



Analysing the impact of state services on the poor

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The NDP:

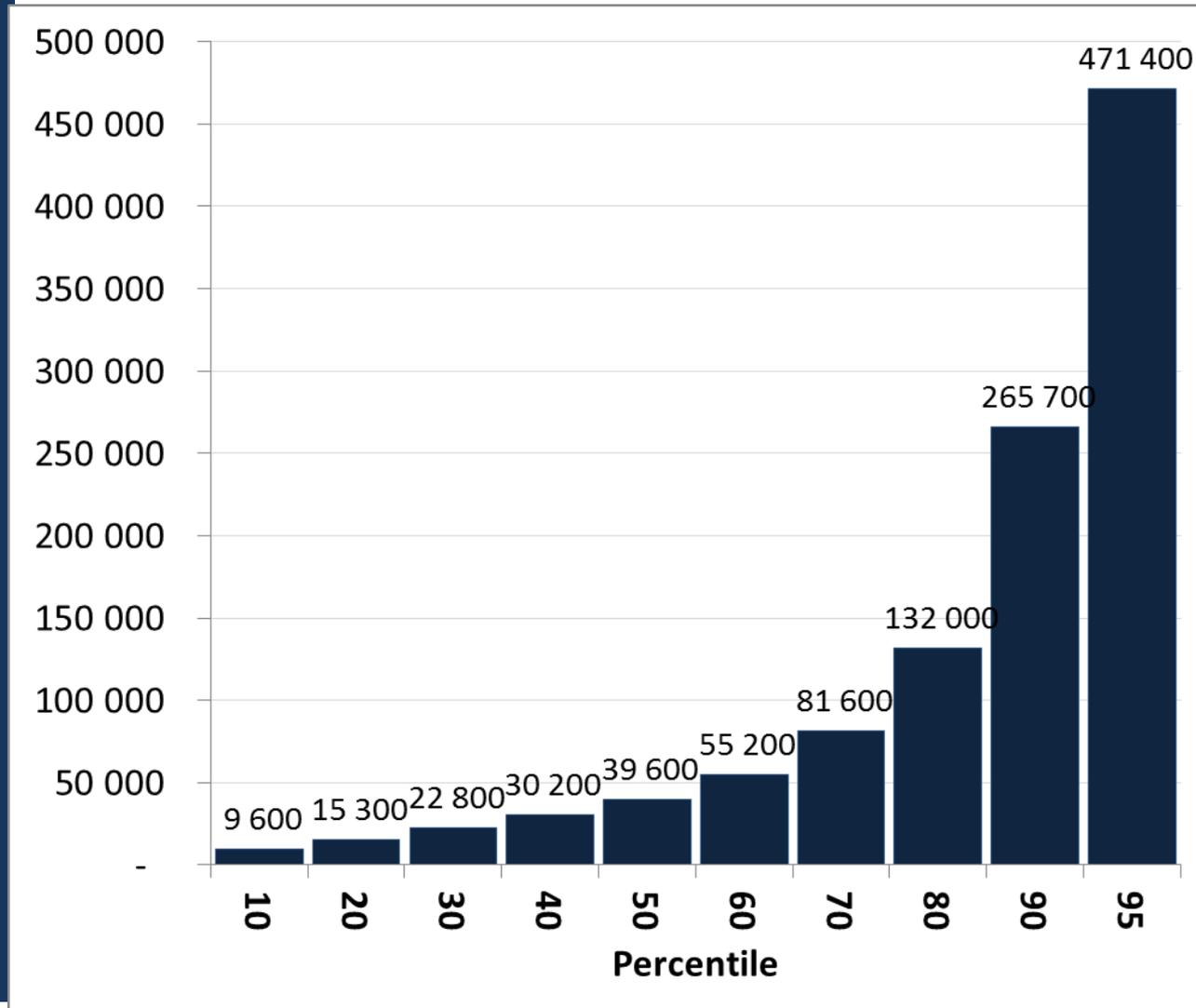
- "Inequality and poverty can be addressed by raising incomes through productivity growth and reducing the cost of living.
- "A commitment to a minimum living standard will ensure that all households can meaningfully participate in the economy.
- "The costs of food, commuter transport and housing must be reduced, while raising the quality of free or low-cost education and health care."

Paper therefore

- Analyses key cost drivers for marginalised households and the formal labour force
 - Marginalised households are typically in poorest 40%, with incomes up to R30 000 in 2015 - much lower levels of employment and income, and disproportionately in former so-called "homeland" areas
 - Formal workers predominantly in next 40% of households, with incomes from R30 000 to R132 000
 - Significant differences in consumption patterns and cost drivers
- Indicates where the current structure of service provision and/or pricing reproduces inequality or tends to impose excessive burdens on poor households
- Explores debates on ways to set standards for and fund state services given profound inequalities in South Africa

Context: Highly unequal incomes

- South Africa remains one of the most unequal countries in the world
- The richest 10% of households account for over half of household consumption and 95% of financial assets
- Just over one household in two had any employed people in poorest 40%
- Consumption patterns and cost drivers vary sharply by income level



Main findings

- Distinguish between
 - Rapid price increases that affect poorest 80%
 - Services provided for free but with inadequate quality to permit social and economic agency
- Rapid price increases:
 - Food prices
 - Electricity and water
 - Tertiary education
 - Health insurance (affects cost of employment in formal sector)
- Prices falling for clothing and furnishings; health services and equipment
- Poor quality
 - General education
 - Healthcare
 - Housing
 - Electricity and water
 - Transport (high level of cost but follow energy)

Cost drivers

- Food

- Prices rising faster than CPI from 1990s
- Causes include:
 - Concentrated food chains
 - Tariffs and international parity prices
- Requires a profound reform of production and distribution systems

- Electricity and water

- Marginalised households mostly don't pay, but working class does
- Electricity price more than doubled from 2008
- Water up by 30%
- Draconian shut off policies – 4% a month, largely due NMB
- Factors:
 - Essential to metro budgets (rather than rates)
 - Principle of user pays without rigorous assessment of affordability

- Tertiary education

- High sticker price for poor, although cheap by standards of global North
- Limited bursaries or discounts for poor
- Instead provide loans
- Contributes to replication of privilege (nearly 60% of university students from richest 20% of households)

Housing and municipal services

- Housing

- 75% in formal
- Average with four rooms including facilities
- Average informal with one room
- Distant from economic centres
- Owned, but no market value
- Causes:
 - Mass in-migration on top of apartheid
 - Cost of land combined with short-term funding models
 - Standards and affordability

- Electricity and water

- 10% of poorest 40% have no electricity
- A third of poorest 80% have no running water on site
- Often poor quality

- Transport

- Depend on public transport
- High cost in terms of time; around 12% of expenditure for poorest 40%
- Many walk half an hour or so
- Lack appropriate technologies for final kilometre

Poor quality social services

- Education

- No-fee schools inadequate for employment especially for language, numeracy, computer and design
- In 2015, the 15% of schools with the best facilities in rich communities (the DBE's top "quintile") accounted for 30% of university passes
- The poorest 25% of schools got just 15% of university passes
- Learner-teacher ratio in top 15% was 22 to 1, compared to over 30 to 1 in other schools; similar disparities for infrastructure and materials

- Health

- Vast majority do not pay, although can be pushed into deeper poverty by loss of earnings and cost of transport
- Data finds worse health outcomes for poor households – poorer overall health, more disabilities, higher mortality
- Poor outcomes compared to more equitable systems

Social grants

- Second largest coverage in the world (after Iran)
 - A key buffer for poor households against the higher costs of state services
 - Accounted for around half the income of the poorest 40%, and over a quarter for the next 40%
 - Disability and old-age pension equal to poverty line for two people; child grant, for around half a person
 - One of largest transfer programmes in the world
 - Average grant has risen more or less in step with inflation
- Linked to individuals
 - Leave out able-bodied adults
 - Poorest decile is small young families
 - Problems of power and continuity

State services and inclusive growth

- Given deep inequality, how to agree on standards and funding sources for state services?
 - Apartheid left major backlogs in both infrastructure and institutions for poor communities
 - In itself makes it harder for poor households to earn a living or engage with society
 - But poor households cannot afford to pay for the services they need
 - Therefore require a high level of state support – but how much? By when?

- Most services
 - Do not set explicit standards at all, or
 - Set high standards with no timetable to implement them, and/or
 - Turn to user fees, which have risen 50% above CPI since 2002
- Rich opt out through own spending (security, education, housing)
- Strategies to exempt the poor from fees have led to worse services and continued anger

Political equality, economic inequality

- The power trade off:

- Taxpayers can withhold payments or emigrate or reduce investment
- Majority can vote – and don't see why they should accept lower standards than rich people already enjoy

- Inequality and the tax system:

- Most state services go to the poorest 80% of households
- The richest 15% of taxpayers account for almost half of personal income tax payments
- Around 600 companies (out of a total registered for tax of 700 000) paid two thirds of company tax.
- VAT is regressive, but even so the bulk is paid by the richest households, since they account for over half of all household consumption.

Decisionmaking

- Constrained by:
 - Expectations and delivery systems shaped by rich
 - Top-down decision making – the "service delivery" paradigm
 - Often no idea of impact on the ground either before or during delivery
 - Protect centres of excellence both to maintain income and because of quality
 - Limited space for innovation locally or functionally
 - Lobbying and economic threats by the rich
- Improvements...
 - Require impact assessments especially for bottom 20%
 - Require full review of options
 - Set up resourced forums for consultation with organised stakeholders
 - National
 - Local
 - Set quotas for access to centres of excellence (schools, healthcare, housing) based on income and race

Big decisions/research

- Fixing food systems to moderate prices
- Urban planning: Densification, assessing the influx, and transport innovations
- Water especially in the Eastern Cape – what is going wrong?
- Fixing no-fee schools and tertiary fees
- Decision-making systems for fees and standard setting
- Improved access for low-income majority to centres of excellence



Re a leboha!