INEQUALITY IN SOUTHERN AFRICA:
AN ASSESSMENT OF THE SOUTHERN AFRICAN CUSTOMS UNION

COUNTRY BRIEF: SOUTH AFRICA[1]

South Africa is the most unequal country in the world, with inequality in per capita consumption about 50 percent higher than the average for upper-middle-income countries. The country has made little progress in reducing inequality in recent years. The main sources of inequality are inequality of opportunity and disparities in factor markets, with the legacy of apartheid playing a major role and access to jobs and land being severely constrained and uneven. High spending on transfers and social services partially mitigates unequal outcomes. Moving forward, South Africa needs to: (a) improve access to quality services to promote equality of opportunities across races and disadvantaged groups; (b) enhance conditions for private job creation, including by reducing barriers to entrepreneurship and self-employment, and by enhancing access to productive assets (skills and land); and (c) continue investing in the capacity of social protection systems to respond to shocks, especially in view of the growing climate-related risks.

A. Inequality is high and stagnant

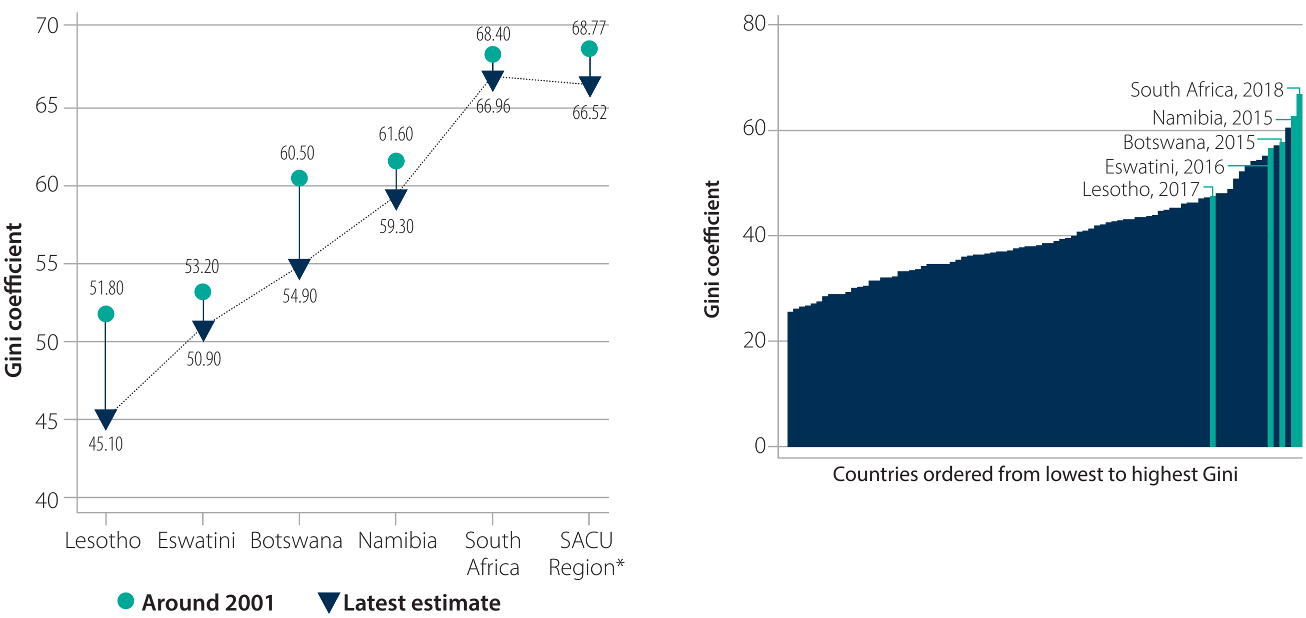
South Africa is the most unequal country in the world, ranking first among 164 countries in the World Bank's global database of Gini coefficients, which measure inequality of per capita consumption (or income, depending on the country). The most recent data put South Africa's Gini index at 67 in 2018.

Progress in reducing inequality has been limited. Between 2008 and 2018, South Africa's Gini coefficient changed very little, declining only from 68 to 67 or by just 0.21 points per year. This is the slowest decline among SACU countries, even though South Africa has the highest level of inequality in the region.

Figure 1. Inequality has fallen but remains relatively high

a. Regional comparison of Gini coefficients

b. International inequality comparison



Source: World Bank 2022.

Note: Panel a presents the Gini coefficient of consumption for the whole SACU region, based on the earliest and latest rounds of household surveys from member countries.

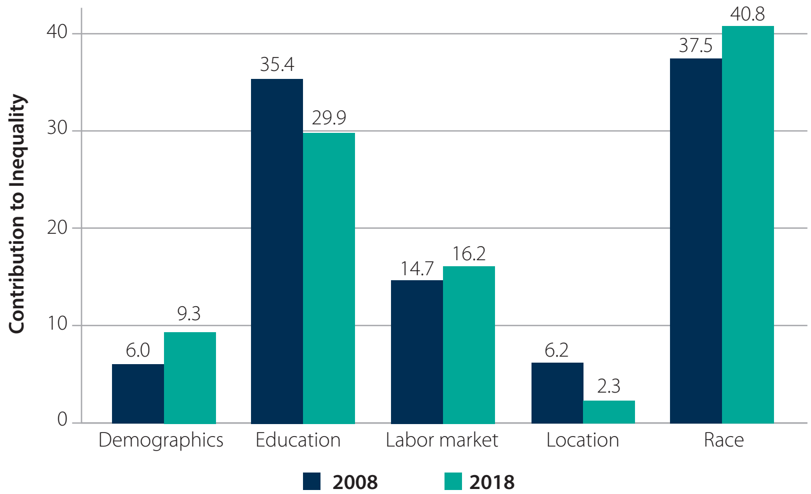
1 This brief is largely drawn from a SACU regional report on inequality prepared by the World Bank and co-authored by Victor Sulla, Precious Zikhali, and Facundo Cuevas. The report uses the framework highlighted in Box 1: World Bank. 2022. *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*. Washington, DC: World Bank.

B. A lack of education and jobs and the legacy of apartheid drive inequality

Race is the largest contributor to inequality, and its contribution is growing. The legacy of apartheid continues to exacerbate economic disparities. Race explained almost 41 percent of overall inequality in 2018, up from 37.5 percent in 2008 (Figure 2), and overshadowed the role of factors such as location, education, employment outcomes, and demographics.

Differences in educational attainment are the second most important driver of inequality, especially post-secondary or tertiary attainment. Disparities in access to education, which is key to human capital accumulation, contribute about 30 percent to overall inequality. Average levels of human capital remain low—the World Bank's Human Capital Index (HCI) estimates that a child born in South Africa in 2020 would on average reach only 43 of its potential productivity as an adult.

Figure 2. Decomposition of inequality



Source: World Bank 2022.

Disparities in employment outcomes are the third most important contributor to inequality. Differences in labor market attributes (labor force status, industry of employment, and occupation type) account for nearly 16 percent of overall inequality. Their role has increased since 2008 against the backdrop of poor economic and labor market performance. Among these attributes, differences in occupation type (such as senior managers, professionals, and clerks), which reflect skills differences, contribute most to inequality. This is followed by labor force status (whether people are employed or not), which is growing in importance. The third attribute, "industry in which people work", does not seem to be significant.

C. Inequality and the cycle of income generation

It is useful to analyze the process of household income generation to identify the sources of high and persistent inequality. The first step focuses on the *pre-income distribution*, which is the inequality of opportunity that arises from differences in circumstances at birth and during childhood, such as gender, race, location, parental education, and family wealth; these differences create expected inequalities in income distribution even before people interact with factor markets. The second component looks at the *primary income distribution*—how inequality is affected by access to factor endowments (or assets), such as education, skills, land, and capital, as well as their use and returns from interaction with markets. The third explores the *secondary income distribution*, assessing how inequality is influenced by taxes and government transfers. Finally, the fourth component relates to the *tertiary income distribution*—the disparities that remain after accounting for the role of social services (such as education, health, and infrastructure).

Box 1. Framework to assess sources of income and consumption inequality

The SACU regional inequality report uses an innovative framework built around the process that underlies household income generation to identify sources of high and persistent inequality. The framework is organized into four sequential components, presented in Figure 3.

Figure 3. Framework to assess sources of income and consumption inequality

Source: World Bank (2022).

High inequality of opportunity

Children in South Africa face stark differences in life prospects depending on their circumstances at birth and during their early years. Their opportunities are unequal because of circumstances they inherit and cannot control, such as race, gender, growing up in an urban or rural area, and parental characteristics. Inherited circumstances account for 48 percent of inequality in consumption per capita. Race is the most important inherited circumstance—its contribution to inequality is about 4 times larger than that of parental characteristics, 3 times larger than location, and 10 times larger than gender.

Children from low-income households tend to grow up without access to key services, which reduces their opportunities later in life and so perpetuate inequality. Only about 54 percent of the poorest 10 percent of households had access to improved water sources in 2015, 43 percentage points lower than the access of the richest 10 percent. Similarly, about 98 percent of the richest decile had access to electricity, as against only 78 percent among the poorest.

High inequality is underpinned by very limited socio-economic mobility in both the short and the long run. From a shorter-term perspective, comparing 2008 with 2015 shows that half the population was trapped in chronic poverty, meaning that they were poor and highly unlikely to improve their situation in either year, measured at the upper-bound national poverty line. From a long-term perspective, intergenerational mobility is also low—about three-fifths of the earnings advantage of South African fathers is passed on to their sons.

Inequities in access and returns to productive assets (labor and land)

A lack of job creation and skills mismatches hamper the ability of disadvantaged households in urban areas to generate income, and so limits the reduction in inequality. Unemployment remains high, reaching 34.9 percent of the labor force in the third quarter of 2021. Disparities in labor market outcomes stem from bottlenecks that limit the capacity of firms to create jobs and from barriers that constrain the ability of workers to access such jobs. Although many factors are at play, one stands out: having post-secondary and tertiary education is vital both for getting a job and for getting better wages once employed.

Wage inequality is increasing. Given the limited number of skilled workers, returns to post-secondary education are high, which in turn increase wage disparities. The gender wage gap is also substantial: among people with similar education, backgrounds, and occupations, men earn on average 38 percent more than women. This is the largest gender gap among countries in southern Africa.

Land ownership has historically been unequal. The highly skewed land distribution, rooted in historical discrimination against black Africans, underpins unequal outcomes in rural contexts. Various land restitution and redistribution programs have been implemented in the last three decades, but land reform remains a critical concern.

Taxes and social spending play an important role in reducing inequality

Taxes and transfers contribute significantly to lower inequality. Driven by a progressive personal income tax structure, targeted and comprehensive social assistance, and high spending on education and health services, South Africa's fiscal interventions help reduce inequality. Without social transfers and social spending, inequality would be about 20 Gini points higher. This redistributive fiscal impact is among the highest in the world, at least among countries in which comparable studies have been done.

The social protection system provided a strong response to the COVID-19 crisis. The pandemic has wrought unprecedented socio-economic challenges across the world. In South Africa, low-wage workers suffered almost four times more job losses than high-wage ones. Social assistance was mobilized to provide a vital safety net for affected households, topping up existing social transfers and introducing a new social grant for households affected by the pandemic (who did not already receive transfers).

D. Policy considerations to accelerate the reduction in inequality

Improve access to quality services to promote equality of opportunities across races and disadvantaged groups. Spending on social services is high by international standards, but results are often below those of other countries with similar development levels. The policy agenda could focus on elevating the quality of public education and health services, improving basic services such as electricity, and addressing coverage gaps for certain groups (such as black Africans) and locations (such as townships and rural areas). In education, the focus should remain on enhancing early childhood development programs and improving basic education at all levels, in terms of both enrollment and learning outcomes. Early childhood development initiatives offer a particularly cost-effective area of action. Investing in young children in their first 1,000 days has lifelong implications and could help break the intergenerational cycle of unequal chances.

Revitalize employment creation and remove barriers to jobs for disadvantaged populations. Although the structural reform agenda aims to resume a path of growth and employment generation in the economy, removing barriers to self-employment and entrepreneurship and strengthening programs to boost employability will help alleviate the lack of job opportunities. Relaxing regulatory constraints and simplifying legislation could help boost entrepreneurship, self-employment, and small businesses, all sectors with untapped potential. This could help get people working, as it does in other developing countries, instead of staying unemployed, becoming discouraged, and depreciating their human capital. To enhance the inequality-reducing impact of this option, low-skilled entrepreneurs could be supported with business skills, socio-emotional competencies, and grant financing to address constraints that go beyond the regulatory framework.

Continue strengthening the responsiveness of the social protection system to shocks, with attention to climate risks. The system demonstrated its adaptive capacity to weather the COVID-19 crisis. Going forward, as part of the strategy for adapting to growing climate risks, ongoing investment is needed in the responsiveness and efficiency of the system for horizontal and vertical expansion. This would allow it to reach new affected populations (horizontal expansion) and/or increase support to existing beneficiaries (vertical expansion). Digital technologies and mobile payments could support such initiatives.

References

World Bank. 2022. *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*. Washington, DC: World Bank.