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Promises and limits: What the SRD grant tells us about cash transfers in constrained labour markets

Timothy Köhler, Ben Stanwix, and Haroon Borat

How effective are cash transfers in improving labour market outcomes in contexts where jobs are scarce and barriers to self-employment high? We examine the effects of South Africa's Social Relief of Distress (SRD) grant – a small, unconditional cash transfer targeting the unemployed – and find that it increases job search and employment without discouraging work, at least on average. However, in a labour market as structurally constrained as South Africa's, these gains are modest and short-lived, pointing to the need for complementary reforms that go beyond income support alone.

Cash transfers and structural unemployment

In many low and middle-income countries, unemployment is not a temporary or cyclical challenge that ebbs and flows with the state of the economy. Instead, it is largely structural in nature – deeply embedded, persistent, and for most people, entirely involuntary. The unemployed in these settings are not simply "between jobs" or out of work for lack of effort. They cannot find employment because of forces largely beyond their control: too few vacancies, a mismatch between the skills they have and those employers need, high search costs, and barriers to self-employment that prevent them from creating their own opportunities. The costs of such unemployment for individual welfare and society are high, and in South Africa this underpins widespread poverty.

We know that cash transfers are an extremely effective way of alleviating poverty. Globally they have emerged as probably the most popular and cost-effective anti-poverty policy, with additional benefits across a [wide range of outcomes](#) including on educational attainment and both physical and mental health. But most permanent cash transfer programmes typically target so-called "dependent" groups – children, the elderly, and people with disabilities. This reflects the assumption that working-age, able-bodied adults can support themselves through the labour market, alongside a persistent concern that transfers to this cohort create dependency and discourage work. What do we know about how these transfers affect the behaviour of recipients in the labour market? Our best evidence suggests that [the effects of cash transfers on labour market participation are generally small and positive or zero - but rarely negative](#). Rather than fostering dependency, cash transfers can help to remove some of the constraints to finding work

faced by the unemployed, such as [lowering the cost of job search, easing liquidity barriers to productive activity, and subsidising childcare](#).

This means we should seriously consider the role of cash transfers to working-age unemployed adults in certain cases. However, there is a dilemma in cases of structural unemployment - the very conditions that justify targeting this group can also limit how effective transfers are at ultimately improving its employment prospects. For instance, a cash transfer can make it easier to search for work, but cash alone (particularly at the low values typically available in low- and middle-income countries) is unlikely to generate jobs at scale.

So, can cash transfers meaningfully ease the constraints facing jobseekers in labour markets that are heavily constrained? This is the central question we set out to answer in our [new UNU-WIDER Working Paper](#), using South Africa as a case study.

A labour market in crisis, and a cash transfer like no other

South Africa provides an interesting setting to study this question. With an unemployment rate of around 30%, the country's labour market is among the most distressed in the world. At the same time, it has one of the most extensive cash transfer (or social grant) systems in the developing world – disbursing 26 million grants monthly to 19 million recipients at a cost of roughly 3.3% of GDP – more than double the middle-income country average. Yet, while two-thirds of South Africa's population live in a household that receives a grant, before 2020 there was no grant for able-bodied, working-age unemployed adults, leaving approximately 12 million people without access to any regular income.

The Social Relief of Distress (SRD) grant changed this. Introduced in April 2020 as a temporary COVID-19 relief measure, it is a small unconditional monthly transfer of ZAR370 (USD47 in purchasing power parity terms, or around just 15% of median per capita household income) paid to qualifying unemployed adults. It is the first grant in the country's history to use a labour market criterion for targeting, and at its peak it reached 10 million people - 80% of those broadly defined as unemployed. [Existing evidence suggests it is well-targeted to poor households](#) and has [meaningfully reduced extreme poverty](#). Nearly six years later, the grant remains in place and is widely expected to become permanent. This makes the labour market effects of the grant an important policy concern. [Some argue it promotes employment by lowering job search costs](#); while [others contend it could worsen unemployment by increasing public debt and taxation](#). Understanding what a small, monthly cash transfer can and cannot achieve in a highly constrained labour market such as South Africa's is what motivates our research.

What we did

[Our paper](#) builds on work by [Bhorat and Köhler \(2025\)](#), who found modest, positive but short-lived effects of the SRD grant on job search and employment. However, these earlier estimates capture effects under the grant's original design, which has since changed substantially, and the study period - the acute phase of the pandemic in 2020 - was of course characterised by highly unusual macroeconomic conditions that limit generalisation to normal times.

We extend this analysis by considering a largely post-pandemic period (2021 into 2022) that better reflects the grant's current design and a more typical economic context, by

estimating the effects of both receiving and losing the grant, and by examining the direct effects on recipients as well as spillover effects on co-resident household members (that is, adults living with a recipient but not receiving the grant themselves). To do so, we use panel survey data and a staggered difference-in-differences model that exploits changes in grant eligibility over time to estimate the impact of grant receipt and loss. This means that our findings capture the actual effect of the grant, rather than just simple differences in characteristics between recipients and non-recipients.¹

The structural unemployment ceiling: Positive but short-lived effects

Our headline findings may surprise critics: the SRD grant does not discourage people from looking for work or finding employment. On average, receiving the SRD increased recipients' probability of job search by 3.4 percentage points and their attempts to start a business by 1.5 percentage points, translating into a 2.2 percentage point increase in employment. Losing the grant had opposite and often larger effects; for instance, a 7.1 percentage point reduction in job search and a nearly 3 percentage point reduction in employment.

Our analysis suggests the positive effects of receiving the grant are best explained by the grant easing liquidity and insurance constraints – making job search less expensive and starting a business less risky – rather than through other channels, such as subsidising childcare. The results are consistent with [Bhorat and Köhler's \(2025\)](#) findings and most [international evidence](#).

Crucially, however, our existing results suggest that these positive employment effects do not last with continued receipt. We find that the effect is strongest in the first quarter of receipt – a 2.6 percentage point increase in the probability of finding work - but fades to zero and becomes statistically undetectable by the third quarter. Losing the grant tells a different story: the employment effect is negative from the outset and, unlike the effects of receipt, grows larger over time, leaving them worse off in employment terms than before they got the grant.

Together, the above dynamics point to a structural unemployment ceiling. The grant enables a minority of recipients to find work, but for most who continue to receive it, increased participation runs up against the hard reality of too few jobs together with [well-documented barriers to alternatives like self and informal employment](#). This is perhaps unsurprising in a context where most of the unemployed (about two-thirds) are already actively searching for work: the binding constraint is not effort, but job opportunities in either the formal or informal sector.

Beyond the recipient: Spillover effects within households

Examining the grant's impact within households is also important given that labour market decisions are rarely made in isolation and often shaped by shared financial pressures and the division of care responsibilities, among other factors.

Our results bear this out: we find small spillover effects on unemployed co-resident household members - and these run in the opposite direction to the direct effects on

¹ The interested reader is referred to further details in the full paper.

recipients. For instance, on average, when a recipient increases their job search, co-residents reduce theirs. At first glance, this may seem like evidence of dependency, but we argue that this pattern is more consistent with rational household behaviour under financial pressure: the additional household income from the grant temporarily eases financial pressure on other members, reducing the urgency of what may in any case be unproductive job search in a market with too few vacancies.

The reverse makes the point clearly – when the grant is lost, co-residents increase their search activity plausibly to compensate for the lost income. The size of these effects also grows with the number of grants received or lost within the household, again pointing to household liquidity as the key driver. Taken together, these results suggest that the grant's reach extends well beyond its direct recipients, and the household responses it generates look far more like rational adjustments to changing financial circumstances than as evidence of dependency.

Beyond income relief alone: From cash to cash-plus

Our findings contribute to an important policy discussion about the future of the SRD grant. If the primary policy objective is income relief, then the grant delivers, [though there is room for improvement in its design](#).² But if improving labour market outcomes is the goal, then the current design falls short: not because it discourages participation, but because structural barriers prevent increased participation from translating into employment.

This tension is unlikely to disappear. In practice, policymakers want the grant to do as much as possible: supporting basic needs while also improving recipients' longer-run prospects, dual objectives that are not always easy to reconcile. Given that the grant is currently a fixture of South Africa's social protection system, the pertinent question is therefore how to redesign it effectively.

One promising direction is a "cash-plus" model, which complements the existing cash component with targeted labour market support – skills development, public employment programmes, or business start-up support. [Existing evidence suggests such models can yield larger and more durable employment effects](#), and this is consistent with [current policy discussions](#). But the "plus" component is critical. Effective support must be tailored to the actual constraints facing jobseekers: simply incentivising job search in a market with too few vacancies is unlikely to help. In our view, one of the most compelling priorities is to tackle the existing barriers to self- and informal employment, which limit opportunities for those who cannot find formal sector wage employment. South Africa's self-employment rate stands at approximately 15%, which is well below the lower-bound of 30% typical of middle-income economies. Closing this gap would, all else equal, nearly halve the unemployment rate.

Whatever form the SRD takes, it will need to be fiscally sustainable and grounded in a clear-eyed view of what a cash transfer can and cannot realistically achieve on its own.

² Also see Oosthuizen, M. (forthcoming). The Covid-19 Social Relief of Distress Grant: A Comparative Poverty Reduction Assessment. Development Policy Research Unit Working Paper. Development Policy Research Unit, University of Cape Town, South Africa.

About the authors

Timothy Köhler, Junior Research Fellow, Development Policy Research Unit, University of Cape Town. www.econ3x3.org/authors/tim-kohler/

Ben Stanwix, Researcher, Development Policy Research Unit, University of Cape Town. www.econ3x3.org/authors/benjamin-stanwix/

Haroon Bhorat, Professor, School of Economics and Director: DPRU, University of Cape Town. www.econ3x3.org/authors/haroon-bhorat/