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The dynamics of poverty in the first four waves of NIDS

by

Arden Finn and Murray Leibbrandt



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About the Author(s) and Acknowledgments

Arden Finn: fnnard001@myuct.ac.za Doctoral student and researcher at the Southern Africa Labour and Development Research Unit, University of Cape Town.

Murray Leibbrandt: murray.leibbrandt@uct.ac.za Professor of economics and director of SALDRU at the University of Cape Town.

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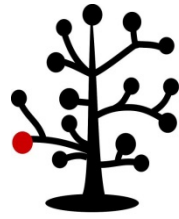
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University of Cape Town, August 2016

Abstract

We analyse the determinants of South Africans moving into and out of poverty over the first four waves of the National Income Dynamics Study (NIDS) for the years 2008 to 2014/2015. We focus on the balanced panel of NIDS respondents and find that a relatively high poverty exit rate was accompanied by a substantial proportion of the population being trapped in severe poverty. The roles of demographic versus income changes over time reveal that changing household composition is the largest trigger of poverty entry and exit, and that increasing income from government grants is the main trigger precipitating poverty exit for about one quarter of our sample. Regression analysis shows that access to the labour market within the household is the single most important determinant of poverty entry and exit after race. We calculate multidimensional poverty rates and find that although MPI poverty is far lower than money-metric poverty, being chronically MPI poor over the four waves is closely matched by being chronically income poor.

I Introduction

The availability of South Africa's first nationally representative panel dataset in the National Income Dynamics Study (NIDS) has opened up new possibilities for researchers probing the determinants of poverty dynamics in the country. Finn and Leibbrandt (2013) used the first three waves of NIDS to investigate South African poverty between 2008 and 2012. This paper updates that research in order to include the fourth wave of NIDS data and to extend the time frame of analysis to 2015.

In the current South African policy milieu there is a rising emphasis on understanding how and why people enter and exit poverty. The aim of this paper is to investigate the dynamics of poverty in South Africa using the first four waves of NIDS. The focus is on absolute, rather than relative, poverty transitions. One of the key features of NIDS is the ability to model these dynamics of poverty over time. We are less interested in measuring cross-sectional poverty and more interested in understanding the extent of movements into and out of poverty, who is making these transitions and the reasons for these changes. Section II of this paper follows Finn and Leibbrandt (2013) by briefly outlining the South African literature on poverty dynamics and section III discusses the data and weights used in this analysis. Section IV develops a number of univariate and multivariate measures of poverty transitions, with inter-wave poverty entry and exit being treated separately. Section V elicits the relative contributions of trigger events that are associated with poverty transitions, while Section VI lines up multidimensional and income poverty against each other in order to understand the extent to which the two interacted over the four waves. Section VII provides some concluding remarks.

II The South African Literature on Poverty Dynamics

Although there have been many studies of cross-sectional poverty in South Africa since the end of apartheid (see Finn et al. (2014) for a short review), there is a relative paucity of literature using panel data to analyse transitions. One of the first studies of poverty dynamics in post-apartheid South Africa is Carter and May (2001). The authors use the first two waves (1993 and 1998) of the KwaZulu-Natal Income Dynamics Study (KIDS) to decompose poverty transitions into what they term 'structural' and 'stochastic' components. The study is restricted to approximately 1 200 African households in the KwaZulu-Natal province. Carter and May (2001) find a significant increase in poverty rates in African households in the province, and also find that the economic processes driving poverty dynamics also served to increase inequality. That is to say, upward economic mobility was stronger for those at the top of the income distribution than it was for those at the bottom. The authors find that approximately one fifth of the sample was poor in both 1993 and 1998, with a further 35% transitorily poor (that is, poor in at least one wave).

Woolard and Klasen (2005) also use the first two waves of KIDS to model the determinants of mobility and poverty transitions for just over 1 000 African households in KwaZulu-Natal. The authors identify the main event associated with a transition into or out of poverty in a univariate sense. These events are themselves split into demographic (household composition) changes and income changes. It is found that about one quarter of transitions into and out of poverty are due to demographic effects. The most important income effect for transitioning into poverty is the household head losing a job, while for transitioning out of poverty the most important income event is another household member finding employment. The importance of demographic effects is confirmed in a multivariate regression analysis, though the sample sizes are quite small with 129 households entering poverty and 223 households exiting poverty over the two waves.

Agüero et al. (2007) adds the third (2004) wave of KIDS to the study of dynamics. Parts of the paper are a natural update to Carter and May (2001), as the third wave is added as a new data point. The authors complement the income analysis by calculating poverty rates using expenditure data, though there are some serious misgivings about using the 1993 expenditure data (see Leibbrandt et al. (2010)). The study finds that access to basic household services improved significantly between 1993 and 2004, and this improvement is in contrast to the backward steps taken on the poverty front in the mid-1990s. Finally, the authors highlight the importance of government grants and, particularly, the child support grant, in shifting the bottom of the income distribution to the right, and find that the importance of grants as inequality reducers increased over time.

Finn, Leibbrandt and Levinsohn (2013) uses the first two waves of NIDS to explore absolute and relative transitions over the 2008 to 2010/2011 period. They find that almost three quarters of those who were below the poverty line in 2008 were still below it in 2010/2011. This equates to approximately 34% of the total sample being poor in both waves. Poverty exits slightly outweighed poverty entries over the period, and this resulted in a small fall in the national poverty headcount ratio.

Finally, Finn and Leibbrandt (2013) expand on this previous study by adding a third wave to the analysis. They find that although the rate of exiting poverty was higher between waves 2 and 3 than between waves 1 and 2, a large percentage of the South African population was trapped in severe poverty (defined as living in a household with income per capita of less than half the poverty line) in all three waves.

III Data and summary statistics of the balanced panel

The data used in this study come from the first four waves of NIDS, covering 2008-2014/15 (SALDRU, 2016a,b,c,d). As the focus is on poverty dynamics and transitions, the analysis is restricted to the balanced panel – those who were successfully interviewed in all four waves.

In order to adjust the balanced sample for the presence of attrition between waves 1 and 2,

2 and 3, and 3 and 4, we constructed a balanced panel weight. This was done by adjusting the original wave 1 post-stratified weight to account for unfolding attrition. For each successive wave a probit model was run with the dependent variable being a dummy indicating whether the individual attrited or not. Wave 1 to wave 2 balanced panel members then received a new weight which was the product of the original wave 1 weight and the inverse of the conditional probability of re-interview. The same process was applied to the wave 2 to wave 3, and wave 3 to wave 4 periods. All subsequent analysis in this paper makes use of this balanced panel weight.

There are 17 265 members of the balanced panel, and table 1 presents some summary statistics for this sub-sample. 83% of our sample is African, with coloured and white proportions standing at about 8% and 7% respectively. The Indian part of the balanced panel is very small, with only 151 respondents being successfully interviewed in all four waves. For this reason, racial breakdowns including this group are generally avoided, because of the lack of power associated with such a small sample size.

As expected with a sub-sample that is ageing, the average level of educational attainment rose with each successive wave.¹ The share of the balanced panel with no schooling dropped from 20% in wave 1 to 6% in wave 4, and almost a quarter had obtained at least a matric by wave 4.

The evolution of the household size variable is interesting to observe. The share of the balanced panel living in single-person households rose by almost four percentage points between wave 1 and wave 4. This category and the next smallest (2 to 3) were the only two to grow between 2008 and 2015. The proportion of balanced panel members living in households with 4 to 6 people was 39% in wave 4, down from 44% in wave 1. The trend to smaller household sizes in the balanced panel is reflected in the cross-section as well. In the cross-section, average household size decreased from 3.53 in wave 1 to 3.20 in wave 4.

Turning to the three geo-types we see that the proportion of balanced panel members living in urban areas rose from 57% in wave 1 to 60% in wave 4, while the shares in traditional areas and farming areas decreased between 2008 and 2015. The provincial breakdown of balanced panel members was relatively stable over the period, with small decreases in the share living in the Eastern Cape and Limpopo, and a rise in the proportion living in Gauteng (not shown).

¹The education columns do not sum to 100% within each wave due to some respondents not providing their level of education.

Table 1: Summary statistics of the balanced panel

	Wave 1	Wave 2	Wave 3	Wave 4
Race				
African	82.75%			
Coloured	8.23%			
Asian/Indian	2.34%			
White	6.67%			
Gender				
Male	47.04%			
Female	52.96%			
Education				
None	20.33%	16.33%	12.71%	5.76%
Primary	32.73%	31.77%	30.75%	29.56%
Inc. Sec.	28.70%	31.88%	34.55%	38.57%
Matric	16.27%	17.92%	19.68%	22.25%
Tertiary	1.48%	1.71%	1.99%	2.39%
Household Size				
1	5.46%	6.17%	7.19%	9.25%
2-3	21.75%	19.59%	22.18%	23.94%
4-6	43.85%	41.71%	41.27%	39.04%
7-10	20.60%	23.85%	21.94%	20.61%
>10	8.33%	8.68%	7.43%	7.16%
Geo-type				
Traditional	37.55%	37.65%	36.82%	35.53%
Urban	57.23%	56.92%	58.44%	59.85%
Farming	5.22%	5.43%	4.75%	4.63%
N	17265			

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

IV Poverty transitions

Our welfare measure in this paper is real monthly household income per capita. We made use of the the household income variable in the public-release dataset which was adjusted to remove imputed rent from owner-occupied housing in each wave. This was done because the imputed rent variable in each wave contained a high percentage of missing values, making it a very noisy component of income (even after single regression imputations were used to predict the missing values). This follows the practice in many papers using the household income variable in NIDS (for example see Leibbrandt et al. (2010)).

We used Statistics South Africa's headline CPI index to deflate the nominal income data to their real values. The base period is January 2015, as this was the modal month of interview

for wave 4. All analysis that follows reports the income variables at their January 2015 price levels.

The NIDS wave 3 poverty transitions report (Finn and Leibbrandt, 2013) used a cost-of-basic-needs poverty line of R636 per capita per month (in August 2012 price levels) which itself was based on the line in Özler (2007). In this paper, however, we use a poverty line that was derived by Budlender et al. (2015) of R1 283 in January 2015 rands.² This poverty line was calculated by first deriving a nutrition poverty line to reflect the minimum cost of a daily caloric intake of 2 100 kilocalories. This food poverty line was added to the average amount of non-food expenditure of households with food expenditure at the nutrition line in order to reach the amount of R1 283. In adjusting the original Budlender et al. (2015) line to its real January 2015 equivalent we deflate the food and non-fod components separately using CPI reports from StatsSA.

Transition matrices

In table 2 we present poverty transition matrices for the balanced panel members. The four panels of the table show transitions from wave 1 to 2, 2 to 3, 3 to 4, and 1 to 4 respectively. Focusing on the wave 1 to wave 4 transition (shaded in grey) we see that, of those balanced panel members who were poor in wave 1, almost three quarters were also poor in wave 4. Of those who were non-poor in wave 1, 79% were also non-poor in wave 4, while 21% transitioned into poverty between 2008 and 2014/2015. The probability of transitioning out of poverty over the four waves was therefore approximately five percentage points higher than the probability of transitioning into poverty over the same period for the balanced panel members.

Table 2: Transitions into and out of poverty across waves

		Wave 2				Wave 3	
		Poor	Non-poor			Poor	Non-poor
Wave 1	Poor	88.40	11.60	Wave 2	Poor	84.09	15.91
	Non-poor	26.48	73.52		Non-poor	20.26	79.74
		Wave 4				Wave 4	
		Poor	Non-poor			Poor	Non-poor
Wave 3	Poor	79.30	20.70	Wave 1	Poor	73.40	26.60
	Non-poor	20.74	79.26		Non-poor	21.36	78.64

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

In table 2 each row in each panel sums to 100%. In table 3 each cell within each panel

²There is some sensitivity analysis to the choice of poverty line through the use of a measure of ‘severe’ poverty later in this paper. Additional sensitivity tests using the StatsSA upper bound poverty line of R945 (in January 2015 prices) are available from the authors.

gives the total proportion balanced sample members in each transition state. The four cells in each panel sum to 100%, rather than each row summing to 100% as in the previous table. Focusing on the shaded panel once again, we see that almost 54% of the sample of balanced panel respondents were poor in both wave 1 and wave 4. Just over 21% of respondents had real per-capita household incomes above R1 283 in both wave 1 and wave 4. Almost one fifth of respondents were poor at the start of the period, and non-poor at the end, while the reverse is true of 5.7% of the balanced panel.

Table 3: Poverty transitions: Proportion of sample by transition status

		Wave 2				Wave 3	
		Poor	Non-poor			Poor	Non-poor
Wave 1	Poor	64.69	8.49	Wave 2	Poor	60.37	11.42
	Non-poor	7.10	19.71		Non-poor	5.71	22.49
		Wave 4				Wave 4	
		Poor	Non-poor			Poor	Non-poor
Wave 3	Poor	52.41	13.68	Wave 1	Poor	53.72	19.47
	Non-poor	7.03	26.88		Non-poor	5.73	21.09

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

Our final set of transition matrices, shown in table 4, draws on the definition of ‘severe’ poverty in Carter and May (2001) and classifies individuals as being in severe poverty if their real per-capita household income is less than half of the poverty line. Therefore the threshold for severe poverty in this context is R641.50, and the threshold for poverty is between R641.40 and R1 283 in January 2015 rands.

Of those who were in severe poverty in wave 1, 78.4% were either in severe poverty or in the ‘poor’ category in wave 4, implying that just over one fifth of the severely poor in wave 1 were non-poor in wave 4. The transition rates for those who were poor in wave 1 are higher when compared to the severely poor category, and this is to be expected as respondents could move in two directions if they were in the middle category at the beginning of the time period. Of those who were poor in wave 1, 27.5% transitioned down into the poorest category in wave 4, while just over 40% escaped poverty in the 2008 to 2014/2015 period. The non-poor/non-poor cell shows the highest level of stability, with 79% of respondents remaining non-poor in wave 4, conditional on being non-poor in wave 1. The proportion of non-poor wave 1 respondents transitioning into poverty or severe poverty by wave 4 are 13% and 8.5% respectively.

The final panel in the bottom left section of the table contains cells that sum to 100%. This allows us to see the overall proportion of respondents in each of the nine cells corresponding to different poverty transitions. 53.72% of the members of the balanced panel were in poverty

or severe poverty in both wave 1 and wave 4.³ This table highlights that most of those who were trapped in poverty were in fact trapped in severe poverty - 29% of all the balanced panel members were in this category. The proportion of the sample that was severely poor in wave 1 and non-poor in wave 4 stands at 11.5%, while 8% were poor in wave 1 and non-poor in wave 4. Just over one fifth of balanced panel members were non-poor in both waves, while about 6% transitioned from being non-poor into being either poor or severely poor.

Table 4: Transitions with finer poverty levels

		Wave 2			Wave 3				
		Severe	Poor	Non-poor			Severe	Poor	Non-poor
Wave 1	Severe	73.16	19.48	7.36	Wave 2	Severe	63.14	25.64	11.21
	Poor	42.31	34.77	22.92		Poor	35.49	37.33	27.18
	Non-poor	12.25	14.23	73.52		Non-poor	8.30	11.95	79.74
		Wave 4			Wave 4				
		Severe	Poor	Non-poor			Severe	Poor	Non-poor
Wave 3	Severe	60.21	24.36	15.43	Wave 1	Severe	53.88	24.55	21.57
	Poor	33.35	36.87	29.78		Poor	27.47	32.48	40.04
	Non-poor	9.36	11.38	79.26		Non-poor	8.52	12.83	78.64

Note: In this panel the cells sum to 100%

		Wave 4		
		Severe	Poor	Non-poor
Wave 1	Severe	28.69	13.07	11.49
	Poor	5.48	6.48	7.98
	Non-poor	2.29	3.44	21.09

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

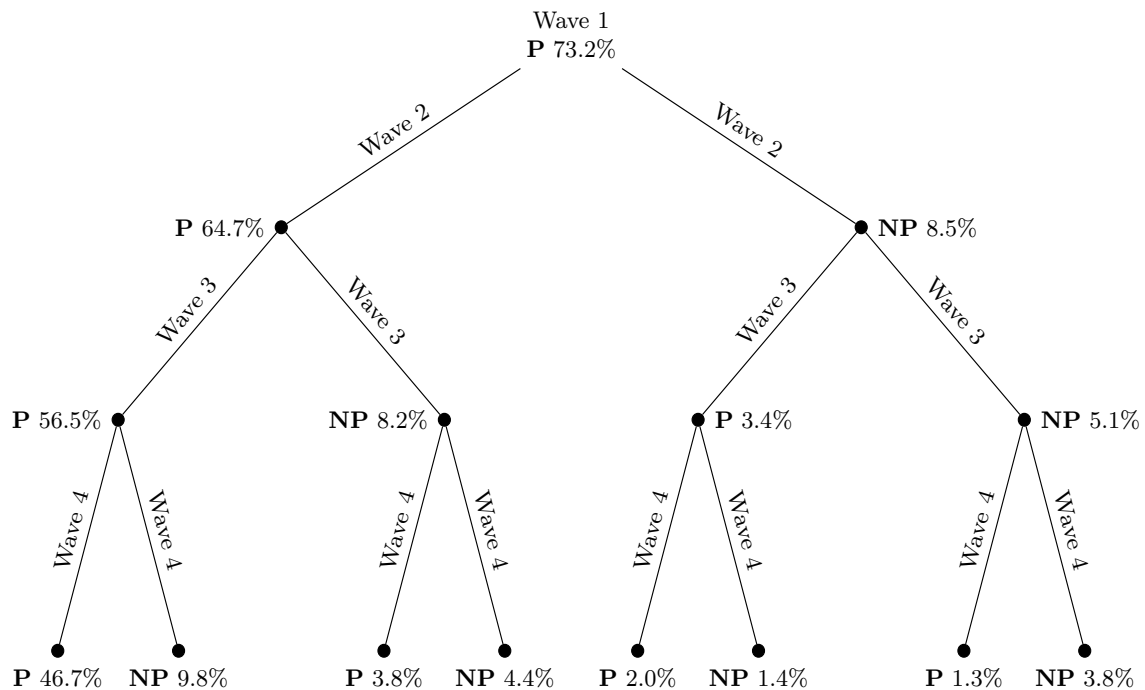
Poverty over four waves

Presenting all possible combinations of poverty status for balanced panel members across four waves is a significant challenge. There are 16 different possible states (PPPP, PPPN, PPNN,...,NNNN), compared to 8 different states if three waves are used, and 4 different states if two waves are used. In figure 1 and figure 2 we use a poverty transition tree to show the proportion of the balanced sample that was in each possible state over each of the four waves. Each node of the tree represents an unfolding combination of possible states that a respondent could be in. For example, the top node in figure 1 shows that 73.2% of balanced panel respondents fell below the poverty line of R1 283 per capita per month (P). Moving down a node, 64.7% of balanced panel members were poor in wave 1 and in wave 2 (PP). Moving down another node and going to the right this time, we see that 8.2% of balanced panel members were poor in wave 1, poor in wave 2, and non-poor in wave 3 (PPN). The terminal nodes show the final four wave combinations, along with the proportion of sample members in each. The PPPP node (the

³This corresponds to the proportion in the upper left cell of the shaded area in table 3.

first terminal node in figure 1) shows that 46.7% of balanced panel members were poor in each wave in which they were interviewed. Almost 10% of the sample was poor in the first three waves but exited poverty in the fourth wave.

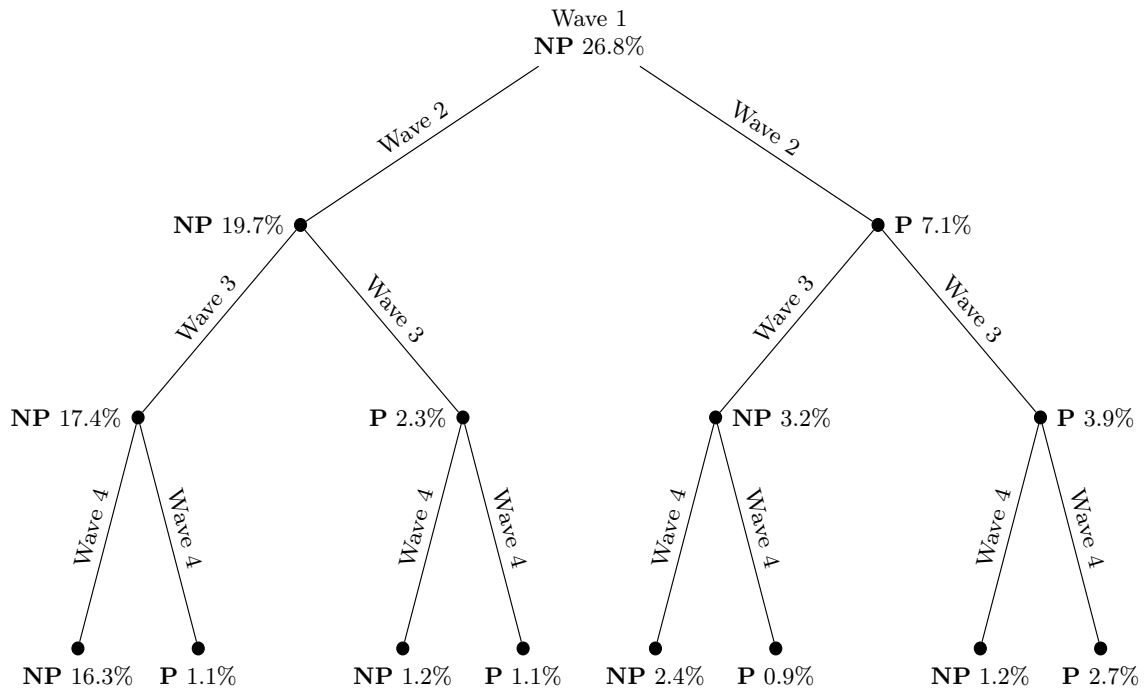
Figure 1: Poverty transition tree: Poor in wave 1



Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel. **P** = Poor, **NP** = Non-poor.

Figure 2 adopts the same approach, except this time for the 26.8% of balanced panel members who were non-poor in wave 1. The eight terminal nodes of this tree combined with the eight terminal nodes of the previous tree provide all 16 possible poverty transition states. The same goes for the eight possible states in wave three, and the four possible states in wave 2. In this figure we see that only 16.3% of all our balanced panel members were non-poor in each of the four waves. In fact, 7% of the total sample was non-poor in wave 1 and fell into poverty in wave 2 (NP). A slightly higher proportion of those on the NP path remained in poverty by wave 3 (3.9% at the NPP node) than exited poverty by wave 3 (3.2% at the NPN node).

Figure 2: Poverty transition tree: Non-poor in wave 1



Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel. **P** = Poor, **NP** = Non-poor.

Another way of displaying poverty states across four waves is presented in table 5 which shows the number of times respondents were recorded as being in poverty and severe poverty over the total time period. Although this is a simpler display of poverty states, we sacrifice the ability to show every possible state over every wave, as was done in the previous two figures. As we have already seen, only 16.28% of the sample of balanced panel respondents were classified as non-poor in every wave in which they were observed. This is in stark contrast to the 46.7% of respondents who were living below the poverty line of R1 283 per month in each of the four waves in which they were interviewed. The proportion of respondents who were in severe poverty (living on less than half the poverty line) ranges from 29% who were never recorded as being in severe poverty to 16% who were recorded as being in severe poverty in a single wave. Just over 18% of respondents were recorded as being in severe poverty in all four waves, though 55.3% experienced severe poverty in at least half the waves in which they were interviewed.

Table 5: Number of times observed in poverty between 2008 and 2014/2015

	Percent	
	Poverty	Severe poverty
0	16.28	28.81
1	8.51	15.89
2	10.30	17.74
3	18.24	19.41
4	46.67	18.15

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

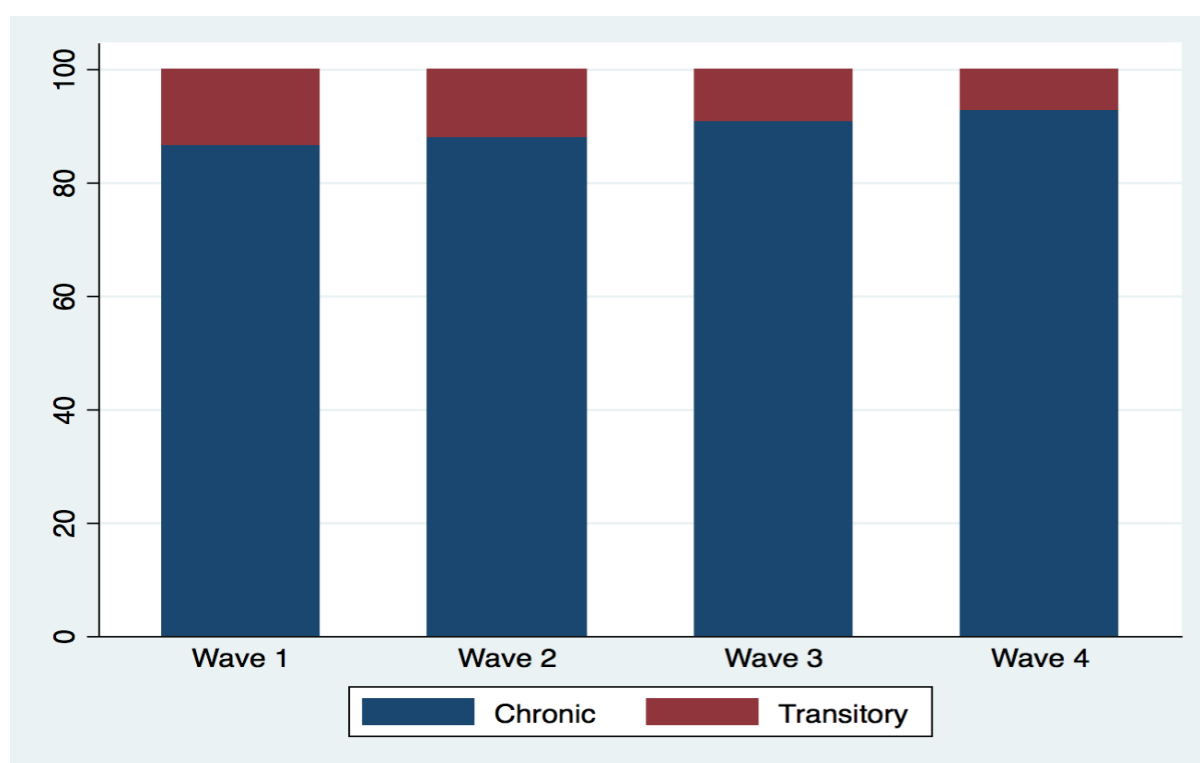
Chronic versus transitory poverty

We have seen that a large proportion of the sample remained in poverty in all four waves. It would be useful to complement this finding by considering the extent to which the overall poverty rate is made up of chronic versus transient poverty in each of the four waves.

We follow, *inter alia*, Jenkins (2011) by defining someone as chronically poor if his or her income averaged over the four waves is less than R1 283 in real terms. The question, then, is what percentage of respondents are chronically poor by this definition? Once a state of chronic poverty is defined for each wave, the transient component is calculated by subtracting the chronic share from the total poverty rate.

The share of chronic poverty in total poverty increases as we move through from wave 1 to wave 4. In figure 3 we see that of all the balanced panel respondents who were poor in wave 1, 86.5% were chronically poor - that is, their average real income per capita across all four waves was less than R1 283. This proportion increased to 88% in wave 2, 91% in wave 3, and 92.6% in wave 4.

Figure 3: The shares of chronic versus transitory poverty by wave



Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

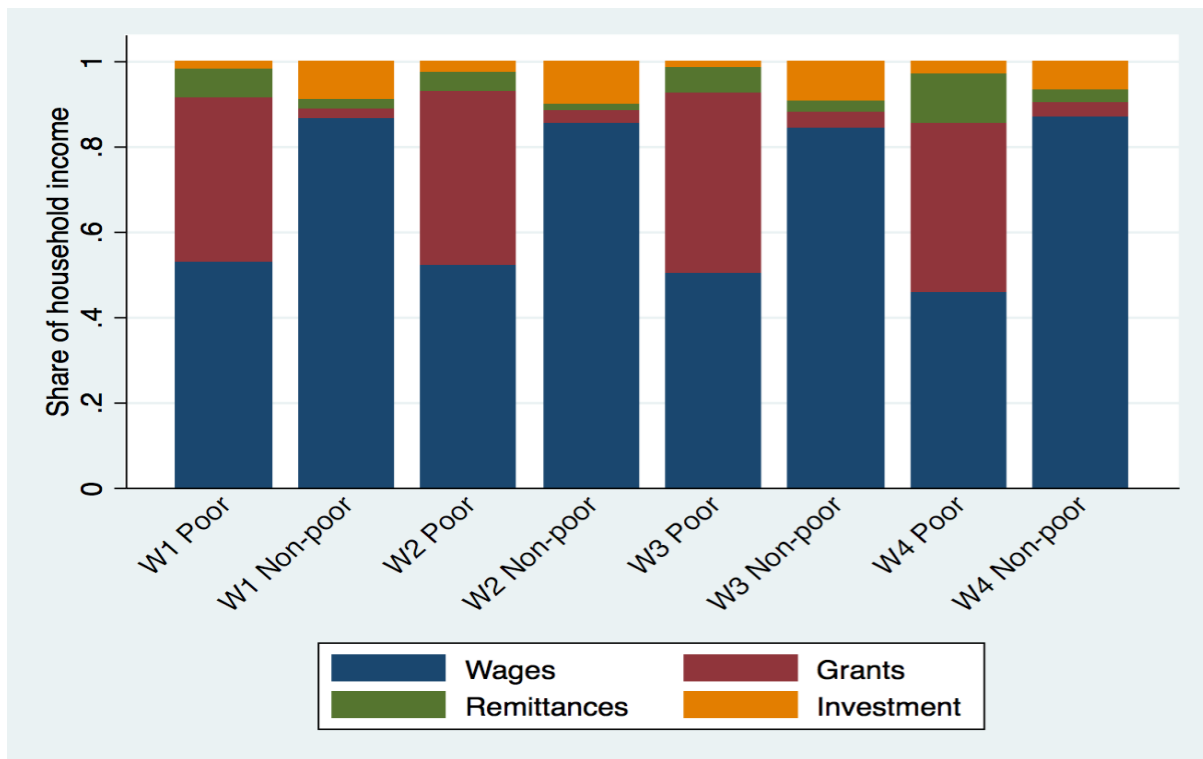
The composition of household income of poor and non-poor households over each of the four waves

Before moving to regressions that model transitions into and out of poverty, it is worth spending some time looking at the composition of household income of poor and non-poor households in each of the four waves. In figure 4 we present eight bar charts - four for poor households in each wave and four for non-poor households in each wave. The y-axis represents the proportion of total household per capita income made up of each component of household income. These components are wages, government grants, remittances and investment income.

A comparison of the share of wages in total household income for poor versus non-poor households shows that labour market income is substantially more prominent in the latter than in the former. The wage share in poor households for this period ranged from 46% to 52%, while in non-poor households it was stable at around 86%. The importance of income from government grants for poor households is clear in this figure, with the share of income coming from this source in the mid 40%s. As we show later in table 8, an increase in income from government grants was a very important trigger leading households to exit poverty between wave 1 and wave 4. Remittances play a more important part in the composition of income for poor households than for non-poor households - reaching a peak of 11% versus 3% in wave 4.

Finally, investment income⁴ makes up between 7% and 10% of household income for non-poor households in waves 1 to 4, compared to between 1% and 3% for poor households.

Figure 4: Household income composition for poor and non-poor respondents by wave



Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

Regression analysis of poverty transitions

In this section we first model transitions into poverty and then transitions out of poverty. Table 6 reports the marginal effects of a probit regression where the dependent variable takes a value of 1 if an individual transitioned into poverty, and 0 if not. This marginal effect provides an estimate of the change in the probability of moving into poverty associated with a change in that variable. Given that the conditional switch happens only for people who were non-poor in the base wave, the sample is restricted accordingly. Therefore the observation numbers range from 2 944 when wave 1 is the base wave⁵ to 4 304 when wave 3 is the base wave. Each regression is weighted using the balanced panel weights that have been used throughout this paper. Controls for the province of each household are included but not reported. The average marginal effects of the following variables are reported in the table: Household size in the base year, whether the respondent was female rather than male, whether the respondent lived in a rural area compared to an urban or farming area, and whether the respondent was African

⁴This is income made up of stocks, rentals, private pensions and retirement annuities.

⁵This means that there were 2 944 non-poor respondents in the first wave.

compared to the other three population groups. Additionally, there are dummies for whether a respondent lives in a home that is owned by someone in the household, and for whether there is at least one employed person living in the household.

The household size variable is always statistically significant at at least the 10% level, though its economic significance is rather small. Between wave 1 and wave 4 adding one additional person to the household resulted in a 1% increase in the probability of transitioning into poverty, on average. This is three times smaller than the effect in the wave 1 to wave 2 transition, and about double the effect in the wave 2 to wave 3, and wave 3 to wave 4 transitions. Female members of the balanced panel were more likely than men to enter poverty between waves 1 and 2, and waves 2 and 3, but were no more likely to enter poverty than men over the entire 2008 to 2014/2015 period, on average. Respondents living in rural areas were, on average, between 4% and 6.6% more likely to enter poverty between waves than those living in urban areas, and this effect is significant at the 10% level for wave 1 to wave 4 transitions. Turning to race, we see that over the wave 1 to wave 4 period there was no statistically significant difference in the probability of transitioning into poverty for Coloured versus African members of our balanced panel. Asian/Indian and White respondents were 20% and 25% less likely to transition into poverty over the period than African respondents, on average. Finn and Leibbrandt (2013) find that living in a home that is owned by a member of the household increases the probability of transitioning into poverty, though for a different sample and poverty line to those used in this study. Here we find that this variable is statistically significant only for the wave 1 to wave 4 transition. It remains positive in sign. Finally, the importance of access to the labour market and labour market earnings is shown to be by far the most economically significant of our regressors. This variable is statistically significant at the 1% level for each of the four regressions, and is associated with a reduced probability of transitioning into poverty of between 13.7% and 16.5%.

Table 6: Marginal effects for transitioning into poverty

VARIABLES	Transitions into poverty			
	(1) W1 to W2	(2) W2 to W3	(3) W3 to W4	(4) W1 to W4
Household size	0.036*** (0.005)	0.007** (0.004)	0.006* (0.003)	0.012*** (0.004)
Female	0.038* (0.021)	0.030* (0.018)	0.027 (0.016)	0.025 (0.020)
Rural	0.055** (0.026)	0.066*** (0.021)	0.057*** (0.018)	0.043* (0.023)
Coloured	-0.161*** (0.032)	-0.012 (0.042)	-0.017 (0.035)	-0.030 (0.047)
Asian/Indian	-0.221*** (0.042)	-0.262*** (0.017)	-0.189*** (0.025)	-0.200*** (0.035)
White	-0.302*** (0.026)	-0.259*** (0.016)	-0.208*** (0.021)	-0.251*** (0.023)
Own home	0.017 (0.027)	0.032 (0.022)	-0.010 (0.019)	0.050** (0.025)
Employed in HH	-0.165*** (0.047)	-0.152*** (0.028)	-0.149*** (0.028)	-0.137*** (0.037)
Observations	2,944	3,298	4,304	2,944

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel. Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 7 changes the focus to transitions out of poverty. The estimation sample is different to that of the previous table in that it is restricted to those respondents who could have transitioned out of poverty - that is, those who are poor in the base wave.

An increase in household size of one is associated with a lower probability of transitioning out of poverty of between 1.5% and 2.1% on average. In the previous table females were no more or less likely than males to transition **into** poverty. The dynamics of transitioning **out** of poverty, however, show that females were 5.7% less likely to exit poverty between wave 1 and wave 4 than males, on average, and this effect is statistically significant at the 1% level. Sample members living in rural areas were less likely to transition out of poverty than those in urban areas, and, in general, Asian/Indian and White sample members were more likely to transition out of poverty than African and Coloured respondents.⁶ Living in a home that is owned by a household member does not appear to have any short-run impact in determining transitions out of poverty, but over the full 2008 to 2014/2015 period it is associated with a

⁶Though it should be kept in mind that the sample sizes of Asian/Indian and White balanced panel members are relatively low.

3.9% increase in the probability of exiting poverty. The effect of having at least one employed household member is large. Having a wage earning household member in wave 1 is associated with a 7.7% increase in the probability of exiting poverty by wave 4, on average, and this effect is statistically significant at the 1% level.

Table 7: Marginal effects for transitioning out of poverty

Transitions out of poverty				
VARIABLES	(1) W1 to W2	(2) W2 to W3	(3) W3 to W4	(4) W1 to W4
Household size	-0.021*** (0.002)	-0.017*** (0.002)	-0.015*** (0.002)	-0.018*** (0.002)
Female	-0.016** (0.008)	-0.032*** (0.009)	-0.043*** (0.011)	-0.057*** (0.011)
Rural	-0.060*** (0.009)	-0.029*** (0.011)	-0.066*** (0.012)	-0.072*** (0.013)
Coloured	0.019 (0.019)	0.074*** (0.025)	-0.015 (0.023)	0.002 (0.027)
Asian/Indian	0.162** (0.082)	0.222*** (0.074)	0.363*** (0.106)	0.410*** (0.088)
White	0.392*** (0.093)	0.529*** (0.107)	0.194 (0.149)	0.274** (0.113)
Own home	-0.012 (0.011)	-0.010 (0.013)	-0.013 (0.014)	0.039** (0.018)
Employed in HH	0.054*** (0.009)	0.075*** (0.009)	0.088*** (0.011)	0.077*** (0.012)
Observations	14,321	13,967	12,955	14,321

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel. Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Having investigated some multivariate relationships between demographic and household-level variables and poverty transitions, we now echo Woolard and Klasen (2005) and Jenkins (2011) by unpacking some key trigger events that are associated with poverty dynamics.

V Trigger events associated with movements into and out of poverty

Demographic versus Income Events

In this section we follow and extend the exposition in Finn and Leibbrandt (2013) by adding the fourth wave of data to our analysis. Given that our poverty line is a threshold of real monthly household income per capita, we can expect changes either through the numerator (income events) or through the denominator (demographic events). The trigger events that we use in this paper are a combination of those found in Jenkins (2011) and Woolard and Klasen (2005). The first kind of demographic event is a change in the household head and/or a change in the composition of the household. This is typically one or more people entering/leaving the household due to birth, migration or death. Thus the dynamics of household composition affects our sample, even though the people entering/leaving the household may not be balanced panel members.⁷ The first category of ‘head or composition changed’ therefore includes headship changes as well as other household formation changes.

The second category is assigned to cases where the head of the household did not change in between waves, but the composition of the household did. Given that the head did not change, it was necessary to determine whether changes in needs outweighed changes in income. This was accomplished by comparing the proportional change in the household size for each individual compared to a proportional change in total household income, following Jenkins (2011). If the proportional change in needs was larger (in absolute terms) than the proportional change in income, then the trigger event ‘needs > money’ was assigned to all individuals in the relevant household.

There are five types of income trigger events. The first three are: Changes in formal earnings of the household head, formal earnings of the spouse of the household head, and formal earnings of any other household members. The final two income triggers are changes in remittance income received by the household and changes in income from government grants received by the household. Income events are ranked according to the size of the change between waves. So, for example, if the household head’s real formal earnings fell by R200, the spouse’s real formal earnings fell by R800 and there was no change in the other income triggers, then the appropriate trigger event is ‘fall in spouse’s formal labour market earnings’. Finally, there is an ‘inconclusive’ category which indicates households in which no clear ranking can be established.

More formally (and assuming that all trigger events are assigned), we borrow notation from Jenkins (2011) to show that the probability of exiting poverty⁸ is made up of mutually exclusive

⁷Each wave of NIDS collects data on all members of the household in which panel members reside, whether or not these members were part of the base wave in 2008.

⁸The notation for the probability of entering poverty via trigger k is easily seen from this example.

events 1 to J .

$$Pr(\text{exit poverty}) = \sum_{j=1}^J Pr(\text{exit poverty via trigger } j)$$

Given that each event 1 to J can be formulated as the product of the probability of poverty exit, conditional on event j , and the probability of event j itself occurring, we have:

$$Pr(\text{exit poverty}) = \sum_{j=1}^J Pr(\text{exit poverty}|\text{trigger } j) \times Pr(\text{trigger } j)$$

It is important to note that although this analysis of demographic versus income events is interesting and useful, we should be very cautious about assigning causality from the trigger to the transition. As Jenkins (2011) notes, it is tempting to say that losing an employed member caused a particular household to enter poverty, but it could also be the case that a household entered poverty first, and this stress caused the household to break up.

The Role of Trigger Events

The first feature to note about Table 8 is the fact that demographic events were more heavily weighted than income events in terms of their importance in explaining transitions both into and out of poverty during the period under study. A demographic change in the household was the main trigger for 56% of individuals who entered poverty between wave 1 and wave 4. A fall in the real formal labour market earnings of the household head was the primary income correlate of entering poverty. This was the primary trigger for poverty entry for about one fifth of those who entered poverty between wave 1 and wave 4. Falling earnings for household members who were not the household head or spouse of the household head triggered poverty entry for between 10% and 14.5% of balanced panel members, depending on which transition is the focus. The shares of falling remittances and falling income from government grants were relatively similar for poverty entry during each of the three time periods under study, and were generally the relevant triggers for between 3% and 5% of balanced panel members.

For those respondents who exit poverty, the head change/compositional change share from wave 1 to wave 4 is almost 14 percentage points higher than its counterpart in the poverty entry category. It is interesting that the needs > money category (no change in the household head but a compositional change in the household) contributes relatively little to the total explanation of poverty exit – dropping to as low as 0.4% for the wave 1 to wave 3 transition.

The income triggers tell quite a different story for poverty exit than they do for poverty entry. An increase in the earnings of the household head is the main poverty exit trigger for almost one quarter of those who left poverty between wave 1 and wave 2, but its importance falls to only 4% for the full wave 1 to wave 4 period. The importance of the earnings of the spouse of the household head are relatively muted over the whole period, reaching a high of

3.9% for the wave 2 to wave 3 transition. An increase in labour market earnings from household members who are not the head or married to the head is the main poverty exit trigger for about 10% of balanced panel members for the wave 1 to wave 4 transition. This share is similar to its counterpart in the poverty entry panel. The importance of increased remittance income is fairly muted for poverty exit triggers, as it was for poverty entry triggers. One significant difference between wave 1 to wave 4 poverty entry and poverty exit triggers is the role of income from government grants. A drop in grant income was the main poverty entry trigger for only 3.5% of those who entered poverty. In stark contrast, an increase in income from government grants was the main trigger precipitating poverty exit for 23% of balanced panel members. This is a reflection of both the success of the targeting and expansion of the state's grant system, and the failure of the labour market to act as the main driver of poverty reduction in the country.

Table 8: Trigger events associated with poverty entry and exit

	Poverty entry				Poverty exit			
	W1 to W2	W2 to W3	W1 to W3	W1 to W4	W1 to W2	W2 to W3	W1 to W3	W1 to W4
Demographic								
Head changed	34.83	49.49	52.02	42.10	34.34	47.50	50.55	55.91
Needs > money	11.70	6.75	12.96	13.73	3.75	0.62	0.37	2.64
Demographic share	46.53	56.24	64.98	55.83	38.09	48.12	50.92	58.55
Income								
Head labour earnings	18.86	15.72	10.02	19.11	23.57	16.99	4.60	4.00
Spouse labour earnings	4.64	1.75	2.82	3.15	2.70	3.86	3.59	1.38
Other labour earnings	14.47	12.45	9.56	10.60	17.58	13.65	10.39	10.19
Remittances	4.67	3.65	3.91	3.98	2.18	5.08	4.50	2.10
Grant income	4.52	3.31	2.26	3.53	9.89	7.39	23.97	23.16
Income share	47.16	36.88	28.57	40.37	55.92	46.97	47.05	40.83
Inconclusive	6.32	6.88	6.44	3.80	5.99	4.91	2.02	0.62
Total	100	100	100	100	100	100	100	100
Observations	963	925	1266	804	1317	1937	2324	3228

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

VI Multidimensional poverty and its interaction with income poverty

Background to the MPI measure

In order to gain a richer understanding of the kinds of deprivations faced by individuals, the multidimensional poverty index (MPI) is a useful starting point. The details of the construction of the measure can be found in Alkire and Foster (2011), and a recent application to South Africa using the 1993 PSLSD survey and the second wave of NIDS can be found in Finn, Leibbrandt and Woolard (2013). A comparison between money-metric and multidimensional poverty using the first three waves of NIDS can be found in Finn and Leibbrandt (2013), and indeed this forms the basis for this section of the paper.

The MPI measure for South Africa used in this study contains nine indicators spread over three dimensions. The education dimension contains indicators for schooling years and enrolment. The health dimension comprises indicators of child mortality and nutrition. Finally, the living standards dimension is made up of five indicators that include cooking fuel, sanitation, water, electricity and a list of assets. All dimensions are weighted equally, and all indicators are weighted equally within each dimension. Thus, for example, the nutrition indicator receives an overall weight of 1/6, while the electricity indicator receives a weight of 1/15.

Indicator-specific poverty lines are defined for each indicator (see Finn, Leibbrandt and Woolard (2013) for more details), and the overall MPI poverty is defined as being deprived in 20% or more of weighted indicators. An alternative MPI poverty line, of deprivation in one third of weighted indicators is also commonly used, but we felt that the 20% cut-off was more appropriate, as the MPI headcount ratio and income poverty headcount ratio are more easily comparable at poverty lines of 20% and R1 283 respectively.

MPI transitions

Table 9 provides the multidimensional poverty transitions for each of the four periods in the study. There are four multidimensional categories which are increasing in the level of poverty. The 0 category applies to those who are not poor in any of the indicators listed previously. The 0-20% category contains those experience some deprivation, but not enough to be classified as MPI poor. Those in the 20-33% category are MPI poor, and are poor in 20% to one third of weighted indicators. Finally, the >33% category applies to those who are the most severely poor according to our measure.

The patterns for individuals in the first two categories (both non-poor) are relatively consistent, irrespective of the chosen transition period. Approximately 87% of those who were not deprived in any indicator in the base wave were still not deprived in the next wave, while about 10% transitioned into MPI poverty. Of those who were deprived in between 20% and one third of weighted indicators in wave 1, almost 53% exited multidimensional poverty by wave 2. This increased to 57% between waves 2 and 3, 58% between wave 3 and wave 4 period, and 66% over the full 2008 to 2014/2015 period.

A major difference between the dynamics of multidimensional poverty and the dynamics of money-metric poverty over wave 1 to wave 4 is the fact that there was far greater movement out of severe MPI poverty than out of severe money-metric poverty. Table 4 showed that 54% of those who were severely money poor in wave 1 were severely money poor in wave 4 as well. From the multidimensional perspective, only 24.6% of those who were severely MPI poor in wave 1 were still severely MPI poor by wave 4. Though the definitions and thresholds of 'severe' poverty are somewhat arbitrary in both cases, it is clear that far more progress has been made in reducing non-money-metric poverty than in reducing poverty as measured by household income per capita.

Table 9: Multidimensional poverty transitions by wave

		Wave 2 Status					
		Poorer →					
Wave 1 Status	Poorer ↓	0	0	0-20%	20-33%	>50%	
		0	84.52%	3.37%	10.57%	1.54%	100
		0-20%	38.84%	22.28%	29.68%	9.20%	100
		20-33%	41.66%	11.05%	35.14%	12.15%	100
		>50%	14.23%	10.21%	34.29%	41.27%	100
		Wave 3 Status					
		Poorer →					
Wave 2 Status	Poorer ↓	0	0	0-20%	20-33%	>50%	
		0	86.68%	2.93%	9.34%	1.05%	100
		0-20%	51.53%	17.94%	22.16%	8.38%	100
		20-33%	46.86%	10.07%	33.79%	9.29%	100
		>50%	27.58%	7.85%	31.53%	33.04%	100
		Wave 4 Status					
		Poorer →					
Wave 3 Status	Poorer ↓	0	0	0-20%	20-33%	>50%	
		0	87.74%	2.36%	8.29%	1.61%	100
		0-20%	48.39%	24.85%	19.14%	7.62%	100
		20-33%	50.66%	7.54%	32.59%	9.20%	100
		>50%	23.24%	9.01%	28.18%	39.58%	100
		Wave 4 Status					
		Poorer →					
Wave 1 Status	Poorer ↓	0	0	0-20%	20-33%	>50%	
		0	88.11%	1.82%	8.40%	1.67%	100
		0-20%	60.21%	16.57%	16.37%	6.84%	100
		20-33%	58.18%	7.61%	25.66%	8.56%	100
		>50%	33.67%	11.69%	30.06%	24.57%	100

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

Cross tabulations of MPI and income poverty

In our final table we present a different kind of transition matrix. In previous tables each row and column represented a ‘state’ (for example, poor or non-poor). Now, each row and column represents a transition - either multidimensional or money-metric. In each matrix, the rows are comprised of the four possible **multidimensional** poverty transition paths non-poor to poor, poor to non-poor, poor to poor and non-poor to non-poor. The same categories apply to the columns, which represent **income** poverty transitions. We are thus comparing MPI transitions

to income transitions rather than MPI states to income states.

Starting with the fourth row in each panel, we see that between 31% and 37% of those who were non-MPI-poor in both waves were also non-income-poor in the same two waves. Interestingly, between 40% and 50% of those who were never multidimensionally poor, were nonetheless income poor in both waves. This speaks to the fact that not only was the income poverty headcount ratio higher than the MPI headcount in each wave, but also that income poverty does not necessarily imply deprivation in other measures of well-being. The strength of the opposite pattern (always MPI poor but never income poor) is far weaker, with only 2% of those who were always MPI poor never being money-poor for the wave 1 to wave 4 transition. A fairly consistent trend is that between two-thirds and 88% of those who experienced transitory MPI poverty (poor in one wave and not the other) were income poor in both waves, while about 10% were income non-poor in both wave 1 and wave 4. This makes the important point that the indicators in the MPI represent the potential to improve livelihoods but this has to facilitate accessing of jobs before it translates into income - something that was shown previously in the section describing the triggers associated with poverty transitions.

Table 10: Mapping multidimensional and money-metric poverty transitions

		W1 W2 Rand				
		Poverty Transitions				
		NP	PN	PP	NN	Total
W1 W2 MPI	NP	7.48	9.63	73.57	9.32	100
	PN	6.20	8.10	81.02	4.68	100
	PP	3.51	4.49	88.39	3.60	100
	NN	8.67	9.98	50.07	31.29	100
		W2 W3 Rand				
		Poverty Transitions				
		NP	PN	PP	NN	Total
W2 W3 MPI	NP	5.19	11.30	73.98	9.53	100
	PN	6.55	11.86	72.60	8.99	100
	PP	4.02	5.97	85.68	4.34	100
	NN	6.13	13.06	47.30	33.51	100
		W3 W4 Rand				
		Poverty Transitions				
		NP	PN	PP	NN	Total
W3 W4 MPI	NP	9.77	15.53	67.23	7.46	100
	PN	4.81	14.09	69.56	11.54	100
	PP	4.42	7.71	80.67	7.21	100
	NN	7.70	14.76	40.31	37.23	100
		W1 W4 Rand				
		Poverty Transitions				
		NP	PN	PP	NN	Total
W1 W4 MPI	NP	7.47	16.95	68.18	7.41	100
	PN	3.68	22.60	66.25	7.46	100
	PP	3.02	12.46	82.18	2.33	100
	NN	6.88	20.80	39.93	32.39	100

Source: Own calculations from the first four waves of NIDS. Attrition-corrected panel weights applied to members of the balanced panel.

VII Conclusion

In this paper we used the balanced four wave sample of NIDS comprising about 17 200 respondents to analyse poverty dynamics in South Africa from 2008 to 2014/2015. Using a poverty line of R1 283 in January 2015 rands we found that the rate of exiting poverty was higher between waves 2 and 3, and between waves 3 and 4 than it was between waves 1 and 2. About 47% of the sample was below the poverty line in each of the four waves in which they were interviewed. Transition matrices showed that 54% of the balanced panel were poor in both wave 1 and wave 4, with more than half in 'severe' poverty - defined as having real household income per capita of less than half the poverty line.

The importance of demographic events in shaping dynamics was highlighted by the role of household composition changes as drivers of poverty entry and exit. Inter-wave demographic changes were the main triggers for 56% of those who entered poverty and 59% of those who exited poverty between wave 1 and wave 4. One needs panel data such as NIDS to disentangle these demographic events from income events. The value of such work is shown here in highlighting the central importance of migration and household instability in driving who gets ahead and who falls behind in contemporary South Africa.

The increasing longer-run importance of access to government grants was highlighted, with grant income being the main trigger precipitating poverty exit for 23% of previously poor balanced panel members between wave 1 and wave 4. By implication this flags as a major concern the muted role of the labour market in driving the dynamics of poverty exit between 2008 and 2014/2015.

Regression analysis highlighted that for both poverty entry and exit, one of the most important factors is whether there is at least one employed individual in the household. Finally, although it is rather difficult to compare transitions into and out of multidimensional poverty to transitions into and out of money-metric poverty, we found that MPI poverty was lower than income poverty in all waves, and that being chronically MPI poor was closely matched by being chronically income poor over the four waves of NIDS.

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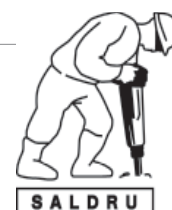
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southern africa labour and development research unit

The Southern Africa Labour and Development Research Unit (SALDRU) conducts research directed at improving the well-being of South Africa's poor. It was established in 1975. Over the next two decades the unit's research played a central role in documenting the human costs of apartheid. Key projects from this period included the Farm Labour Conference (1976), the Economics of Health Care Conference (1978), and the Second Carnegie Enquiry into Poverty and Development in South Africa (1983-86). At the urging of the African National Congress, from 1992-1994 SALDRU and the World Bank coordinated the Project for Statistics on Living Standards and Development (PSLSD). This project provide baseline data for the implementation of post-apartheid socio-economic policies through South Africa's first non-racial national sample survey.

In the post-apartheid period, SALDRU has continued to gather data and conduct research directed at informing and assessing anti-poverty policy. In line with its historical contribution, SALDRU's researchers continue to conduct research detailing changing patterns of well-being in South Africa and assessing the impact of government policy on the poor. Current research work falls into the following research themes: post-apartheid poverty; employment and migration dynamics; family support structures in an era of rapid social change; public works and public infrastructure programmes, financial strategies of the poor; common property resources and the poor. Key survey projects include the Langeberg Integrated Family Survey (1999), the Khayelitsha/Mitchell's Plain Survey (2000), the ongoing Cape Area Panel Study (2001-) and the Financial Diaries Project.



www.saldru.uct.ac.za

Level 3, School of Economics Building, Middle Campus, University of Cape Town
Private Bag, Rondebosch 7701, Cape Town, South Africa

Tel: +27 (0)21 650 5696

Fax: +27 (0) 21 650 5797

Web: www.saldru.uct.ac.za

