programme 135), which (like China) focused on poverty reduction in the poorest regions, was also promulgated in 1998. From 2000 onwards, the earlier national targeted projects, which were mainly aimed at supporting disadvantaged households of ethnic minorities, sedentarisation, and the construction of inter-commune centres in mountainous regions, were integrated into Program 135. This programme was, in turn, designed to focus on poverty reduction in the poorest communes and ethnic minority groups. In addition, there were other national targeted programmes, poverty alleviation programmes and development projects supported by international donors implemented in different regions, which also considered poverty reduction as one of their major goals (Vu, 2005).

Besides the abovementioned specialised programmes for poverty reduction, the Vietnamese government also issued several policies for social protection, health insurance, exemption of education fees, support for improvement of private housing, supply of safe water, additional allocation of cultivated land to the poor, support for ethnic minority groups, etc., which have been implemented by different authorities (Vu, 2005).

Table 4-7: Some human development indicators in Vietnam (1993-2002)

Indicator	Year		
• **Education**	**1993**	**1998**	**2002**
Primary enrolment rate (net)			
Female	87.1	90.7	100
Male	86.3	92.1	107
Lower secondary enrolment rate (net)			
Female	29.0	62.1	67*
Male	31.2	61.3	72*
Upper secondary enrolment rate (net)			
Female	6.1	27.4	
Male	8.4	30.0	
• **Child Nutrition**			
Incidence of stunting among children 0-59 months	51	34	
Female	51	33	
Male	50	35	
• **Adult Nutrition**			
Incidence of moderate and severe malnutrition in adults (Body Mass Index less than 18.5)	32	28	
Female (non-pregnant)	32	30	
Male	32	25	
• **Access to Infrastructure**			
% of rural population with public health centre within the commune	93	97	
% of rural population with access to clean water	17	29	
% of urban population with access to clean water	60	75	
% of rural population using electricity as a main source of lighting	48	77	

Source: World Bank estimates based on VLSS93 and VLSS98, cited in Swinkels and Turk (2003); Human Development Report (2006)

* These represent the average of secondary enrolment rates. In other words, the secondary demarcation (i.e. lower secondary and upper secondary) does not apply.

The abovementioned programmes have had a positive effect on poverty reduction in Vietnam. For example, the objective of the HEPR during the period 1998-2000 was eradication of chronic hunger and reduction of the poverty rate (according to MOLISA's 1993 poverty definition) from 17.7% in 1997 to 10% in 2000. This objective was reached after three years of HEPR implementation. The recent housing policy in Vietnam had impacted on about 260 000 households by the end of 2004. These households have received assistance for housing improvement, of which 180 000 constructed new houses and 80 000 repaired their existing houses. In addition to these, a lot of other developments have benefited the poor, including infrastructure development in rural areas, electrification, access to education and healthcare, better water supply, irrigation for poor farmers, access to telecommunications, and so on (see Table 4-7).

4.3.3. An overview of how Uganda managed to reduce poverty during the 1992-2000 period

In the same way as in China and Vietnam, the two main forces behind Uganda's success in poverty reduction are economic growth, which has been attained through a series of economic and institutional reforms, and a wide range of poverty reduction programmes. Precisely how these translated into improved living conditions for the poor will be discussed in this section.

4.3.3.1. The impact of economic growth on poverty reduction during the 1992-2000 period in Uganda

When the National Resistance Movement (NRM) came into power in January 1986, it inherited an economy in ruins. The rate of inflation was very high, running at an annual rate that was over 100%, occasioned by economic mismanagement and the scarcity of basic goods. The official exchange rate was highly overvalued, with unofficial rates many times greater, thereby curbing the level of exports. Government finances were so weak that foreign exchange reserves only provided two weeks' import cover. The banking system was unable to provide loans for working capital and productive investment, on account of insolvency. Growth rates went into reverse, with real GDP declining by 10% between 1984 and 1985. By this time, the economy had shrunk by more than 20%, compared to a peak in 1970. Aid flows had fallen to very low levels, following a modest recovery in the form of quick-disbursing IMF credits to assist with economic stabilisation in the early 1980s (Kasekende & Atingi-Ego, 1999; Devarajan et al, 2001).

Faced with the severity of the economic crisis, in May 1987, the NRM-led government (with the help of the World Bank, the International Monetary Fund and bilateral donors) embarked on the Economic Recovery Programme (ERP), which was a standard IMF/World Bank structural adjustment programme (SAP). According to Opolot and Kuteesa (2006), the broad policy objectives of this reform programme focused on stabilisation of the economy through the restoration of fiscal and monetary discipline; liberalisation of consumer and producer prices; liberalisation of interest rates within a restructured and more efficient financial system; liberalisation of the foreign exchange market and the strengthening of the balance of payments position; liberalisation of trade and compliance with other regional and international trade obligations; and the privatisation and rationalisation of state enterprises. Below are some of the key policy measures which were undertaken so as to fulfill the foregoing policy objectives (see for example Opolot & Kuteesa, 2006):

- The Coffee Marketing Board (CMB), the Lint Marketing Board (LMB) monopolies and the Produce Marketing Board (PMB) were all abolished in the early 1990s. This meant that exporters were now free to borrow directly from commercial banks to pay farmers, instead of going through marketing boards. These market reforms were also accompanied by the removal of restrictions on the movement of produce across districts.
- Government interest in agricultural pricing and marketing activities was divested. Instead, the role of government institutions was narrowed down to supportive activities such as quality control, provision of market information, and research and development.
- A pricing policy was introduced. This policy focused on the liberalisation of input and output prices by reducing or eliminating subsidies on agricultural inputs such as fertilisers and credit, realigning domestic prices with world market prices, eliminating pan-territorial and pan-seasonal pricing, and reducing exchange rate overvaluation. It was expected that this would benefit poor, smallholder rural

households whose real incomes were assumed to rise in line with relative price movements.

- Import and export procedures were liberalized, and licensing requirements abolished. Import controls were replaced with tariff-based protection, and the temporary export stabilisation tax on coffee exports was removed.
- The Bank of Uganda (BOU) initiated a facility to provide medium to long-term financing to potential exporters through a number of credit lines and support schemes. These credit lines and schemes, supported by external donor agencies, provided loans to small- and medium-sized enterprises within the private sector through licensed banks.
- The National Agricultural Research Organization was established in 1992, with the objective of undertaking, promoting and co-ordinating research in aspects pertaining to agricultural development.

As a result of the abovementioned efforts (and more), the Ugandan economy has recovered very well. The economic growth rate accelerated to 6.9% per annum in the 1990s. Consequently, GDP per capita rose from $251 in 1990 (1995 constant prices) to $347 in 1999. The inflation turnout during the 1990's has been impressive. From the volatile trend in consumer prices during the 1980s, which led to a headline annual inflation rate of 250% in 1987, the annual inflation rate has declined to less than 10% per annum. As a result of the abolishment of the marketing board's monopoly on coffee, tea and cotton at the beginning of the 1990s, there was a rise in producer prices and a surge in production. Uganda thereby regained its position as Africa's leading coffee exporter. Moreover, at the time when the CMB was solely responsible for exporting Uganda's coffee, farmers' share of the export price was less than 30%. After liberalisation of the coffee sub-sector in 1991, their share rose from 45% in 1991/92 to 82% in 1996/97. This has positive implications for poverty, because an estimated 2.5 million people (about 13% of the total population) depend on coffee for their livelihood through production and marketing (Opolot & Kuteesa, 2006).

What is also apparent from the literature is that this economic recovery coincided with a reduction in the poverty incidence (Kappel et al, 2004; Fan et al, 2004; Kabananukye et al, 2004). Table 4-8, for example, shows that the incidence of poverty declined from 55.5% in 1992 to 35.2% in 1999/2000, but nearly half of this reduction occurred after 1997. In the five years from 1992 to 1997, Uganda reduced its poverty rate by 11.5 percentage points. However, it reduced this by more than 10 percentage points in only two years, i.e. from 1997-99. Like China and Vietnam, Table 4-8 also shows that poverty has declined in both the rural and urban areas, although it appears as if urban residents benefited more from the recent economic boom than did their rural counterparts. Another interesting similarity between these East Asian economies and Uganda has to do with the fact that areas with better infrastructure have been more successful in reducing poverty. For example, the central region has the best infrastructure in the country and the lowest incidence of both rural and urban poverty. Poverty reduction was also the greatest within this region. In the north, however, where infrastructure is poor, the incidence of poverty is almost double the national average, and poverty reduction has been the smallest within this region (see Table 4-8).

Table 4-8: Incidence of poverty in Uganda (1992-2000)

Region	1992/93	1993/94	1994/95	1995/96	1997/98	1999/2000
National	55.5	52.2	50.1	48.5	44	35.2
Rural	59.4	56.7	54.0	53.0	48.2	39.1
Urban	28.2	20.6	22.3	19.5	16.3	10.3
Central	45.5	35.6	30.5	30.1	27.7	20.3
Rural	52.8	43.4	35.9	37.1	34.3	25.7
Urban	21.5	14.2	14.6	14.5	11.5	7.4
East	59.2	58.0	64.9	57.5	54.3	36.5
Rural	61.1	60.2	66.8	59.4	56.8	38.4
Urban	40.6	30.5	41.5	31.8	24.8	15.7
West	52.8	56.0	50.4	46.7	42.0	28.1
Rural	53.8	57.4	51.6	48.3	43.2	29.5
Urban	29.7	24.9	25.4	16.2	19.9	5.6
North	71.3	69.2	63.5	68.0	58.8	65.8
Rural	72.2	70.9	65.1	70.3	60.7	67.7
Urban	52.6	46.2	39.8	39.6	32.6	30.6

Source: UBOS (various years), cited in Fan et al (2004)

4.3.3.2. The impact of poverty reduction programmes on poverty reduction during the 1992-2000 period in Uganda

In addition to policies that were meant for restoring macro-economic stability and economic growth, there were a number of other policies that placed more emphasis on poverty alleviation, although these were initially muted in the early years of the economic and institutional reforms. These initially focused on efforts to mitigate the perceived negative effects of structural adjustment on some groups within the population. The PAPSCA programme that started in 1990 was similar to many such programmes initiated under the auspices of the World Bank-supported social dimensions of adjustment programmes. However, by 1994, MFPED officials recognised the need for a more comprehensive analysis and strategy to tackle poverty, partly motivated by strong pressure from elements within the ruling National Resistance Movement (NRM), who were convinced that poverty was getting worse during the adjustment years. The government had moved away from socialist policies, but not from the objective of a more prosperous and equal society, and was particularly sensitive to such criticism from within its own ranks (Foster & Mijumbi, 2002).

Following a 1995 workshop, in which the president participated, the first poverty eradication action plan (PEAP) (i.e. Uganda's current official poverty reduction strategy) was prepared in 1997 as the overarching document, setting out government's poverty reduction strategy. It was subsequently updated in 2000, with far broader consultation, including a participatory poverty assessment to determine the views of the poor themselves.

The PEAP has four pillars of action. According to the government of Uganda (2000), these are the following: (i) creating an enabling environment for rapid and sustainable economic growth and structural transformation (this pillar is associated with macroeconomic stability, equitable and efficient collection and use of public resources, and private sector development); (ii) good governance and security (this pillar is associated with conflict resolution, decentralised governance, with strengthened bottom-up accountability, tackling corruption, legal sector reform and public information); (iii) actions that directly increase the ability of the poor to increase their income (this pillar is associated with access to agricultural advisory services, rural finance and markets, sustainable natural resource utilisation, rural roads, secure access to land, and sustainable energy resources for the poor); and (iv) actions that directly improve the quality of life of the poor (this pillar is associated with free primary education, improved healthcare, reducing the HIV/AIDS infection rate, improved access to clean water and sanitation, and improved adult literacy).

The PEAP was further buttressed by the creation of the Poverty Action Fund (PAF). The PAF is where money from debt relief is channelled, with the sole purpose of funding activities that have a direct bearing on poverty, such as primary education, primary health care, agricultural extension, feeder roads, water and sanitation, etc. In essence, the PAF strengthened the government budget allocation emphasis on infrastructure and social services (Foster & Mijumbi, 2002).

In line with the PEAP, especially the policies that are aligned with the last two pillars, the living standards of the poor were improved. For example, in addition to the poverty reduction that was due to the positive effects of the free market reforms, major investments in roads have contributed to lower transportation costs, which have, in turn, led to a significant reduction in the spread of market prices. Likewise, the introduction of free primary education resulted in a 90% increase in enrolments (Larson & Deininger, 2001). Health standards improved as a result of increased access to safe water, proper sanitation and better health facilities. The most significant achievement has been the halving of HIV infection rates from 14% in 1995 to 6.1% in 2000, following a relentless public education campaign (Uganda Demographic & Health Survey, 1995, 2000/01).

4.3.4. Moving towards international best practices

In all of the cases discussed above, consistency with regard to factors that are responsible for poverty reduction is apparent. Evidence from these cases suggests that a potentially successful poverty reduction strategy should encompass the following three complementary elements: (i) creation of economic opportunities for the poor, (ii) good governance, i.e. sound macroeconomic management that engenders macroeconomic stability, and (iii) social programmes (i.e. social safety nets) that are targeted at the poor.

4.3.4.1. Creation of economic opportunities for the poor: augmenting the poor people's assets and providing them with market access

Findings from the above cases suggest that an improvement in the gini-coefficient measurement serves to reinforce the favourable effect of growth on poverty and vice versa[84]. Significantly, economic reforms in China were initiated in a reasonably low inequality environment, which had a gini-coefficient measurement of 32.0 in 1980. As such, economic growth (which emanated mainly from these reforms) 'trickled down' to the poor with greater ease. What is even more interesting about China's case is that poverty reduction was fastest during the period 1980-84 - this is when income growth coincided with a reduction in income inequality (from 32.0 in 1980 to 25.7 during the 1980-84 period). However, when income inequality increased (from 35.5 in 1990 to 44.7 in 2001), there was also a decline in the poverty reduction rate (see the State Statistical Bureau, 1980-2004). Similarly, the benefits of economic growth in Uganda have been broad-based, with overall income poverty declining from 56% in 1992 to 35% in 2000, as this growth occurred in a low inequality environment (see for example Appleton, 2001b). This was even more so when the gini-coefficient declined to 34.7 in 1997/98 from 36.4 in 1992/93 (see Fan et al, 2004). However, the trend in poverty reduction was reversed from 35.2% in 2000 to 38.8% in 2002/03. According to Kabananukye et al (2004), this may have been attributed to the fact that income inequality increased during the 1998-2003 period (gini-coefficient rose from 34.7 to 42.8), when GDP growth had slowed. In Vietnam, the various reforms were also initiated in a reasonably low inequality environment. For example, in 1993, the initial stage of economic reforms, the gini-coefficient in Vietnam measured 34. As this figure grew to 35 in 1998 and 37 in 2002,

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[84] Note that this view is in line with the analogy that has been described in section 3.5.3.2.

the rate of poverty reduction also decreased[85] (World Development Report, 2004b; World Development Report, 2004a). Based on this, it is therefore important that growth-oriented policies should be accompanied by measures that enable the poor to share in this growth. This calls for what White and Killick (2001) refer to as double-blessed policies, i.e. policies that promote both economic growth and a more broad-based distribution of benefits. These are comprehensive policies which are aimed at (i) augmenting the poor people's assets; and (iii) providing access to markets for the poor.

(i) *Augmenting the poor people's assets and poverty reduction*. Following from the view that the poor are in this state because they lack access to essential assets (see section 3.3), the development of poor people's possession of (or access to) assets is of fundamental importance in the fight against poverty. This view is motivated by the fact that improving the various (human, physical, natural and financial) assets that poor people possess, or have access to, can enable them to take advantage of (economic) opportunities whenever they arise. This can, in turn, enable the poor to escape poverty, especially since there are powerful complementarities across assets—that is, the benefits of one asset can depend significantly on access to another (World Development Report, 2000/2001). Moreover, an increased number of participants in the general economy enable the government to amass more tax revenue (from the newly employed individuals and increased company profits) that can be utilised towards, inter alia, infrastructure and programmes that are targeting the poor. In essence, focusing solely on attaining rapid economic growth, without actually paying attention to enhancing the diverse assets that the poor possess, can prove to be detrimental to the war against poverty.

(ii) *Access to markets and poverty reduction.* Just like everyone else, the poor rely on formal and informal markets to sell their main asset (i.e. labour) and other

[85] This decline in the poverty reduction rate could also be attributed to the fact that the economic growth rate had slightly declined, when compared to that in the initial stage of reforms.

(agricultural) products (Bathrick, 1998). Consequently, access to such markets is paramount for the poor, because not only does it enable them to commercialise their productive activities, but it also provides them with an opportunity to improve their socio-economic circumstances. In light of this, it is therefore important that the various barriers that tend to limit economic opportunities for the poor are minimized, especially since these barriers tend to be higher for the poor, since, in comparison with everyone else, more of them live in remote areas and lack connections. Evidence from the cases of China, Vietnam and Uganda shows that there are a variety of ways in which these barriers can be removed. This includes improving property rights to land (for example, security/clarity of property rights and access to land through land reform) and improving access to credit through an increase in low-cost microfinance schemes.

4.3.4.2. Good governance: sound macroeconomic management

What is also evident from the cases discussed above is that sound macroeconomic management plays a crucial role in poverty reduction. Due to institutional and economic reforms (which included policies that fostered, inter alia, trade liberalisation, low inflation, more competition and the liberalisation of state monopolies), these countries have managed to create a reasonable economic incentive system, i.e. an environment that is conducive to the mushrooming of private businesses. Since private business is the engine for economic growth, this reasonable economic incentive system has, to date, managed to engender remarkable economic growth levels of 8-9%, 7-8% and 6-7% in China, Vietnam and Uganda respectively. Most importantly, economic growth in all these countries has been rapid and sustainable enough to offset the tendencies of population growth, which will, at a constant/shrinking GNP, directly reduce the living conditions of the poor, as well as the scope for redistribution. Moreover, growth (particularly in the initial stages of the reforms) in these countries has also been pro-poor. This is because, in each of these countries, the growth pattern has been broad-based and inclusive with respect to the sectors in which poor women and men earn their livelihoods, as well as the regions in which they live. Hence, growth in these countries has easily translated into higher earnings for the poor through increased economic opportunities, such as employment opportunities (that match the skills that are mainly possessed by the poor) and increased business opportunities for the self-employed.

The lesson, therefore, is clear: countries should pursue policies that foster a macroeconomic environment which is conducive to attaining rapid, pro-poor and sustainable economic growth.

4.3.4.3. Targeted programmes: social safety nets

Due to their nature, the above two axes of intervention take long periods of time to take effect. In some instances, they even have adverse effects that exacerbate the living conditions of the poor, presumably in the short-term[86]. As a result, it is therefore important to devise, as has been done in China, Vietnam and Uganda, social programmes that are aimed at softening the hardships that vulnerable individuals or households have to bear. However, these social programmes should be designed in such a way that incentives to be a productive member of society are not unduly diminished. Moreover, for the purposes of efficiency, these should be mainly targeted towards areas that are seen to be having a relatively higher level of poverty incidence, just as was done in the above cases, and these should have a time-frame, so as to determine their effectiveness. These social programmes should be specifically directed towards pressing issues (such as high unemployment rates; malnutrition; and a lack of or inadequate access to lodging, schooling and healthcare facilities) that require immediate relief. There is a broad range of mechanisms that can be devised in this regard. These include, among other things, pension systems (targeted at older people), disability benefits, child support grants, public works programmes and free primary education.

[86] See, for example, section 3.4.1 for the negative effects of trade liberalisation.

4.4. Conclusion

This chapter has sought to discuss the recommended theoretical solutions, as well as implemented best practices, with regard to poverty reduction. In terms of the theoretical recommendations, it has outlined a number of proposals that are advocated by development and religious institutions such as Oxfam, UNECA, the Catholic Church (and various other church organisations), as well as the World Bank.

Oxfam proposes that there should be more emphasis on creating (employment and business) opportunities for the poor within markets; beefing up the assets of the poor; providing equitable healthcare and education; caring and nurturing all children; establishing and implementing new, fair rules for global trade; good governance; tackling (gender) inequalities; creating PRSPs, which prioritise more investment in healthcare and education; ensuring that the poor have food security; and tackling HIV/AIDS by making affordable (or even better, free) medication more accessible.

The various church organisations believe that the focus should be on creating economic opportunities for the poor in the market economy; fortifying the assets of the poor; addressing unfair trade at a global level; overcoming corruption; removing gender (and ethnic) inequalities; increasing the involvement/utilisation of churches in development projects by allocating more donor funds to them; fighting diseases such HIV/AIDS, by providing infected people with the necessary medication; providing food and clean water to the needy, and so on.

UNECA highlights eight factors as being key to reducing poverty in Africa. These include integrating population, environment and science and technology policies into national development strategies; promoting investments in the social sectors that target and reach the poor; addressing gender inequalities; building the capacity to use information technology, so as to meet development goals; integrating regions in Africa, in order to gain a competitive edge in the global arena; improving governance; and establishing measures that will halt the prevalence of the HIV/AIDS epidemic, because it has dire economic consequences, both at micro and macro economic levels.

The World Bank, on the other hand, proposes a three-pronged strategy for attacking poverty, namely: (i) promoting economic opportunity, (ii) facilitating political empowerment, and (iii) enhancing economic security.

Interestingly, there were common elements that were found to be espoused by each of these institutions. These include creating economic opportunities for the poor; empowering the poor by improving their essential assets, particularly the human asset; good governance; addressing gender inequalities; and establishing measures to deal with pressing issues such as the HIV/AIDS epidemic.

With regard to implemented best practices, the poverty reduction strategies that have been adopted in China, Vietnam and Uganda were discussed. This is because these countries have done extremely well in terms of poverty reduction. This chapter established that the Chinese government stimulated (rural) economic growth by implementing various reforms, which were aimed at, among other things, assisting poor households with land improvement; increasing cash crop, tree crop and livestock production; procuring goods produced by poor farmers at reasonable prices; and improving access to off-farm employment opportunities. It also implemented programmes that were aimed at improving the income-generating prospects of the poor (in particular, providing the poor with access to arable land, education and healthcare). For the officially designated 'poor' areas, the following was done: (a) the central government created special funds to support a subsidised loan programme, food-for-work (FFW) programme, and budgetary poor area development fund grants; (b) in addition, preferential taxation treatment was offered to these poor regions; and (c) the government provided these underdeveloped areas with road access (thus lowering transportation costs), electricity and safe drinking water.

Like China, it was also found that the Vietnamese government implemented measures which were aimed at growing the (rural) economy. These measures included, among other things, the marketisation of the rural economy and the creation of the right incentives for farm production (such as the relaxation of trade restrictions on rice exports; relaxation on internal barriers to allow rice to flow from the south to the north; reduction in fertiliser supply constraints by allowing state-owned enterprises that earned foreign exchange to import fertiliser directly; and improved development of market infrastructure).

In order to beef up the asset base of the poor (or to raise the return on productive assets held by them), the Vietnamese government distributed agricultural land to the poor and issued several policies for social protection, health insurance, support for improvement of private housing, supply of safe water, job creation and reforestation. With regard to long-term economic opportunities, this government allocated funds for the construction of communal infrastructure (i.e. rural roads, electricity grids, irrigation, schools, commune clinics, etc.) and a special financial service institution – the Bank for the Poor (now renamed the Bank for Social Policies) – was established in 1995 to encourage the economic development of the poor.

To address the immediate needs of the poor, this government introduced a number of targeted anti-poverty programmes that were aimed at, inter alia, supplying essential goods to the poor (e.g. food, salt, clothes, blankets, kerosene, etc.), alleviating unemployment among the poor, providing preferential credit, exempting the poor from paying education fees (thus reducing illiteracy), reducing child malnutrition, and so on.

In order to return the economy to a growth path, the government of Uganda adopted various economic and institutional reforms. These included policies that were aimed at, inter alia, stabilising the economy (e.g. restoring fiscal and monetary discipline), as well as creating a conducive environment for the agricultural sector to grow (e.g. enabling exporters to borrow directly from commercial banks to pay farmers, instead of going through marketing boards, and removing restrictions on the movement of produce across districts).

In an attempt to directly increase the ability of the poor to increase their income, the government initiated policies that sought to, among other things, (a) enable the poor to access arable land, agricultural advisory services, (rural) finance and markets; (b) foster sustainable natural resource utilisation; and (c) build the rural infrastructure (most notably, rural roads and sustainable energy resources for the poor).

In order to improve the quality of life of the poor, the government of Uganda also created programmes that were associated with free primary education, improved healthcare, reduction of the HIV/AIDS infection rate, improved access to clean water and sanitation, and improved adult literacy.

The experience of these respective countries suggests that a potentially successful poverty reduction strategy should encompass three elements, namely: the creation of economic opportunities for the poor, augmenting poor people's assets and providing them with access to markets; sound macroeconomic management that engenders macroeconomic stability; and social programmes (i.e. social safety nets) that are targeted at the poor.

Chapter Five
South Africa's Poverty Reduction Policies in the Post Apartheid Era

5.1. Introduction

> *"I try everything I can to feed my children but it is never enough. I have nothing. Now my pain is double because I have lost my beloved child. And I cannot even afford to bury her" (Sunday Times,* 2002, cited in Desai, 2005: 32).

At the individual level (or household level, for that matter), poverty can translate into incalculable privation and suffering among those that are engulfed by it. The above quote bears eloquent testimony to exactly how this can happen. What is even more of a concern is that if it becomes endemic at the macro level, this phenomenon can give rise to a number of socio-economic ills. For example, widespread poverty has the potential of giving rise to social upheaval and instability in society[87], as Keynes (1971: 144, cited in Van der Merwe, 2000) so eloquently warned: *"Men will not always die quietly. For starvation, which brings to some lethargy and a helpless despair, drives other temperaments to the nervous instability of hysteria and to a mad despair. And these in their distress may overturn the remnants of organization, and submerge civilization itself in their attempts to satisfy desperately the overwhelming needs of the individual."* Other development practitioners argue that a poverty-stricken milieu could provide a fertile ground for crime-related activities to mushroom, especially in a country where a comprehensive social security net that covers all (poor) people is non-existent (see for example Kothari, 1993; Wilson & Ramphele, 1989). The notion is that, more often than not, the only avenues possible for those who cannot fulfill their basic socio-economic necessities are through the economic avenues provided by crime. Hence, most South

[87] It is noteworthy, however, that whether or not social upheaval occurs is a function of the following (Van der Merwe, 1996: 40): expectations of individuals, degree of urbanisation, level of education, and the possibility of mobilisation.

African criminal offenders are either impoverished or associated with the characteristics of poverty, such as low levels of education and unemployment[88] (see for example Mpuang, 2000: 7). In addition, the persistent poverty of a substantial portion of the population can dampen the prospects for economic growth (Khan, 2001). The essential *a priori* argument is that the poor are themselves a potential market, which entails both would-be consumers and suppliers of goods and/or services. Therefore, if they are unable to participate in the various economic activities, due to their deficient command over necessary resources, they are unlikely to make any meaningful contribution towards the growth of the macro economy. What extensive poverty also does in relation to dwarfing economic growth prospects is that, instead of enabling government to divert considerable resources towards investment projects that are necessary for achieving sustainable economic growth, it compels government to continue with substantial pro-poor social expenditures, which are ostensibly economically unproductive.

Given the aforementioned, it would be safe to suggest that the need for poverty eradication (or at least reduction) can never be overemphasised. In the South African case, this is especially so, since it has been enshrined in the new constitution that every citizen has a basic right to life and the means[89] that are necessary and appropriate for the proper development of it. Besides, if South Africa is to achieve and sustain the 6% growth rate that has been envisioned in the Accelerated and Shared Growth South Africa (ASGISA) policy document, empowering the poor with the means that will both improve their livelihood, as well as enable them to participate meaningfully in the economy, is absolutely necessary.

Fortunately, however, evidence in countries (e.g. China, Vietnam and Uganda) that are known to have achieved varying degrees of success in poverty reduction seems to suggest that it is possible to reduce poverty in a meaningful manner. Key to this success, however, is the adoption of appropriate context-specific poverty reduction strategies or

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[88] According to Mpuang (2000: 07), most South African offenders are uneducated, unemployed and impoverished, and due to these social and economic circumstances, often find themselves driven into a life of crime. Furthermore, he believes that little relief in the crime rate can be expected, unless efforts are made to enable them to escape these constraints.

[89] This includes access to nutritious food, adequate shelter, primary healthcare, basic education and so on.

policies (see Table 5-1 for a summary of the various anti-poverty strategies that have been adopted by these respective countries). Among other things, it is in this context that the government decided to endeavour to curb the apartheid legacy of endemic poverty. Hence, there are a plethora of poverty reduction strategies that this government has embarked upon ever since the start of the democratic era. These various strategies can be, as can be seen in Table 5-2, divided into the following categories: (i) measures that foster pro-poor economic growth; (ii) job creation measures; (iii) infrastructure programmes earmarked to address household consumption basic needs; (iv) contributory and non-contributory social security measures; and (v) asset building or redistribution measures.

In line with the format that is depicted in Table 5-2, this chapter rightfully seeks to examine these respective strategies in greater detail. This will be done with a view to examining their consistency with international best practices. Moreover, given the fact that the ANC promised to ameliorate the livelihood of the previously disadvantaged majority when it came into power, as well as the fact that large amounts of money have been spent to this end, it would be interesting to attempt to examine whether or not any meaningful impact on poverty has been made thus far.

The methodology adopted by this chapter will mainly consist of a desk review of the literature. In more specific terms, secondary sources of data, which primarily include journal articles and policy documents such as GEAR, RDP, ASGISA and JIPSA, will be analysed. Furthermore, various government websites will be accessed, in order to augment the study. All this will be done with a view to gaining insight into policy plans and philosophy. This will, in turn, be evaluated in terms of actual performance.

Table 5-1: A summary of anti-poverty strategies that have been adopted by China, Vietnam and Uganda

China	(i)	The Chinese government stimulated (rural) economic growth by implementing reforms which were aimed at, among other things, assisting poor households with land improvement; increasing cash crops, tree crops and livestock production; procuring goods produced by poor farmers at reasonable prices; and improving access to off-farm employment opportunities.
	(ii)	It also implemented programmes that were aimed at improving the income-generating prospects of the poor (in particular, providing the poor with access to arable land, education and healthcare).
	(iii)	For the officially designated 'poor' areas, (a) the central government created special funds to support a subsidised loan programme, food-for-work (FFW) programme, and budgetary poor area development fund grants; (b) in addition, preferential taxation treatment was offered to these poor regions; and (c) the government also provided these underdeveloped areas with road access (thus lowering transportation costs), electricity and safe drinking water.
Vietnam	(i)	The Vietnamese government implemented measures which were aimed at growing the (rural) economy. These measures included, among other things, the marketisation of the rural economy and the creation of the right incentives for farm production (such as the relaxation of trade restrictions on rice exports; relaxation on internal barriers to allow rice to flow from the south to the north; reduction in fertiliser supply constraints by allowing state-owned enterprises that earned foreign exchange to import fertiliser directly; and improved development of market infrastructure).
	(ii)	To beef up the asset base of the poor (or to raise the return on productive assets held by them), the Vietnamese government distributed agricultural land to the poor and issued several policies for social protection, health insurance, support for improvement of private housing, supply of safe water, job creation and reforestation. For long-term economic opportunities, this government allocated funds for the construction of communal infrastructure (i.e. rural roads, electricity grids, irrigation, schools, commune clinics, etc.), and a special financial service institution – the Bank for the Poor (now renamed the Bank for Social Policies) – was established in 1995 to encourage the economic development of the poor.
	(iii)	To address the immediate needs of the poor, this government introduced a number of targeted anti-poverty programmes that were aimed at, inter alia, supplying essential goods to the poor (e.g. food, salt, clothes, blankets, kerosene, etc.), alleviating unemployment among the poor, providing preferential credit, exempting the poor from paying education fees (thus reducing illiteracy), reducing child malnutrition, and so on.
Uganda	(i)	To return the economy to a growth path, the government of Uganda adopted various economic and institutional reforms. These included policies that were aimed at, inter alia, stabilising the economy (e.g. restoring fiscal and monetary discipline), as well as creating a conducive environment for the agricultural sector to grow (e.g. enabling exporters to borrow directly from commercial banks to pay farmers, instead of going through marketing boards, and removing restrictions on the movement of produce across districts).
	(ii)	In an attempt to directly increase the ability of the poor to increase their income, the government initiated policies that sought to, among other things, (a) enable the poor to access arable land, agricultural advisory services, (rural) finance and markets; (b) foster sustainable natural resource utilisation; and (c) build the rural infrastructure (most notably, rural roads and sustainable energy resources for the poor).
	(iii)	In order to improve the quality of life of the poor, the government of Uganda also created programs that were associated with free primary education, improved health care, reduction of the HIV/AIDS infection rate, improved access to clean water and sanitation, and improved adult literacy.

Table 5-2: A framework for poverty reduction in the post-apartheid era

Trickle-down effect	**Job creation**	**Basic needs**	**Social safety nets**	**Asset building/redistribution**
Macroeconomic stability:- (i) Budget deficit reduction (ii) Restrictive monetary policy (iii) Managed trade liberalisation (iv) Exchange rate and price stabilisation (v) Regulated flexibility of the labour market (vi) Productivity improvements.	*Human resource development*: (i) National skills development strategy (learnerships & SETAs) (ii) Further education and training (iii) Adult Basic Education and Training *Enabling measures for SMMEs: -* (i) The establishment of state institutions – i.e. Khula & Ntsika – providing financial and non-financial assistance to SMMEs. *Special pro-employment programmes:* (i) Clean Cities Campaign; (ii) Working for Water; (iii) Coastal Care; (iv) Land Care Campaign; (v) Municipal Infrastructure Programme; (vi) Welfare Programmes; (vii) Community-Based Public Works Programmes; (viii) Provincial/locally-Based Public Works Programmes (Gundo Lashu Programme in Limpopo & Zibambele Programme in Kwa-Zulu Natal); (ix) Extended Public Works Programme; (x) Arts and Culture poverty relief projects.	(i) Pre- & primary education (ii) Primary health care (iii) Water & sanitation (iv) Housing (v) Electrification or other alternative sources of energy (vi) ISRDP nodes (vii) URP nodes	*Occupational insurance:* (i) Unemployment insurance Fund (UIF) *Social assistance:-* (i) Social grants, namely: • Old-age pensions • Disability grants • War Veterans' • Foster Care • Care Dependency • Child Support • Grant-in-Aid (ii) Other poverty alleviation initiatives: - • School Nutrition Programme • Social Relief of Distress Programme • Disaster Relief Programme • Food Relief Programme	(i) Land Reform Programme (ii) The delivery of housing

This chapter is, excluding the introduction, organised into seven sections. Section one focuses on poverty reduction through pro-poor economic growth (i.e. the 'trickle down' effect principle). This is because pro-poor growth has proved to be the most effective poverty reduction strategy across different settings. Significantly, if one looks at the long-term relationship between economic growth and the poverty rate in most developing countries, it is clear that there has been a close and inverse relationship between the rate of economic growth and the poverty rate (see for example Dollar & Kraay, 2000).

Section two looks at the various mechanisms that the government uses to create poverty-reducing (or alleviating) jobs. These include the provision of skill-enhancing education and training, providing financial and non-financial support to SMMEs, and special pro-employment programmes such as public works programmes. The general consensus among most developmental analysts is that labour is the main asset of the poor (see for example Abedian, 2004; Desai, 2005). As such, it is believed that providing the poor with fruitful employment opportunities can go a long way towards reducing poverty. As a matter of fact, prominent leaders who subscribe to this viewpoint have gone so far as to suggest that job creation should be at the centre of all poverty reduction strategies (see section 5.3).

Section three is based on the belief that, although it does not necessarily improve their income, enabling the poor to access basic services can have a positive impact on their quality of life. Accordingly, the focal point of this section is on infrastructure programmes that are earmarked to address household consumption basic needs, such as adequate shelter, electricity or other alternative sources of energy, clean water and sanitation, (primary) healthcare and basic education. Furthermore, this section looks at the measures (i.e. the ISRDP and URP programmes) that have been devised for the purposes of ensuring that the poorest of the poor are not excluded from receiving these basic services.

Section four discusses the social security net system. As has been argued by Alcock (1993: 214), the idea behind social security policy is the use of state support, collected in the form of contributions or taxes from those in employment, to provide an income from the state for those who cannot secure an adequate income for themselves, and are thus at risk of poverty. This section focuses mainly on occupational insurance in the form of the

Unemployment Insurance Fund (UIF), as well social assistance in the form of social grants and other poverty relief programmes, namely: the School Nutrition Programme, the Social Relief of Distress Programme, the Disaster Relief Programme and the Food Relief Programme.

Section five looks at measures that are aimed at beefing up the asset base of previously disadvantaged people. This is because, as can be seen in section 4.3.4.1, having entitlement to productive assets is essential for the poor, in the sense that such assets enable the poor to take advantage of the economic opportunities that might trickle down as a result of economic growth at the macro level. The various measures that this section is going to look at in relation to this include those that enable the poor to access productive land and houses that can provide the poor with the option of, inter alia, renting out some parts of it.

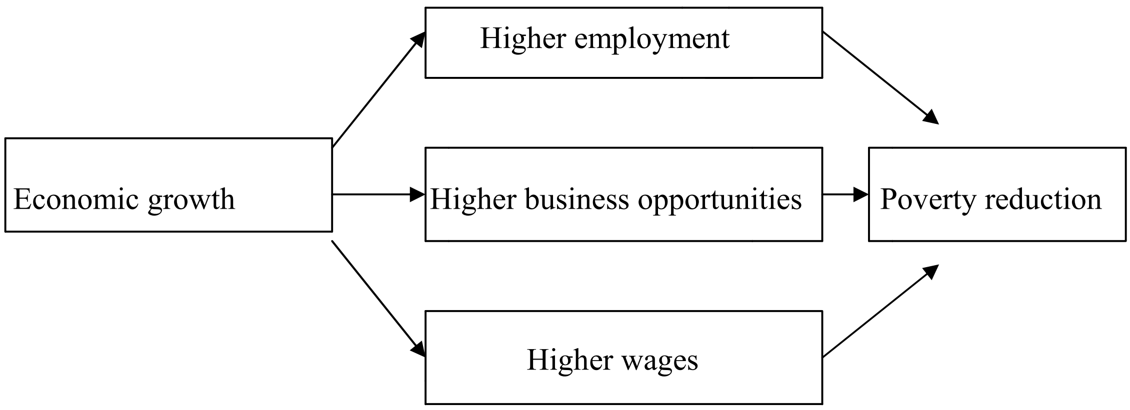
In section six, comments on the efficacy of the government's various strategies with regard to poverty reduction will be made. This section will also comment on whether or not these poverty reduction strategies are consistent with international best practices. Furthermore, possible reasons as to why the government has not managed to significantly reduce poverty in South Africa will be outlined.

The last section makes conclusive remarks. In this section, a summary of South Africa's poverty reduction strategies, as well as possible reasons why this country has not been able to significantly reduce poverty (as has been the case in China, Vietnam and Uganda), will be presented.

5.2. Poverty reduction through economic growth: the trickle-down effect principle

A commonly held view is that maximising economic growth, measured by increased output per capita, is the most effective policy for reducing poverty. This view is based on the notion that more economic growth potentially leads to more income for all. If any of this increase in income 'trickles down' to the poor, particularly via higher earnings, business opportunities and employment (lower rate of unemployment), then there will invariably be a rise in their standard of living, and a reduction in the poverty rate in due course, *ceteris paribus* (see Figure 5-1). Correspondingly, empirical research, using data from a large group of developing countries, suggests that this view is tenable (see for example Dollar & Kraay, 2000).

Figure 5-1: Conceptual framework: economic growth and poverty



Source: Modified from Tambunan (2005)

Against this backdrop, it is quite obvious then that, for the purposes of poverty reduction, it was imperative for the government to come up with a clear policy initiative that would pull the economy out of its recessionary slump, since it inherited an economy with an average annual real per capita growth that had been on the decline for over three decades[90]. Hence, the government introduced the Growth, Employment and Redistribution (GEAR) policy framework in 1996. This macro-economic strategy recognises the important role that higher economic growth plays in creating economic opportunities that are of significance to poverty reduction (see Knight, 2006). In addition, this strategy has sought to create an optimal climate for private investment (which is the engine for economic growth) through a set of macroeconomic stability measures (low budget deficits, privatisation of state assets, relaxation of labour laws,

[90] Significantly, South Africa's average annual real per capita growth was 2.9% during the 1960s, 0.7% during the 1970s, -0.6% during the 1980s, and -1.5% between 1990 and 1994.

competitive exchange rates, low inflation, etc.). Of significance to poverty reduction, this set of measures was (according to the modelling in GEAR, i.e. macro-model simulations, running from 1996 through to 2000) expected to, inter alia, lead to an economic growth rate of 6% per annum by the year 2000, which, in turn, would generate up to 400 000 jobs per annum (see Table 5-3), thus resulting in a drastic improvement in the livelihoods of the needy. In essence, GEAR was expected to create 1.35 million jobs during the 1996-2000 period (see Weeks, 1999; DOF, 1996). Critical to the attainment of the foregoing goals was a significant increase in private investment and non-gold exports, together with increased state expenditure on social infrastructure (Office of the President, 1996).

Table 5-3: Key macroeconomic indicators, Gear targets & performance (1996-2000)

	1996	**1997**	**1998**	**1999**	**2000**	**Average 1996-2000**
GDP growth (real) *(actual)*	3.5 *4.2*	2.9 *2.5*	3.8 *0.8*	4.9 *2.1*	6.1 *3.4*	4.2 *2.5*
Employment growth (private) *(actual)*	1.3 *-0.6*	3.0 *-1.7*	2.7 *-3.4*	3.5 *-2*	4.3 *-2.7*	3.0 *-2.0*
Private sector investment (growth) *(actual)*	9.3 *7.7*	9.1 *4.8*	9.3 *-1.8*	13.9 *-3.3*	17.0 *6.4*	11.7 *2.7*

Source: Weeks (1999), DOF (1996)

Unfortunately, it is quite clear, in hindsight, that the job creation objectives were not achieved. As a matter of fact, during the 1996-2000 period, the employment performance was dismal, to such an extent that it declined substantially during these years (see Table 5-4). This was mainly attributed to the fact that, although the market liberalisation policies of GEAR managed to improve the macroeconomic outcomes in terms of lowering inflation and reducing the budget deficit, they failed to catapult the South African economy to new levels of growth by the year 2000, as originally promised. As illustrated in Table 5-3, with the exception of 1996, real GDP growth turned out to be much lower than the GEAR projections (and by 2006, it had still not reached the 6% predicted for 2000). Similarly, instead of growing at an annual average rate of just under

12%, private sector investment, which is supposed to be the engine of economic growth, only grew by 2.7% (see Table 5-3)[91].

In light of this, the government has sought to buttress GEAR by countering what is perceived to be the key constraints[92] to the growth of the economy (Mlambo-Ngcuka, 2006). It has done this through the "Accelerated and Shared Growth Initiative – South Africa" (ASGISA) programme. The notion is that dealing with these constraints will, in turn, enable the South African economy to grow at a rate of around 6%, thus enabling more South African households to directly benefit (particularly via increased, gainful job opportunities) from the economic success that is experienced at a macro level. In line with this, the government is further seeking to boost poverty-reducing employment by promoting private investment in sectors that are, among other things, labour-intensive. Areas in which the government hopes for progress include business process outsourcing (including back-office activities and call centres), which the government says has attracted 5,000 jobs so far, and has the potential for an additional 100,000 by 2009. Another sector which the government hopes to increase from 8% to 12% of the GDP, while simultaneously increasing employment by up to 400,000 jobs, is tourism (Knight, 2006).

5.3. Using job creation as a poverty reduction measure

As will be shown in section 5.5 (ii), South Africa's social safety net programme is, probably due to limited resources, restricted to certain categories of people. Furthermore, labour is the most important asset of the poor. Given this, the importance of job creation

[91] In light of this, it therefore comes as no surprise that progress with regard to poverty (and inequality) reduction has been poor during the initial five-year period of GEAR. Significantly, a United Nations Development Program (UNDP) study of poverty in South Africa found that in the late 1990s, about 18 million people (40.6% of the population) still lived below the poverty line, using an absolute measure of poverty pegged at R 353 per month (cited in Streak, 2004). Of these, 10.4 million lived in ultra-poor households, earning less than R 193 per month per adult equivalent.

[92] According to Mlambo-Ngcuka (2006), the key constraints that hinder the South African economy from growing at a rate of 6% include (i) the volatility and level of the currency; (ii) the cost, efficiency and capacity of the national logistics system; (iii) shortage of suitably skilled labour, amplified by the cost effects on labour of apartheid spatial patterns; (iv) barriers to entry, limits to competition and limited investment opportunities; (v) a regulatory environment and its burden on small and medium businesses; and (vi) deficiencies in state organisation, capacity and leadership.

as a way of reducing South Africa's high poverty levels can never be overemphasised (see for example Abedian, 2004; Desai, 2005; Vavi, 2003, cited in Desai 2005). As a matter of fact, at an international level, the Director-General of the International Labor Organization (ILO), Juan Somavia, believes that *"job creation should be put at the center of global efforts to halve extreme poverty by 2015"* (*Financial Times*, 2003, cited in Desai, 2005).

Why is the abovementioned view so prevalent? The answer to this question lies in Figure 3-4. Gainful employment increases the purchasing power of the working people via increased earnings, *ceteris paribus*. What this essentially implies is that, given the fact that most poor people are in this state because they lack adequate access to productive assets, if more fruitful jobs can be created in order to enable the economically active poor to commercialise their labour asset, the earnings that are usually obtained from working can provide these poor people with the means to circumvent the adversities of poverty[93]. This can, in turn, enable them to improve their livelihoods in due course, especially if they consume their earnings in a prudent manner (see section 3.6.2.1). Moreover, fruitful employment creation can increase the tax base (as more people will be eligible to pay tax), thus enhancing the government's ability to fund pro-poor services such as health-care, clean water and education.

It is in the above context that the government uses employment creation as one of its main strategies for curtailing the high poverty levels in South Africa. It does this (i.e. creating jobs) by using the following mechanisms: (i) promoting skill-enhancing education and training, (ii) providing financial and non-financial support to SMMEs, and (iii) undertaking special employment-creating projects (see Table 5-2). The question of precisely how these mechanisms are meant to engender gainful employment, which eventually leads to poverty reduction, will be dealt with in the remainder of this section.

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[93] Jobs are particularly important for the poor, because labour is usually their only asset, which they can then successfully commercialise.

5.3.1. Creating jobs through skill-enhancing education and training

In modern economies, such as that of South Africa, only a fortunate few possess inherent talent that needs little training in order to be translated into high-paying effort. Without much training or education to develop aptitudes into marketable skills, the earning power of most people would be mainly limited to what their simple physical strength and effort were worth on the market (Perlman, 1976). This is chiefly attributed to the fact that acquiring good-paying jobs in the contemporary economic and technological environment requires one to possess technical knowledge and skills that are usually acquired through skill-enhancing education and training. Among other things, this explains why most of the Black population who were subjected to the *'Bantu'* education system were a source of cheap labour during the apartheid era (a factor that made them susceptible to poverty).

Against this background, it then follows that the government has incorporated a number of human resource development measures into the GEAR policy. These have sought to improve the overall education system, as well as to develop the skill base of the work-force (the emphasis being on those who are a product of '*Bantu'* education). The idea is that, in due course, these various human resource development measures will create graduates or workers who are able to take advantage of skilled employment opportunities, which will arise as a result of economic growth. With regard to the development of the education system, the following key initiatives have been undertaken since 1994 (Department of Education, 2001, cited in Barker 2003):

- The Further Education and Training (FET) Act of 1998 (and related policies), which provides the basis for developing a nationally coordinated further education and training system, comprising the senior secondary component of schooling and technical colleges. This Act attempts to ensure that learners from this band[94],

[94] According to Barker (2003), the FET band comprises Grades 10-12 in school education, out-of-school youth and adult learners. Technical, youth and community colleges, as well as a range of other industry-based and non-formal providers, also fall into the FET band.

especially out-of-school youth and adult learners, acquire education that is relevant to the workplace, thus making them employable.

- The Adult Basic Education and Training Act (2000), which provides for the establishment of public and private adult learning centres, funding for adult basic education and training (ABET) provision, governance of public centres, and quality assurance mechanisms for the sector.

With regard to developing the skill base of the workforce, the key initiative that has been undertaken in the new political dispensation (i.e. post-1994) is the National Skills Act, which was enacted in 1998. According to Barker (2003), this Act seeks to, among other things:

- Develop the skills of the South African workforce and thereby increase the quality of working life for workers;
- Promote self-employment;
- Improve the delivery of social services; and
- Encourage employers to use the workplace as an active learning environment, and to provide opportunities for new entrants to the labour market to gain work experience.

'Learnerships' and 'Sector Education and Training Authorities (SETAs)' are the main vehicles through which all the abovementioned objectives of this Act are to be achieved. Like apprenticeships, learnerships combine practical work experience (in normal work-place conditions) and structured learning (which might be taught by an educational institution) (Barker, 2003). This is with the hope that this will, in turn, assist young, unemployed people to become employed, as well as help existing workers to improve their skills level. The SETAs, on the other hand, are mainly aimed at charging a skills levy to firms, to be repaid on the presentation of evidence by the firm that it is undertaking approved training for its workers; encouraging FET institutions in the provision of education and skills for work; developing and administering learnerships; and undertaking quality assurance. All of this (and more) is done with the view that it will go a long way towards addressing the skills shortage problem, which is perceived to act as a constraint to poverty-reducing employment and economic growth in South Africa (Kingdon & Knight, 2005).

The sad reality, however, is that, in general, these abovementioned initiatives have not (at least for now) been very successful in assisting the workforce to accumulate the skills that are required in today’s labour market. The skilled job categories (e.g. financial managers, network administrators, engineers and the like) that stand empty bear testimony to this fact. For example, in March 2004, there were as many as 500 000 job vacancies in South Africa (Abedian, 2004). What this essentially implies is that South Africa is still characterised by structural unemployment, in the sense that a large proportion of the labour force in South Africa is still unskilled or only possesses very basic skills, which is in contrast to the type of skills that are urgently needed in this country (Abedian, 2004).

What is also a cause for concern is that the paucity of formal sector jobs in South Africa, which require low skill levels, continues to manifest itself in open unemployment. According to Kingdon and Knight (2004), this is generally in contrast to the pattern that exists in most developing countries, where the paucity of formal sector jobs usually manifests itself in large informal sectors, rather than in high levels of open unemployment (see for example Table 5-5). In light of this, it would therefore be safe to assume that these various human resource development strategies have also not been very successful in reviving the culture of entrepreneurship among the black people who were previously oppressed in this regard (see section 3.3.1). Consequently, South Africa continues to have a small informal sector in comparison to other developing countries (Kingdon & Knight, 2004).

Table 5-4: Unemployment and informal employment[95]

Country	Urban Unemployment rate	Employment Rate in the Informal sector	Ratio of Informal Sector Employment to Unemployment
South Africa	29.3	18.9	0.7
Other Sub-Saharan African countries	16.0	74.8	4.7
Benin	10.1	92.8	
Burkina Faso	-	77.0	
Chad	-	74.2	
Guinea	12.3	71.9	
Kenya	16.2	71.6	
Mali	9.9	78.6	
Mauritania	31.6	75.3	
Mozambique	-	73.5	
Zambia	-	58.3	
Latin America	8.1	56.9	7.0
Argentina	18.8	53.3	
Bolivia	3.6	63.6	
Brazil	4.6	57.6	
Colombia	9.0	55.5	
Ecuador	6.9	53.5	
Mexico	6.3	59.4	
Paraguay	5.6	65.5	
Venezuela	10.3	46.9	
Asia	5.3	63.0	11.9
India	-	73.7	
Indonesia	7.2	77.9	
Pakistan	6.1	64.6	
Philippines	7.4	66.9	
Thailand	0.4	51.4	
Iran	-	43.5	

Source: Charmes (2000, cited in Kingdon and Knight, 2004)

In response to the above, the government has since introduced other human resource development measures that seek to fast-track the development of South Africa's human capital (particularly that of the poor), so as to simultaneously address the issues of skills shortage and unemployment. In the education sphere, the key measures that are to be (or have been) undertaken include, among other things: (i) a huge upgrading of Further Education and Training colleges, (ii) the National Youth Programme, which is designed

[95] These figures are based on the World Development Indicators, 1997.

to provide both training and work experience for young people outside of the education and training systems, and also outside the labour market, and (iii) a revamping of the Adult Basic and Education Training Programme, based on a model developed in Cuba and New Zealand.

Other key interventions in the skills sphere include, among other things: (i) the development of an Employment Services System (to close the gap between potential employers and employees); (ii) the deployment of experienced professionals and managers, under the management of the Development Bank of Southern Africa (DBSA), to local governments, in order to improve project development, implementation and maintenance capabilities; (iii) a number of skills development programmes, which are driven by the Umsobomvu Youth Trust—these usually entail youth volunteers; and (iv) the establishment of the Joint Initiative for Priority Skills Acquisition (JIPSA) to identify urgent skills needs and quick and effective solutions (e.g. special training programmes, bringing back retirees or South Africans working outside Africa, and drawing in new immigrants where necessary).

5.3.2. Creating jobs through providing financial and non-financial support to SMMEs

Besides the other significant economic roles that they usually fulfill (e.g. contributing towards the country's national product), available empirical evidence suggests that the SMME sector is an essential factor in creating employment, especially in developing economies[96] (Alweendo, 2004). What makes SMMEs even more relevant in the context of poverty reduction is the fact that they have a remarkable capacity to absorb unskilled labour (Rwigema & Karungu, 1999), which, in turn, can lead to an improvement in the

[96]A 2002 survey on the position of SMMEs in OECD countries showed that SMMEs account for 60-70 percent of total employment in manufacturing in most OECD economies. The survey also showed that, in the services sector, small firms provide the vast majority of jobs. During the 1990s, small firms were responsible for up to three quarters of employment growth in the United States, and businesses with fewer than 20 employees are now generating up to one-half of the jobs in the country. In Korea, national statistics indicate that SMMEs increased their share of manufacturing employment from 63.5% in 1991 to 74% in 2000. A similar trend is evident in developing economies. Significantly, preliminary estimates for developing economies in South-East Asia show that SMMEs provide employment to over 80% of the labour force (Alweendo, 2004).

human capital of the poor, since they are the ones who are usually characterised by low skill levels. Moreover, SMMEs are instrumental in economically empowering the marginalized, in the sense that they help inculcate the culture of entrepreneurship and innovation by way of providing a 'nursery' and a proving ground for a business career (Rwigema & Karungu, 1999). In essence, SMMEs can, besides creating job opportunities for the poor, also be utilised as a vehicle for enhancing human capital, because they expose people with low skills to business experience and thereby encourage a 'learning-by-doing' effect (Berry et al, 2002).

Given the important role that SMMEs generally play in creating employment (particularly for the unskilled), as well as the fact that they have the potential to contribute towards economically empowering those who are marginalised, by providing them with a stepping stone to a business career, it therefore comes as no surprise that South Africa's SMME economy has been actively promoted since 1995. This is especially so since the government inherited a country which had, inter alia, a SMME economy that had been actively discouraged by repressive measures for protracted periods of time (Berry et al, 2002; see also section 3.3.1), in addition to a largely unskilled labour force which was (and still is) struggling to find gainful employment. The specific framework for SMME development was set forth in the Department of Trade and Industry's (DTI) 1995 White Paper[97]. This, together with the National Small Business Development Act of 1996, paved the way for the introduction of a range of new support institutions and initiatives (Rogerson, 2004). These sought to create an environment in which SMMEs could flourish and prosper. The main institutional pillars that were derived from the challenges set out in the White Paper include, among others, the following (Berry et al, 2002):

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[97] This White Paper is entitled: "*A National Strategy for the Development and Promotion of Small Business in South Africa*".

- *The Ntsika Enterprise Promotion Agency* (Ntsika or NEPA, for short). Ntsika provides non-financial support to SMMEs via a range of programmes that are accessible through a network of retail service providers[98].
- *Khula Enterprise Finance Ltd.* Since its establishment in 1996, Khula has initiated a number of loan schemes to increase access to finance for SMMEs through retail financial intermediaries (RFIs)[99]. Critical to the effectiveness of these RFIs in terms of poverty reduction was the existence of linkages between the first and second economies, in order to generate demand for credit for micro-enterprises that would act as suppliers to the first economy (Kirsten et al, 2006). However, since this was not the case, there was a dramatic reduction in the number of credit retailers through which Khula could extend its capital towards the smaller enterprise clientele. As such, Khula has since opened 'micro-credit outlets' that cater for smaller enterprises that are owned by poor entrepreneurs. One of these credit schemes includes the recently established South African Microfinance Apex Fund (SAMAF), which provides loans of up to R 10 000 to households and micro-entrepreneurs, who depend on micro-enterprises for their livelihood. Mafisa (i.e. agricultural credit scheme) is another newly established small business credit scheme that is mainly targeted at providing assistance to poor entrepreneurs who reside in the former homeland areas (Aliber et al, 2006).

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[98] These are classified as (i) Local Business Service Centres (LBSCs)—for assistance in business administration and general information, (ii) Tender Advise Centres (TACs)—to provide assistance and training to SMMEs on government tendering processes and information about current tenders, (iii) Manufacturing Advise Centres (MACs)—these are coordinated and monitored by the national NAMAC, in collaboration with the Centre for Scientific and Industrial Research (CSIR), in order to provide industry-specific assessments and link SMMEs to highly-specialised service providers. Moreover, thirteen technical colleges were founded for the purpose of implementing the Technopreneur Programme for potential SMME entrepreneurs to improve their technical skills. Entrepreneurs are meant to apply these skills under supervision before they start their own businesses. In addition, LBSC and other NGO staff can receive Ntsika-funded training offered by eleven so-called Service Provider Development Programme Organisations.

[99] These schemes can be grouped as follows: (i) Business Loan Schemes—these are loans of between R1 and R100 million which are forwarded to RFIs in order to capacitate them or increase their willingness to provide loans to SMMEs, (ii) Guarantee Schemes—guarantees are underwritten by Khula to reduce the risk of lending to SMMEs without sufficient collateral, and (iii) Equity Funds—through the internet-based Emerging Enterprise Zone (EEZ), as part of the Johannesburg Stock Exchange (JSE), SMMEs are expected to gain access to equity funding (up to R250 000, constituting less than 45% of total equity and to be re-capitalised within five years) from private investors with whom Khula might form partnerships.

In addition to this, the government has also embarked on an initiative to develop youth entrepreneurship, as this is highly recommended by the ILO for developing countries with high unemployment rates (du Toit, 2003). This initiative is spearheaded by the Umsobomvu Youth Fund, which was established in 1998. The Umsobomvu Youth Fund is an agency created by government to fund skills development and employment creation for young people. Of significance to developing small- and medium-scale business skills for young people, the fund has, as part of its work, created a special micro-loan initiative for young entrepreneurs, a venture capital fund, and a voucher programme for access to business development services (Department of Education, 2004).

Although it is widely acknowledged that South Africa's SMME support infrastructure, which was non-existent in the pre-1994 period, has planted the seeds for sustainable and employment-creating SMME development (see for example Qualmann, 2000: 43; ICC, 1999: 7), available assessment studies suggest that these new SMME policies have generally not been truly effective. According to Berry et al (2002), this is mainly attributed to the fact that these new institutions suffer from sub-optimal implementation, as a result of the following key factors[100]:

- Lack of awareness of the existence of SMME support initiatives;
- Uneven distribution of services;
- High search costs of service provision;
- Cumbersome administration and discontinuity of programmes

In line with the above, the contribution of the SMME economy to national employment growth rates remains low. What is even more of a concern is the fact that, contrary to what is evident in other developing countries, the employment generated in the SMME economy does not result from the expansion of more established and larger SMMEs. Instead, it is mainly generated by the formation of new micro- and survival enterprises, which show no signs of enterprise growth (Berry et al, 2002; Kesper, 2001: 177, cited in Rogerson, 2004). This finding was reinforced by the World Bank's detailed research in

[100] For detailed information on these, see Berry et al (2002)

Johannesburg, which showed conclusively that net employment growth in the SMME economy was accounted for by the arrival of new firms (Chandra et al, 2001). However, given the sheer size of the micro-enterprise and informal economy, and the fact that many of those involved are mainly female heads of households and rural families who are struggling to survive, it is worth noting that the sector plays a particularly important role in terms of income generation and poverty alleviation (Dorfling, 2001; Rogerson, 1999; Kesper, 2002). As a matter of fact, the recently established South African Microfinance Apex Fund (SAMAF) aims to buttress this trend by providing loans of up to R10 000 to households and micro-entrepreneurs, who depend on micro-enterprises for their livelihood. Mafisa (i.e. agricultural credit scheme) is another newly established institution that is mainly targeted at providing assistance to poor entrepreneurs who reside in the former homeland areas (Aliber et al, 2006).

5.3.3. Special pro-employment programmes: public works programmes

Although creating jobs via the abovementioned channels is usually desirable, in the sense that these various mechanisms engender, at least in theory, sustainable jobs that are not dependent on government, the reality is that job creation through these mechanisms usually takes protracted periods of time before any significant results are evident. Moreover, some of these mechanisms (e.g. the various structural adjustments that are usually undertaken to achieve macroeconomic stability) can, at least in the short-term, actually lead to an increase in unemployment, particularly among the unskilled (see section 3.4.1).

Given this context, as well as the fact that the dominant economic paradigm in South Africa places ideological constraints on a number of policy options (such as direct transfers in the form of basic income grants) that can be utilised to offset the shortcomings of the abovementioned policies, the government was compelled to supplement its various long-term, pro-employment policies with economically efficient employment-creating schemes, such as the public works programmes (PWPs). Although the PWPs are not necessarily sufficient to solve South Africa's unemployment problem, they are nevertheless of significance to poverty alleviation, in the sense that they provide momentary relief (in the form of short-term employment/income) to the jobless, would-be workers who are poor. What makes PWPs even more relevant in the South African context is the fact that they sidestep the issue of low skill levels (which is often the reason why most poor people fail to secure long-term employment), in the sense that they are specifically aimed at providing poverty-alleviating jobs to unskilled, able-bodied adults (Phillips, 2004).

In essence, PWPs do not only serve as palliatives by way of providing short-term income to the poor, but also attempt to enhance the human capital of those who participate in them. Among other things, this explains why PWPs have enjoyed considerable policy prominence in the post-1994 era. Significantly, in 1997, the government announced a R 300 million Poverty Relief Fund[101], which the Minister of Finance, Trevor Manuel, described as an attempt to extend the social security net to the unemployed (Business Day, 1997, cited in Barker, 2003). Since its inception, this fund has focused on financing, among other things, the following labour-intensive projects (RSA, 1998, cited in Barker, 2003):

- Clean Cities Campaign (the delivery of waste services to poorly serviced areas)
- Working for Water (clearing invasive alien vegetation)
- Coastal Care
- Land Care Campaign (rehabilitation and conservation of natural resources)
- Municipal Infrastructure Programme (for low-income areas)
- Welfare programmes (which offer training, education and other opportunities for the destitute)
- Community-Based Public Works Programmes (CBPWP) (primarily in rural areas)
- Arts and Culture poverty relief projects.

[101] This fund has since been further capitalised by the central government. For example, an additional R 598 million went into this fund in 1998/99 (Aliber, 2001).

What is worth noting about these projects is that, with the exception of the Department of Water Affairs' Working for Water programme, which has created about 38 000 jobs that have mainly benefited women (Hunters et al, 2003), these other programmes are considerably smaller than the CBPWP. At its peak, the CBPWP was allocated approximately R350 million per annum, and the programme resulted in the creation of approximately 130 000 job opportunities between 1998 and 2004 (Phillips, 2004).

In addition, a number of provinces and municipalities have also initiated their own PWPs. Two of the most notable examples in this regard include the Gundo Lashu Programme in Limpopo, which was initiated in 2001, as well as the Zibambele Programme in KwaZulu Natal, which was initiated in 2000. The former involved the upgrading of district roads, which was to be done by 24 small, aspirant contractors (of whom 13 were women), under the supervision of high-level supervisors. The 2003/4 budget for the programme was R50 million, and it is achieving a 600% increase in employment creation, compared to similar conventional, machine-intensive road works, without increasing the overall cost per kilometre of road upgraded. For each project, the contractors employ between 60 and 100 local workers. On average, 51%, 58% and 1% of these workers have been women, youth and disabled respectively. Moreover, all the workers are provided with both on-the-job training and formal training, funded by the Department of Labour (Phillips, 2004). The Zibambele Programme, on the other hand, entails carrying out routine maintenance on the province's rural access road network, and providing poor rural households, which have no other source of income, with a regular income. In 2002/3, there were approximately 10 000 Zibambele contractors carrying out routine maintenance on approximately one-third of the KwaZulu Natal rural access road network. The Department planned to extend the number of contractors to 14000 by the end of the 2002/3 financial year, and ultimately, to a maximum of 40000 poor households. The budget for Zibambele in 2002/3 was R56 million (Phillips, 2004).

Against the background that the PWPs have been reasonably successful in creating poverty-alleviating job opportunities, the government has sought to fortify this policy option by launching the Expanded Public Works Programme (EPWP) in all provinces by the beginning of September 2004. In its first five years, this programme is expected to create at least one million poverty-alleviating job opportunities in the following sectors:

- Infrastructure (increasing the labour intensity of government-funded infrastructure projects)—R15 billion has been allocated to this sector;
- Environment (creating job opportunities in public environmental improvement programmes)—R4 billion has been set aside for this sector;
- Social (creating job opportunities in public social programmes, e.g. home-based care workers and early childhood development workers) —at least R600 million has been allocated to this sector; and
- Economic (e.g. income-generating projects and programmes to utilise government expenditure on goods and services, in order to provide the work experience component of small enterprise learnership / incubation programmes).

Once created, these work opportunities are, in turn, expected to draw significant numbers of the unemployed into productive work, so that workers gain skills while they work and increase their capacity to earn an income (Phillips, 2004; Desai, 2005). In essence, similarly to the PWPs, the objective of the EPWP is to utilise public sector budgets to alleviate unemployment, by creating temporary productive employment opportunities coupled with training.

Fortunately, available evidence suggests that this newly initiated EPWP will improve on the record that has been set by the abovementioned PWPs. Thus far, the EPWP has been surpassing all employment creation targets, with more than 220 000 employment opportunities created in the first year, and an additional 60 000 in the first quarter of the second year (Skweyiya, 2006). There are also indications that this programme will have a positive impact on developing the skill base of the poor. For instance, the Vuk'uphile Learnership Programme has already grown from the initial target of 500 learnerships to 1971 (Skweyiya, 2006).

5.4. Ameliorating the livelihood of the poor by enhancing their access to basic services or needs

Providing the poor with proper houses, as well as enabling them to access basic services such as clean water, sanitation, electricity, primary healthcare and basic education[102], can also go a long way towards improving their livelihood. This is because, although the foregoing policy option does not necessarily enhance the income of the poor, it can, nevertheless, have a major impact on their quality of life, thus leading to improvements ranging from health to productivity (Van der Berg, 1999; Leibbrandt et al, 2004). In light of this, it is therefore understandable that enabling the needy to meet their basic needs has been given prominence during the post-apartheid era[103]. The main policy framework through which this has been done is the Reconstruction and Development Programme (RDP) of 1994. Under this policy, the government funded the capital costs of new services infrastructure, while the users covered operational and maintenance costs—a financial division that applies in many other countries.

Accordingly, this sub-section seeks to briefly discuss some of the key RDP-related policy programmes which have been initiated for the purposes of delivering the aforementioned basic needs to the poor.

(i) Programmes that are aimed at providing adequate shelter for the poor

Responsibility for facilitating shelter provision for the poor in South Africa lies with the Department of Housing. The key mechanism for achieving this has been the Housing Subsidy Scheme that was started in 1994, following negotiations initiated by the National Housing Forum. Through this mechanism, the Department of Housing managed to deliver about 1 883 548 subsidised houses between 1994 and September 2005, although the housing backlog continues to grow (Department of Housing, 2006). The Government

[102] Basic education is defined as pre-primary and primary education (Hunter et al, 2003).
[103] It is worth noting that access to some of these basic services or needs (e.g. access to clean water, health care facilities and housing) is guaranteed in the constitution (see the Bill of Rights in the South African Constitution).

Capital Housing Subsidy is available to South African citizens who are over 21 years old, married or living with a long-term partner, and who have dependants, have not owned property before, and whose income is below R 3 500 per month. Four main types of subsidies have been applied (see Table 5-4):

- *Individual Subsidies:* The individual subsidy programme gives qualifying beneficiaries access to a subsidy in order to acquire ownership of existing property or property not located in a project approved by provincial housing development boards.
- *Project-linked Subsidies:* These subsidies provide housing opportunities for individuals on an ownership basis within housing projects approved by provincial development boards and constructed by developers. Most subsidies have gone to this programme.
- *Consolidation subsidies:* People who, before the inception of the Housing Subsidy Scheme, received housing assistance from the state in the form of serviced sites, can apply for a further benefit from the state to improve their housing situation by building a structure on the site or upgrading an existing one.
- *Institutional subsidies:* These subsidies are available to institutions that create affordable housing stock, in order to enable persons who qualify for individual ownership subsidies to live in subsidised residential properties with secure tenure.

However, in order to meet the housing challenge of the poor majority, who in most cases do not have a regular income, and to make them eligible for the subsidies, the government has initiated the People’s Housing Process, which focuses mainly on the efforts of poor communities to improve their living conditions. This initiative is based on the fact that people have always built their own houses by applying the vast wealth of traditional know-how. The Capacitation Programme of the government, which is funded by UNDP, USAID and the government, and executed by UNCHS (Habitat), aims at building the capacity of, and supporting, poor communities to improve their living conditions. Through a collaborative effort, the programme has concentrated on (Kithakye, 2001):

Table 5-5: Housing subsidy bands, 2006/07

Income category	Previous subsidy	New subsidy	Contribution	Product price
Individual, project-linked and relocation assistance subsidies				
R0 – R1 500	R31 929,00	R36 528,00	None	R36 528,00
R1 501 – R3 500	R29 450,00	R34 049,00	R2 479,00	R36 528,00
Aged, disabled and health-stricken groups				
R1 501 – R3 500	R31 929,00	R36 528	None	R36 528,00
Institutional subsidies				
R0 – R3 500	R29 450,00	R34 049,00	Institution must at least add capital	R36 528,00
Consolidation subsidies				
R0 – R1 500	R18 792,00	R21 499,00	None	R21 499,00
R1 501 – R3 500	R16 313,00	R19 020,00	R2 479,00	R21 499,00
Consolidation subsidy: Aged, disabled or health-stricken groups: R1 501 – R3 500	R18 792,00	R21 499,00	None	R21 499,00
Rural housing subsidies				
R0 – R3 500	R29 450,00	R34 049,00	None	R34 049,00
People's Housing Process				
R0 – R3 500	R31 929,00	R36 528,00	None	R36 528,00
Emergency Programme				
Temporary assistance	R26 874,00	R31 952,00	None	R31 952,00
Rural housing subsidies				
Services	R13 137,82	R15 029,00	None	R15 029,00
Houses	R18 792,00	R21 499,00	None	R21 499,00
Fast-Tracking Programme				
Transitional Housing	Up to R12 176,00 per unit			
Public-Sector Hostels Redevelopment Programme		Previous grant		New grant
Family units		R29 450,00		R34 049,00
Individual units (per bed)		R7 234,00		R8 512,25

Source: Department of Housing (2006)

- Advocacy and promotion through workshops, presentations and exchange programmes, in order to gain support from all levels of government.
- Development of technical skills: Through learning by doing and exchange of experience, community members learn the relevant skills from identification of sites to design and construction. Women, in particular, have taken a lead in learning and applying such skills.

- Streamlining operational procedures in the delivery of land, finance and infrastructure: The poor have demonstrated that they can contribute substantially to the process of acquiring land, as well as the development and cost of their housing. Through the uTshani Fund, managed by the People’s Dialogue, members of the South African Homeless People's Federation have, without government subsidy, developed better and cheaper housing.
- Facilitation and promotion of housing support centres/initiatives: The support centres have become the knowledge bases and learning sites of the community.
- Assistance to local organisations (NGOs and CBOs): The process recognises the role of organised, community-based structures and non-governmental organisations as key movers in the process.

In addition to these strategies, the government has also formulated an affordable rental-housing programme for people in the low-income bracket. Furthermore, the Department of Housing also enables low-cost housing by mobilising housing credit for beneficiaries and builders through the:

- National Housing Finance Corporation (NHFC), which provides wholesale capital for intermediaries lending to the target group; and
- The National Urban Reconstruction and Housing Agency (NURCHA), which provides guarantees for the housing development sector, in order to ensure access to capital.

It is worth noting, however, that, although much of the focus has been on housing delivery targets, the housing programme in South Africa has also focused on the needs of special groups. In recognition of the special needs of disabled persons, government has approved additional funding, in addition to the normal subsidy amount, in order to provide for modifications to houses where beneficiaries or members of their household are disabled (Department of Housing, 2006).

(ii) Programmes that are aimed at enabling the poor to access electricity/energy

Ensuring that the poor have access to reliable and affordable energy is a responsibility that lies with the Department of Minerals and Energy. The flagship programme through which this department has sought to achieve the foregoing is the Integrated National Electrification Programme (INEP). By mid-2006, as many as 3 346 425 homes had been electrified since the inception of the INEP. Most of these homes, particularly those that are owned by the poor, have been installed with the pre-paid electricity system (Department of Minerals & Energy, 2006).

Unfortunately, towards the late 1990s, it became clear that the poorer people could not keep up with the high running costs of the various RDP-related schemes (including the electricity-related scheme), thus rendering these schemes inadequate to ensure that the poor were not denied access to the various basic services. In response to this, the government introduced a policy of free basic services, including electricity. As part of this policy, the National Electricity Basic Services Support Tariff Policy was formulated (and then gazetted in July 2003). The aim of this policy is to bring relief, through government intervention, to low-income households that are connected to the national electricity grid, and to ensure optimal socio-economic benefits from the INEP. Qualifying customers are eligible for 50 kilowatt-hours (kWh) of free electricity per month—50kWh per month is considered adequate electrical energy to meet the needs for lighting, media access, limited water and basic ironing (or cooking) of the poor. Once this limit of 50kWh has been reached, normal tariff rates apply. Eskom is the service provider of free basic electricity in its areas of supply (Department of Minerals & Energy, 2006).

In addition to this, the Department of Minerals and Energy has also made life easier for the poor by removing the value-added tax levy on paraffin (the poor often use paraffin as an alternative source of energy) (Department of Minerals & Energy, 2006).

(iii) Programmes that are aimed at enabling the poor to access clean water and sanitation

In 1994, the Department of Water Affairs and Forestry was charged with, among other things, the responsibility of ensuring that all South Africans had equitable access to water supply and sanitation. To achieve this, in 1994, this department established the Community Water Supply and Sanitation Programme (CWSS), which is now the responsibility of the Department of Provincial and Local Government (as of 2002) (Department of Water & Forestry, 2006). This programme is particularly biased towards the poorest and most vulnerable people, who have in the past been left to fend for themselves with minimal or no support from government. These are the people who are found in the rural and fringe areas, which, as a legacy of apartheid, were not catered for (Water & Sanitation Programme—Africa Region, 2002).

Following the introduction of the policy of free basic services, the focus of water and sanitation services was further broadened, so as to ensure that the poor are not denied access to such services. In terms of water services, a revised water tariff structure, which included 6 'kilolitres' (cubic metres) of free water per month (about 40 litres/capita/day for a family of five), was proposed in July 2001. However, putting the policy of free basic water into practice proved a challenge. As such, the policy is only being implemented gradually, and within the means of each municipality. Municipalities decide if free basic water is to only be made available to the poor, and how the poor will be defined and identified, or if it will be granted to all water users (Department of Water Affairs & Forestry, 2006).

With regard to further broadening access of the poor to sanitation, the government has committed itself to, among other things, eradicating all bucket sanitation systems in established settlements by December 2007. To facilitate this, in its 2001 White Paper on Sanitation, the government called for infrastructure grants to municipalities, in order to finance investments in sanitation. Correspondingly, in 2006/07, R 1.2 billion out of the

Municipal Infrastructure Grant (MIG)[104] Programme for the water services budget was set aside for the implementation of sanitation. In 2006 alone, R 400 million was allocated to bucket system eradication. In order to meet the 2010 target of universal access to basic sanitation, about R 3 billion is required per year to increase the sanitation target from 300 000 units in 2006 to one million toilets a year (Department of Water Affairs & Forestry, 2006).

What is noteworthy about the above initiatives is that the available evidence suggests that that they are effective. Significantly, in its annual report for the year 2004/5, the Department of Water Affairs and Forestry reported that 44.4 million out of a total of 48.1 million people (92%) have access to improved water supply infrastructure, although 5.4 million of these were below the RDP standard (mainly in terms of distance to source). This report also found that 32.1 million out of a total of 48.1 million people (67%) have access to some form of improved sanitation facility (Department of Water Affairs & Forestry, 2004-2005).

(iv) Programmes that are aimed at enabling the poor to access healthcare facilities

The Department of Health is responsible for, among other things, ensuring that the healthcare needs of the poor are catered for. Furthermore, through a variety of health-related programmes (most notably the Clinic Upgrading and Building Programme of 1994 and the Ten-Point Plan of 1999), which are based on a primary healthcare approach, this department has sought to prioritise the healthcare needs of the poor, by bringing healthcare facilities closer to poverty-stricken rural areas and other historically underserved areas. In order to ensure that the poor are able to access these facilities, the government, in 1994, initiated a policy of free healthcare for children under the age of six years and pregnant women. In 1996, this service was buttressed by the introduction of free primary healthcare for all South African citizens. These respective initiatives have, in

[104] The MIG is a conditional grant from national government to local government, in order to support investment in basic municipal infrastructure to eradicate backlogs, and was implemented in April 2004.

turn, led to, among other things: (i) 73% of South African children being fully immunised (this is a significant increase, considering that this figure has been hovering around 63% for years) (Department of Health, 2002, cited in the 2003 Human Development Report), and (ii) a gradual increase in public healthcare usage, from 67.8% in 1995 to 69.4% in 1999 (i.e. based on the OHS of 1995 and 1999).

In addition to the above, health services and certain medications (e.g. light pain killers) are subsidised. Furthermore, the government has also initiated a number of measures to counter the inability of most poor people to afford expensive medical treatment for diseases such as HIV/AIDS, tuberculosis (TB) and pneumonia. The most notable programme that has been initiated to this end is the HIV/AIDS anti-retroviral programme (Human Development Report, 2003). What is discouraging, however, is that, in spite of these respective initiatives, more and more people are dying of unnatural causes such as HIV/AIDS, TB and pneumonia. Significantly, in 2001, males in the 15–39 age group experienced the highest mortality from unnatural causes, while a high number of female South Africans in the same age category died primarily as a result of HIV infections. Among infants and young children, influenza and pneumonia were the leading causes of death. The foregoing (particularly HIV/AIDS-related deaths) has, in turn, led to a decline in the life expectancy in South Africa. For instance, between 1995 and 2002, life expectancy at birth is estimated to have declined by 16.3%, from 61.4 to 51.4 years (Human Development Report, 2003). KwaZulu-Natal is among the most affected provinces in this regard.

In addition, the government has devised a more comprehensive nutrition strategy for South Africa, in comparison to that of the old regime, which is divided into three broad areas of activity, namely: (a) a health facility-based nutrition programme[105]; (b) a community-based nutrition programme[106]; and (c) a nutrition promotion programme[107].

[105] This programme incorporates the Protein Energy Scheme, nutrition education, growth monitoring and promotion, management of infectious diseases, and the in-patient management of severe malnutrition.
[106] This programme includes the Primary School Nutrition Programme and aims to strengthen household food security, improve knowledge and behaviour regarding nutrition, support the care of women and children, and promote a healthy environment.

This strategy is formally known as the Integrated Nutrition Programme (INP). The INP is different, in that it emphasises the need to address all the causes of malnutrition, and stresses that in order to achieve this, all sectors need to work in an integrated manner. The particular target groups of the INP include children under 6 years, at-risk pregnant and lactating women, primary school children from poor households, persons suffering from chronic diseases of lifestyle or communicable diseases, and at-risk elderly persons (Department of Health, 2006). Unfortunately, this programme has not reached its target and is characterised by under-spending. Significantly, the ratio of children benefiting from School Feeding Schemes, as opposed to the target, has ranged between 80% and 89% since inception (Wildeman & Mbebetho, 2005). Furthermore, several households still go hungry every day, due to lack of money to purchase food. About 11% of all households with children under 7 years old went hungry in 1999, due to this factor. Another 2.3 million households with members aged 7 years and older could not afford to purchase food and consequently went hungry in 1999 (Bonti-Ankomah, 2001).

(v) Programmes that are aimed at enabling the poor to access basic education

In order to ensure that poor adults are able to send their children to school, the government has, based on its RDP commitment of providing free and compulsory 10-year education, designed its education policy in such a way that school fees are set at annual public meetings of School Governing Bodies (SGBs), where parents vote on the amount to be paid. Parents who cannot afford to pay, or who can only afford a lesser amount, are granted an exemption or reduction in fees. As a result of this (and more), by September 2006, 2.6 million pupils were attending 7 000 primary and secondary schools, where school fees were not paid (Department of Education, 2006).

Furthermore, in an attempt to transform the public school system, thus making it more conducive to learning, government has also sought to improve the delivery of basic services such as the delivery of learning material, improved access to water and

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[107] This programme focuses on improving communication, advocacy and appropriate legislation in support of good nutrition. Some priority areas for this programme include promotion and protection of breastfeeding, marketing of infant foods and food fortification.

sanitation, electricity, telephones, improved classrooms and so on. As a result, schools without telephones decreased from 59% (1996) to 36.4% (2000); the percentage of schools without running water decreased from 34% to 27%; the percentage of students without access to proper toilet facilities declined from 55% (6.6 million students in 1996) to 16% (1.9 million students in 2000); access to electricity improved from 40% to 54.9% in all schools, and the number of schools with computers increased from 2 241 to 6 581 (Human Development Report, 2003).

(vi) The Integrated Sustainable Rural Development Programme (ISRDP) and The Urban Renewal Project (URP) Nodes

To further intensify efforts that are aimed at improving the livelihood of the poor, in his 2001 State of the Nation address, President Mbeki identified 21 areas that are in dire need of development. These areas, referred to as development nodes, contain a population of over 10 million people and share similar characteristics of high levels of poverty and unemployment, low levels of investment, inadequate infrastructure and a disproportionately low level of development of human resources. These areas contain the largest proportion of the poor population and are structurally disconnected from the rest of the economy, forming a significant part of the 'second economy' (Department of Trade and Industry (DTI), 2006).

The president also announced two programmes in his 2001 State of the Nation address, which would subsequently be targeted at stimulating economic development and reducing poverty in the 21 development nodes across the country. These programmes are the Urban Renewal Project (URP) and the Integrated Sustainable Rural Development Programme (ISRDP). The ISRDP, with some 13 rural nodes, and the URP, with eight urban nodes, were designed as part of 'a sustained campaign against rural and urban poverty and underdevelopment, bringing in the resources of all three spheres of government in a coordinated manner'. These programmes, to run over a period of ten years, are being implemented through the intergovernmental mechanism involving the three spheres of government: (national, provincial and local), with each sphere playing a distinct role (DTI, 2006).

Sadly, the results attained through these two programmes have generally been limited, and, therefore, more concerted and focused action is clearly called for. Likewise, the poverty interventions through the ISRDP have not been as effective as initially hoped, and many nodes have yet to attain their potential (DTI, 2006).

5.5. Ameliorating the livelihood of the poor by providing them with a social safety net system

The government has also sought to improve the livelihood of the previously disadvantaged majority, by introducing a social security system that caters for all people regardless of race, gender and physical disability. Similarly to that of the apartheid regime, occupational insurance and social assistance are the two main pillars of this new social security system. Occupational insurance involves, among other things, worker-financed schemes, which are governed by statutes and regulations. Social assistance, on the other hand, entails endeavours made by government to cater for those who are not covered by occupational insurance, on a means-tested basis (Aliber, 2001).

This sub-section seeks to discuss exactly how these respective measures are meant to influence the prevalence of poverty in South Africa. With regard to occupational insurance, the focus will be on the worker-financed unemployment insurance fund (UIF). In terms of social assistance, the focus will mainly be on social grants (in the form of old age pensions, disability grants, child support grants and so on), as well as other poverty relief programmes (e.g. School Nutrition Programme, Social Relief of Distress Programme, Disaster Relief Programme and the Food Relief Programme) that provide cash or in-kind benefits for the destitute.

(i) Occupational insurance: UIF

As is the case in most countries, the UIF strives to contribute to the alleviation of poverty in South Africa, by providing short-term income relief to contributors when they become unemployed or are unable to work because of illness, maternity or adoption of small children. In addition, this fund also provides relief to dependants of deceased contributors. Persons excluded from the fund include some categories of civil servants, persons working less than 24 hours per month, persons in learnerships, and of course persons working in the informal sector. Similarly, those who have never contributed to the fund, such as new entrants to the labour market, and persons whose benefit period has run out, do not enjoy benefits in terms of the Unemployment Insurance Act (Department of Labour, 2004; Barker, 2003). The UIF benefits extend for six months following retrenchment, at a level of 40% of one's salary (Aliber, 2001).

(ii) Social assistance: Social grants

Given the fact that the government inherited a country that is characterised by a high unemployment rate in the formal sector, conventional wisdom would suggest that the UIF is bound to have a modicum impact on the livelihood of the poor. As a matter of fact, available evidence shows that the unemployment insurance fund covers less than 40% of the labour force at any particular point in time, and offers benefits to less than 6% of the unemployed (see for example Coleman et al, 2002). Hence, government also provides income relief, in the form of social grants, to certain categories of people who are not covered by the various social insurance measures (see Table 5-5). This system of social grants was inherited from the apartheid government's set of programmes.

According to the Social Assistant Act, the people who are eligible for these grants include the following (Department of Social Development, 2006):

- *Aged.* Women over 60 years of age and men over 65[108] years of age, who qualify to receive a state old age grant of R 820 per month. This grant is the largest current social security transfer in the country, and for those elderly persons who receive it, the grant plays a pivotal poverty alleviation role for the entire household.
- *Disabled.* There is a disabled grant of R 820 per month for medically-diagnosed disabled persons over 18 years of age (and below retirement age).
- *Foster care.* There is a grant of R 820 per month for foster families caring for children who are less than 18 years of age.
- *Care dependency grant.* There is a grant of R 190 per month for parents of a disabled child (0-18) who requires care at home by another person. Thereafter, application must be made for the adult disability grant.
- *Child support grant.* There is a child support grant of R 170 per month, paid to the primary caregiver, for children under fourteen years of age.

Table 5-6: Monthly social grants

Type of grant	**Amount April 2006**	**Number of recipients by March 2006**
Old Age	R 820	2,131,820
Disability	R 820	1,312,726
War Veterans	R 590	2,858
Foster Care	R 820	300,119
Care Dependency	R 190	91,604
Child Support	R 170	6,961,046
Grant-in-Aid	R 758	24,460
Total		10,824,633

Source: Department of Social Development (2006)

[108] According to the Minister of Finance, Trevor Manuel, this figure will be reduced from 65 to 63 years in 2008, to 61 in 2009, and 60 by 2010 (Mail & Gurdian, 2008).

Contrary to the 1994 racial-based social grants that were only distributed to about 2.6 million recipients[109], in 2006, some 10 million people received social grants (Department of Social Development, 2006). What is also worth noting is that the increase in real value of these grants has surpassed the rate of inflation. Furthermore, the government has recently decided to extend child support grants to the age of 14. In 1993, there were 13 disability grants per 1,000 South Africans, compared with 29 per 1,000 in 2006. This is largely attributed to the fact that government, working with NGOs, has embarked on a campaign to ensure that all people eligible for social grants, especially children, are registered and thus receive the grants to which they are entitled (Knight, 2006).

(iii) Other poverty relief programmes: School Nutrition, Social Relief of Distress, Disaster Relief and the Food Relief Programme

In addition to social assistance grants, there are also a number of short-term poverty relief programmes which provide cash or in-kind benefits for the destitute. As has already been noted, these include the School Nutrition Programme that is administered by the Department of Education, the Social Relief of Distress and Disaster Relief programmes that are administered by the Department of Social Development, and a more recent Food Relief Programme, administered collaboratively by the departments of Social Development, Agriculture and Health (Hunter et al, 2003).

- *School Nutrition Programme.* As has already been suggested above, the school nutrition programme (now known as the Integrated Nutrition Grant) was initiated for young primary school children who are food-deprived, thus enabling them to participate fully in their own educational development.
- *Social Relief of Distress Programme.* This is a temporary provision of assistance intended for persons in such dire material need that they are unable to meet their or their families' most basic needs. It is issued monthly for a maximum period of

[109]Of these, over 1.6 million were older people and only 60,000 were children, who were predominately from the White, Coloured and Indian communities.

three months. In exceptional circumstances, the extension of the period by a further three months may be granted (Department of Social Development, 2003).

- *Disaster Relief Programme*. Disaster relief provides direct income or in-kind support to victims of declared natural disasters.
- *The Special Programme for Food Security*. This programme was a preparatory or pilot programme which aimed to inform a larger joint initiative, and had the objectives of improving household food security for the resource poor in rural and peri-urban areas through the demonstration of technologies to increase food production and the income of small-scale farmers (CICSSS, 2001). To mitigate the food crisis experienced in 2002, and to counter rising food prices in the latter part of that year through conditional grants, provincial social development departments, in collaboration with development agencies and relief organisations, implemented a food relief programme that focused on social facilitation and food parcels to the most vulnerable. This direct provision of food will be complemented by the support of food production in poor households through production starter packs and community production centres. The direct provision of food provides short-term support to households, and processes are activated to then link them to other mechanisms for poverty relief such as food production, social grants and income-generating projects (National Treasury, 2003).

5.6. Ameliorating the livelihood of the poor by enhancing their asset base

As has already been indicated in section 3.3.1, physical assets, most notably arable land, which the majority of Blacks relied upon for income, were largely eroded during the colonial/apartheid era. Not surprisingly, among other things, this had disastrous economic consequences for the majority of blacks, especially for those who failed to secure fruitful employment in the labour market. Hence, there was an upsurge in the number of Black people who were vulnerable to poverty, following the arrival of settlers and the genesis of the apartheid era. What is even more of a concern is that this status quo was passed on from one generation to the other. Thus, poverty is still concentrated among the Black majority.

In an attempt to address this problem, the democratically elected government has accordingly devised measures that have sought to assist the poor to accumulate productive assets. These measures include, among other things, enabling the poor to access productive land and houses, the latter of which would provide the owners with an opportunity to generate rental income. These two respective measures will be discussed here.

(i) Enabling the poor to access productive land

As has been argued by Hunter et al (2003), for most poor people, particularly those who reside in rural areas, when landlessness is combined with joblessness, limitation in terms of income-generating alternatives is the result. This is especially so since, although agricultural production makes a small contribution to household income for those who do have access to land, over one-third of rural households continue to engage in agricultural production, thus making it the third most important means of livelihood in rural areas after remittances and wages from low-skilled jobs (Hunter et al, 2003). This explains why the government implemented the Land Reform Programme in 1994, which paid particular attention to the interests of the rural poor, especially women. According to Aliber (2001), this programme, introduced by the Department of Land Affairs, comprises three main areas: restitution, whereby people seek restoration of land from which they were forcibly removed (or an equivalent redress); redistribution, whereby other people desiring to own or access land are provided with an opportunity to do so, with the assistance of government financing; and tenure reform, involving the introduction of more secure forms of land-holding among previously disadvantaged people who already access land.

As of the end of 2001, less than 2% of land had changed hands from White to Black through the land reform programme, and long-awaited legislation to improve the tenure security of people living in the former Bantustans in terms of the state’s Section 25 (6) obligations had yet to be passed. Of the 68, 878 restitution claims received, only 12,678 had been settled, benefiting less than 40 000 predominantly urban households, more than 40% of which received monetary compensation instead of land restoration. The urban bias of restitution delivery also means that this programme has so far done little to transform rural property relations, with most rural restitution claims still outstanding (Thwala, 2003). Moreover, the government has admitted to a significant degree of failure in achieving the sustainable agricultural development of rural communities benefiting from land reform policies. In fact, according to the Department of Land Affairs (2008, cited in *Business Day,* 2008), the failure rate could be as high as 50%.

(ii) Enabling the poor to access houses, which can in turn be utilised as productive assets

According to Moser (1996: 09), housing is a key asset for the poor, and can provide more than a place of shelter and a space for living. As an asset, a home is a potential source of income (for example, rooms can be rented), can serve as security for loans and as a place of work, thus providing women in particular with opportunities for economic activity. In essence, secure housing is essential for poverty reduction, in the sense that it can also serve to cushion the poor against the crushing impacts of poverty. For the various government efforts that have been initiated to ensure that the poor can access this productive asset, see section 5.4 (i) above.

5.7. Has South Africa's general approach towards poverty reduction been effective thus far?

In hindsight, it is quite clear that, while meaningful progress has been made in enabling the previously disadvantaged majority to gain access to reasonably equipped education and healthcare facilities, adequate housing structures, as well as basic services[110], a lot more still needs to be done to diminish the prevalence of poverty in South Africa. The latest poverty estimates suggest that the number of poverty-stricken people in South

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[110] For a detailed progress report on this, see Leibbrandt et al's (2004) analysis of both the 1996 and 2001 censuses.

Africa still remains unacceptably high. Significantly, according to the Presidency, when using a poverty line of R 250 per month, the number of South Africans who were living in poverty in 2006 were estimated at approximately 43.2% - that is, a marginal decline from 44.5% in 2005, 50.8% in 2000 and 53.1% in 1996 (Office of the President, 2007).

Given the aforementioned, it is only natural to ask the question: "are the various anti-poverty strategies that are espoused by the government out of kilt with international best practices, and thus inadequate to address the socio-economic imbalances that continue to characterise South Africa?" When comparing South Africa's poverty reduction policies to those of international best practices, it is quite clear that, in general, South Africa's strategies are not necessarily out of kilt with salient international practices (see Tables 5-1 & 5-2). Instead, the government's inability to significantly reduce poverty is largely attributed to the following reasons:

- Many of the distortions and dynamics introduced by apartheid are self-perpetuating, and thus continue to, among other things, reproduce poverty. For example, most people who are a product of *'Bantu'* education continue to struggle to find gainful jobs (in an economy that is mostly creating jobs that require advanced skills).
- Due to, inter alia, the shortage of skilled labour in the country, the government has ill-equipped administrators at the municipal level to effectively implement some of its key poverty reduction strategies. This has resulted in key projects, such as the land reform programme, not taking off at the desired rate (thus limiting the economic opportunities of poor people in the rural areas).
- What is also noteworthy is that when China, Vietnam and Uganda initiated their various economic reform programmes, their gini-coefficients were significantly lower than that of South Africa. Among other things, this explains why economic growth in these respective countries has been able to trickle down to the poor more than in the case of South Africa.
- What also needs to be pointed out is that the government has (contrary to what has been done in China, Vietnam and Uganda—where the various reforms were

mainly targeted at stimulating the rural economy) placed too much emphasis on developing the 'first economy' (i.e. urban economy). This has, in turn, allowed those who were already wealthy to accumulate even more wealth because they, unlike their poorer counterparts, have the necessary means to take advantage of the economic opportunities that come about as a result of growth in the 'first economy'. Hence, South Africa's gini-coefficient has actually worsened ever since the advent of democracy[111].

- Although it is widely acknowledged that South Africa's SMME support infrastructure, which was non-existent in the pre-1994 period, has planted the seeds for sustainable and employment-creating SMME development (see for example Qualmann, 2000: 43; ICC, 1999: 7), available assessment studies suggest that the new SMME policies have generally not been truly effective. Consequently, the contribution of the SMME economy (which is of vital importance for absorbing unskilled labour) to national employment growth has been very low.
- The prevalence of HIV/Aids has contributed to a rise in poverty. HIV/Aids generates new poverty as people lose employment and housing tenure. Households' income fall due to the loss of wage earners and rising spending, particularly on medical care and funerals. In essence, the poverty that results from HIV/Aids interacts with other dimensions of poverty to generate a vicious downward cycle. Under these conditions, HIV/Aids not only increases poverty, but it also widens the gap between the rich and the poor. Also, HIV/Aids depletes the very scarce skilled labour.
- Public corruption has also undermined government efforts that are aimed towards poverty reduction. This phenomenon, in particular, has not only undermined much needed economic growth and development (by, among other things, hindering or deterring both local and foreign investment), but it has also distorted resource allocations that are aimed at ameliorating the livelihood of the poor, particularly in poverty-stricken rural areas. This has, in turn, led to the poor being

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[111] Inequality levels have risen steadily from an already high level of 0.58 in 1995 to levels ranging from between 0.635 (as estimated by UNDP, 2003) and 0.77 (as estimated by HSRC and Whiteford for 2001, but published in 2004).

deprived of the social services as well as economic resources that they are entitled to.

- Inadequate processes of measuring, monitoring and evaluating poverty have also led to poor targeting of the poor, and thereby increasing inefficiency.

5.8. Conclusion

This chapter has presented an overview of poverty reduction policies in the post-apartheid era. For the sake of clarity, these were divided into five broad categories, namely: measures that foster pro-poor economic growth; job creation measures; infrastructure programmes earmarked to address household consumption basic needs; safety net measures; and asset building or redistribution measures.

According to what has been discussed in this chapter, the formulation of macroeconomic stability measures, which are aimed at spurring economic growth, was based on the belief that economic growth leads to potentially more gainful economic opportunities for all, and thus an increase in the general standard of living. What is noteworthy about the foregoing strategy, however, is that its success in terms of poverty reduction hinges largely on the poor being able to access the necessary resources that are needed to take advantage of the economic opportunities that might trickle down to them.

Furthermore, following on from the fact that labour is the main asset of the poor, the government has put a lot of effort into creating jobs that are aimed at rectifying the long-term unemployment malaise in South Africa. Human resource development and establishing supporting measures for the SMME sector are the two main vehicles that have been utilised for creating poverty-reducing jobs. However, since the foregoing mechanisms usually take protracted periods of time before they make any meaningful difference, the government has supplemented these with special/short-term employment programmes (i.e. public works programmes) that are mainly aimed at alleviating poverty.

In addition, in an attempt to enable the poor to access adequate shelter, clean water, sanitation, primary healthcare and basic education, the government has initiated a number of useful endeavours. The most notable of these include the policy of free basic services, as well as the building of a infrastructure that enhances the delivery of these basic needs to the poor. The introduction of the URP and the ISRDP policy programmes buttressed the foregoing initiatives even further, by attempting to ensure that the poor who are residing in marginalised communities are also able to meet their basic needs.

Another significant state-driven poverty reduction programme that has been covered in this chapter is the system of social security that is in place for certain categories of vulnerable people. This system is mainly divided into two categories, namely: occupational insurance and social assistance. With regard to occupational insurance, the focus was on the worker-financed UIF. The UIF strives to contribute to the alleviation of poverty in South Africa, by providing short-term income relief to contributors when they become unemployed or are unable to work because of illness, maternity or adoption of small children. This fund also provides relief to dependants of deceased contributors. Concerning social assistance, the focus was on social grants as well as other poverty relief programmes. The grants are means-tested and are targeted at the following groups: the old age pension is available for the elderly; disabled adults and children may receive disability grants; relatively small child support grants are targeted at poor children; foster care grants may be received by those legally fostering the child of other parents. The other poverty relief programmes (e.g. School Nutrition Programme, Social Relief of Distress Programme, Disaster Relief Programme and the Food Relief Programme) provide cash or in-kind benefits for the destitute.

Lastly, the government has also sought to boost the asset base of the poor by enabling them to access physical assets such as land and housing.

Given the above, it is quite clear that the government has put concerted effort into attempting to arrest the prevalence of poverty in South Africa. What is worrisome though is that, in spite of these abovementioned strategies, there has been a modest change thus far (i.e. a decade or so after the demise of the apartheid regime) in the reduction of this phenomenon. This chapter has established that, while meaningful progress has been made in other development spheres, the latest poverty estimates suggest that the number of poverty-stricken people in South Africa still remains at an unacceptably high level of 43.2%. This discouraging status quo is possibly attributed to the following factors: the perennial effects of the apartheid system; the ineptitude of most government departments due to a shortage of skilled labour; the high wealth (and income) inequality rate in South Africa; the ‘first economy’s’ failure to accommodate the poor; the poor performance of the SMME sector in relation to absorbing unskilled labour; the high HIV/Aids infection rate that has disastrous consequences for those affected; public corruption that impedes economic growth and distorts the allocation of development resources; and inadequate processes of measuring, monitoring and evaluating poverty.

Chapter 6
Summary and Policy Recommendations

Post-1994 attempts to reduce poverty have met limited success. Significantly, evidence suggests that the prevalence of poverty in South Africa ranges from 45 to 57%. It is for this reason that this dissertation is concerned with the following question: "are the various anti-poverty strategies that are espoused by the government adequate to address the socio-economic imbalances that continue to epitomise South Africa?"

In an attempt to ascertain why South Africa's anti-poverty strategies have not managed to reduce poverty in a meaningful manner, this dissertation commenced with an exploration of where and who the poor people are in South Africa. It turns out that about 70% of the poor people live in rural areas that are characterized by lack of, *inter alia*, access (or roads), resources and technology. What is also interesting is that, with the exception of Gauteng and the Western Cape, over half of the population in all other provinces live in poverty. Even more interesting is the fact that about 59% of South Africa's poor are concentrated in three provinces, which also happen to be the former homelands that were deliberately underdeveloped. These provinces are Eastern Cape, KwaZulu-Natal and Limpopo.

With regard to who the poor people are in South Africa, this dissertation discussed that poverty is concentrated among the Black population, particularly women and children. This is largely attributed to the fact that this group of people does not usually have adequate entitlement over productive assets, such as arable land and advanced labour skills. It has also been established that there is a strong correlation between unemployment and poverty, especially among individuals that have low levels of education. This is because this group of people does not usually have adequate skills to fill up the jobs that are currently being created by the economy; hence South Africa is said to be experiencing structural unemployment. In addition, large households with a high dependency ratio are more likely to be poor. The notion is that dependants are, not only a distinct threat to the financial security of a family, but they also limit the ability of the working family members to earn income. Furthermore, poor households do not have sufficient access to basic needs such as electricity, pipe water and sanitation, health services and adequate shelter. This is because these poor households lack the means (i.e. productive assets) to acquire these basic needs.

In a quest to identify how best to uplift the poor people out of poverty, this dissertation looked at international best practices, with regard to poverty reduction. This was a very important exercise because there are valuable lessons that can be learnt from the experience of countries that have been relatively successful in reducing poverty. To ensure that these lessons would be relevant to the above, this dissertation looked at countries with a context that is similar to that of South Africa. The emphasis was on the various anti-poverty strategies that have been implemented in China, Vietnam and Uganda.

What came out very clear is that a potentially successful poverty reduction strategy should encompass the following three complimentary elements: - (i) A creation of economic opportunities for the poor, (ii) good governance, i.e. sound macroeconomic management that engenders macroeconomic stability and (iii) social programmes (i.e. social safety nets) that are targeted at the poor.

(i) *A creation of economic opportunities for the poor.* In general, it is advisable that growth-oriented policies should be accompanied by measures that enable the poor to share in the macroeconomic growth. This calls for comprehensive policies that are aimed at augmenting the poor people's assets, and providing access to markets for the poor.

(ii) *Good governance.* The lesson in this regard is that countries should pursue policies that foster a macroeconomic environment, which is conducive for attaining rapid, pro-poor and sustainable economic growth.

(iii) *Targeted social programmes.* To compensate for the short falls of the above two instruments, the lesson is that it is useful to devise anti-poverty

programmes that are carefully targeted at the poor areas. For the purpose of ascertaining their effectiveness, these should also have a time frame.

In an attempt to identify what the government is doing to deal with the poverty dilemma in South Africa, the general focus of chapter five was on the various poverty reduction strategies that have been implemented by the government ever since the demise of apartheid. What emerged from this chapter is that the government has attempted to reduce poverty via the following measures: - (i) measures that foster pro-poor economic growth; (ii) job creation measures; (iii) infrastructure programmes earmarked to address household consumption basic needs; (iv) contributory and non-contributory social security measures; and (v) asset building or redistribution measures.

Unfortunately, it turns out that these various anti-poverty strategies have not been very effective in reducing poverty in South Africa. This ineffectiveness is largely attributed to the following reasons: - (i) lack of rapid and pro-poor economic growth; (ii) weak implementation or administration at the municipal level; (iii) slow asset redistribution via the land reform programme; (iv) unevenly distributed infrastructure investment in South Africa's respective provinces; (v) the low-job generation rate by the (formal) SMME sector; (vi) slow reduction in the HIV/AIDS infection rate; (vii) Corruption; (viii) negative effects of affirmative action; (ix) insufficient political will; and (x) inadequate processes of measuring, monitoring and evaluating poverty.

Therefore, if the government is to significantly reduce poverty, it needs to adopt measures that will foster the following: - (i) a rapid and broad-based economic growth that is accompanied by a reduction of income disparity; (ii) increased investment in human capital development; (iii) a creation of special economic opportunities for women; (iv) increased awareness campaigns about HIV/AIDS; (v) a reduction in corruption; (vi) intense political will to reduce poverty; and (vii) adequate processes for measuring, monitoring and evaluating poverty.

(i) Rapid and broad-based economic growth that is accompanied by a reduction of income distribution.

As it can be seen in China, Vietnam and Uganda, for growth to substantially reduce poverty in South Africa, it should not only be high but it must also be broad based. For this to happen, however, there are two main conditions that need to be present. First, the government needs to devise effective measures that will encourage the informal sector in South Africa (i.e. the 'second economy') to either grow out of it's own dynamics or through linkages with the formal sector ('first economy'). Laying the conditions for growth of rural production in areas wherein the poor are concentrated is one of the ways through which this can happen.

A second condition that needs to exist in South Africa is an enabling environment that enhances the economic opportunities of the poor, especially in the form of gainful employment. In this regard, labour-absorbing SMMEs need to be supported better.

The expansion of economic opportunities for the poor should, however, encompass more than employment: it should also include increasing access to productive assets for the poor who are self employed. To this end, the government should, in particular, attempt to remove bottle necks to the land reform programme that is suppose to be the vehicle through which the poor access arable land. This is especially since only a mere 150 community claims of agricultural land have been settled between 1996 and mid-2005. Equally important, the government should intensify post-settlement support for land reform beneficiaries, as it has already admitted that there is a failure rate of about 50% in achieving the sustainable agricultural development of the various community beneficiaries. This can be accomplished by increasing investments in physical infrastructure (e.g. rural roads and irrigation works), credit scheme for the poor, and extensive technical assistance to raise productivity levels in agriculture and other rural economic activities.

(ii) Increasing investment in human capital development

An increase in skilled labour (especially in the form of engineers, artisans, accountants and managers) in South Africa can serve as a stimulus to increased investment, economic growth, employment creation and expedient service delivery to the poor and, thus, poverty reduction. For instance, with a large pool of skilled labour, more international investors might be inclined to bring their businesses to South Africa, as this country would be deemed competitive in labour-terms. This can, in turn, lead to foreign investments being diverted towards South Africa instead of other emerging markets, thus increasing economic growth prospects and possible employment growth as well. Equally, if the various government departments had adequately skilled labour, they would probably implement the various anti-poverty policy programmes more effectively, and they by improving the lives of many poor South Africans. Moreover, if a person is adequately skilled, they stand a better chance of being employed.

Therefore, in the war against poverty, the need for government to invest more on human capital development can never be over emphasized. As such, the government should attempt to ensure that every poor person in South Africa has access to basic education, primary health care, and other essential services. With such access, the poor and their children will have the opportunity to improve their economic status or even to participate fully in society. It is also necessary to ensure that the relevance, quality, and quantity of education provided is designed to effectively increase participation, both in the workforce and in society at large.

(iii) Creating special economic opportunities for women

As it has already been indicated, (Black) women suffer disproportionately from the burden of poverty and are systematically excluded from access to essential assets. Therefore, if the government were to improve the status of women by creating more special economic opportunities (by, for example, broadening women-access to vocational training, readily available credit and special markets) for them, it would be addressing a priority area of poverty. These interventions are also expected to increase the demand for family planning and contraception (as the opportunity cost mothers' time spent raising children increases) which, in turn, ought to reduce family sizes and the premature loss of breadwinners through HIV/AIDS.

(iv) Increasing awareness campaigns about HIV/AIDS

Similarly to what has been done in Uganda, the South African government needs to increase awareness campaigns around the issue of HIV/AIDS. This is very important because this epidemic has a devastating effect on the economic status of the households within which the infected individuals belong. For example, in trying to cover the medical costs of the infected individuals, a household can sell its various assets: land, bicycles, radios, cattle and other goods. If they dispose of productive assets such as cattle or land, they in turn do not only erode their asset base but they also reduce their chances of recovering and rebuilding. The tendency is for such households to be unable to cope and they eventually collapse into poverty. This is especially when the infected individual is a household head, who also happens to be the breadwinner. Hence, it is of vital importance for government to also intensify its efforts towards assisting households headed by young children.

(v) Reducing corruption

More often than not, corruption puts basic public services beyond the reach of those who cannot afford to pay bribes. By diverting scarce resources intended for development, corruption also makes it harder to meet fundamental needs, such as those for food, health and education. Moreover, corruption complicates sustainable development and hits the poor particularly hard. Therefore, the government should consider responsible administration, which respects the rules of democracy and creates a favourable environment for economic and social development, as a basic prerequisite for combating poverty in South Africa. Moreover, there should be an increase in the political commitment to fight corruption at the highest level of a state.

(vi) Intensifying the political will to reduce poverty

In the fight against poverty, a clear increase in the political will by the relevant government institutions is needed. This can possible be best demonstrated by a complete halt in under spending by various municipalities, particularly in poverty-stricken communities. Also, serious consideration should be paid by government to basic income grant (also known as BIG) as a grant to tide people over during periods of protracted unemployment and great need.

(vii) Fine-tuning processes for measuring, monitoring and evaluating poverty

There is also urgent need for policy makers (and other actors) to have a comprehensive understanding of who is poor and where they are. This contextual knowledge must be coupled with an understanding of poverty dynamics, if policy is to be effective in tackling poverty and creating an enabling environment for pro-poor and broad-based growth. This means that there must be accurate data and analysis at the national and sub-national level that explains why people are poor (poverty drivers), what keeps them in poverty (poverty maintainers) and what kind of policies and interventions might support movement out of poverty (poverty interrupters).

Poverty reduction is a long-term exercise. However, the political demands compel the government to, at the very least, produce short-term results. These can come about by addressing the basic needs of the poor through improved access to water, electricity, housing and sanitation, while the business of (broad based) economic growth is on going. It is also very important for government to take leadership in embarking on HIV/AIDS awareness campaigns, as HIV/AIDS is a serious threat to the financial security of a household. In addition, bottlenecks to the land reform programme need to be removed promptly. Moreover, administration capacity at the municipal level needs to be enhanced. This is especially since the various government anti-poverty strategies are implemented at this level.

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