

March 2021

**SOCIAL PROTECTION SERIES POLICY BRIEF #1**

**INTRODUCING A UNIVERSAL BASIC INCOME GUARANTEE FOR SOUTH AFRICA**

**TOWARDS INCOME SECURITY FOR ALL**

**SUMMARY**

The introduction of a Universal Basic Income Guarantee (UBIG) is one of the best tools available to reduce poverty, hunger, and destitution. The South African Government has a constitutional obligation to progressively realise the universal right to social security or social assistance within available resources. It is necessary to introduce social security for adults (18-59 years) who currently are not covered. This is particularly urgent with labour markets and incomes depressed.

The possibility of implementing a UBIG for all adults, adult informal-sector workers, the adult unemployed, and adults who are not economically active is explored. It is argued that a universal unconditional grant is preferable due to its reach and ease of administration. A number of levels are considered with the food poverty Line (R585), lower-bound poverty line (R840) and upper-bound poverty line (R1 268) considered as viable starting points. The costs are given for different population groups at these and other levels.

A series of progressive taxation measures are discussed, including the implementation of a Social Security Tax and a Wealth Tax. The value recouped through VAT is also considered.

In addition, the importance of maintaining and increasing the Social Relief of Distress "COVID-19 grant" and Caregiver's Allowance, or incorporating caregivers into the COVID-19 grant, is discussed. Together these grants rescue 5.7 million people from food poverty.

Government can begin to work towards implementing a UBIG immediately.

**RECOMMENDATIONS**

**IMMEDIATELY**

Reinstate and extend the COVID-19 grant until the end of the 2021/22 financial year, drop exclusionary criteria, include caregivers, and increase the level to the food poverty line of R585pm.

**IN THE SHORT TERM**

Implement a UBIG for all adults, at least at the food poverty line of R585 per month, using the R158 billion of tax increases outlined. Assuming a gradual uptake of the grant, this is affordable.

**IN THE MEDIUM TERM**

Implement a wealth tax and use this and the taxes outlined to fund an increase of the UBIG to either the level of the lower-bound or upper-bound poverty lines depending on uptake.

**IN THE LONG TERM**

Engage in a process of social consultation and long-term planning in order to ensure a UBIG sufficient to meet basic needs, and a coherent overall transformation of the social security system.

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# INTRODUCTION

In the context of widespread hunger, declining incomes, and job loss, calls for a Universal Basic Income Guarantee (UBIG) have intensified. In the second quarter of 2020, Statistics South Africa (Stats SA) estimated 2.2 million job losses. In the third quarter of 2020 Stats SA found that only 543 000 of these jobs were regained, meaning a net loss of just under 1,7 million jobs in quarters 2 and 3 of 2020.<sup>1</sup> While it is uncertain how many of these may be regained, this potentially wipes out nearly a decade of job growth. These job losses affected the most vulnerable (women, low income, rural, low/unskilled) more severely. Food insecurity, defined as running out of money to buy food, is at levels at least twice as high as in 2016, with surveys reporting that 37% of households are affected.<sup>2</sup> Hunger is rampant and depressive symptoms have doubled. Currently, approximately 70% of adults (18-64) live below the upper bound poverty line (UBPL) of R1265 per person per month, with approximately 40% living below the World Bank's \$1.90 a day (R436pm) measure.<sup>3</sup>

The special Social Relief of Distress Grant ("COVID-19 grant") of R350 for unemployed adults not currently receiving a grant, the Caregiver's Allowance – an amount of R500 for each caregiver under the Child Support Grant (CSG), and top ups to other grants, all implemented after May 2020 prevented an even more dire situation. Although the rollout of the COVID-19 grant faced administrative challenges, receipt of this has provided much needed relief for millions of previously unreached people. This is in the context of a *highly* strained employment environment where people could not access other means of income generation.

In this context, continuing and improving the COVID-19 grant, incorporating caregivers, until such time as a UBIG can be implemented is essential. Following this, a UBIG can provide a social security safety net to millions currently unprotected.

Interrogating the impact of the UBIG is an important facet of the conversation. A number of studies – including by the Black Sash, Department of Social Development, and Presidency – show the positive impact in South Africa, and internationally, of variants of a UBIG, and income transfers in general, on various social indicators, including poverty, inequality, and hunger, while simultaneously having a range of macroeconomic benefits. The IEJ has commissioned further modelling on these impacts, which will be available in a follow up publication.

## Background to a UBIG

A UBIG is a universal basic income guarantee. It ensures that every person is entitled to a certain amount of monthly income which can be used to cover basic needs.<sup>4</sup> In the context of persistent and increasing unemployment, and the large social protection gap excluding income support to those aged 18-59, it becomes necessary to provide an additional form of social assistance which is not linked to precarious forms of wage

labour. A UBIG for those aged 18-59 is viewed in the short to medium term as a complementary form of social assistance to existing forms of social security and welfare provided by the state. In the longer term there would need to be a process of transforming the entire social protection system. The urgency of the needs now, however, doesn't allow for the country to wait for this comprehensive overhaul.

The design of such a benefit has to have the following features:

- Universal – apply to all;
- Basic – a resource transfer that would make a difference in people's living conditions;
- Income – a cash benefit;
- Guarantee – assurance that the government can provide every person with income necessary to survive.

In the late 1990s and early 2000s a significant push was made by trade unions, other civil society organisations, researchers, religious groups, and parts of government to secure, what was then referred to as, a Basic Income Grant (BIG). In 2002, the Taylor Committee recommended a grant for those who are still currently excluded.<sup>5</sup> This was opposed by some in government as unaffordable. Contestation on comprehensive social security policy in government and society bogged the process down over many years, and a resolution was never reached. As recently as 2019, the ANC adopted a resolution that advanced the objective of providing comprehensive social security. Specifically, to '[d]efine a basket of social security benefits that all should access, with the delivery of a package of services free from administrative burdens'.<sup>6</sup> ANC manifestos committed to finalising a comprehensive social security policy to ensure that no-one fell through the net. However, the main policy intervention from government aimed at addressing the plight of the adult unemployed, albeit partially, was job creation through public works and community works programmes. Finalisation of government policy on comprehensive social security is still awaited.

1. Stats SA. 2020. *Quarterly Labour Force Survey: Quarter 2 and Quarter 3: 2020*.

2. Bridgman, Van der Berg, Patel. 2020. *Hunger in South Africa during 2020: Results from Wave 2 of NIDS-CRAM*.

3. Jain, Bassier, Budlender, Zizzamia. 2020. *The labour market and poverty impacts of COVID-19 in South Africa: An update with NIDS-CRAM Wave 2*.

4. Other proposals use variations of acronyms (UBI, BIG) generally denoting very similar policy measures. In this brief we use "UBIG", except when referring to other proposals that use another of the acronyms.

5. The Taylor Committee. 2002. *Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa*.

6. African National Congress. 2019. *2019 Election Manifesto*.

## In favour of a UBIG

Social grants have been post-apartheid South Africa's most effective weapon against extreme poverty. By contrast, the labour market has failed as a mechanism to progressively reduce poverty in South Africa. This is because average real wage growth has not breached 2% per annum, at least between 2000 and 2015 for the bottom 80% of income earners,<sup>7</sup> combined with steadily increasing unemployment. Social grants' role in relieving extreme poverty, is illustrated by the 20% of households who report social grants as their main source of income.<sup>8</sup> This follows the significant expansion of social grant assistance, increasing from 13% of individuals in 2003 to 31% in 2018, and from 31% of households to 44% over the same period.<sup>9</sup> These grants enable people to provide a better standard of living for themselves, family members, and dependants.

This money, while insufficient, has partially staved off hunger and generated demand in the economy. Poor people immediately spend a higher portion of their income, and do so on a higher share of locally-produced goods.<sup>10</sup> Cash transfers benefit groups who often perform unpaid labour, including women, caregivers, and pensioners.

International evidence from a range of countries have highlighted the promising positive effects of a UBIG, many of which counter the harmful effects COVID-19. A study from Kenya over the course of the pandemic shows that cash transfers reduced hunger, skipped meals, and had small improvements to dietary diversity.<sup>11</sup> Cash transfers have also been shown to decrease detrimental coping strategies such as selling assets at low prices that stunt incomes and productivity.<sup>12</sup> With the school year being affected by COVID-19, cash grants reduce secondary school dropout and increase enrolment,<sup>13</sup> as well as increase attendance.<sup>14</sup> This is especially important for young women. A UBIG is likely to assist in job-searching activities too, especially considering the relatively high cost of job-searching in South Africa.<sup>15</sup> However, this needs to be coupled with job availability.<sup>16</sup> Grants also show the prevention of damage to subsistence employment activities by protecting peoples' ability to earn an income from informal sector activities. In agriculture, unconditional cash transfers increased the amount spent on agricultural inputs.<sup>17</sup> There is also evidence that a

basic income significantly increases the number of households involved in non-farm income generating activities.<sup>18</sup>

It is therefore incorrect to see grants as either a "hand out" or something which substitutes for economic activity. Rather grants reward unpaid labour, support sources of other income, encourage human capital development, and form a crucial part of a broader ecosystem that grows the economy and supports livelihoods.

The government has, until recently, built a relatively functional mechanism for putting money into the hands of caregivers, pensioners, and the disabled. However, the system has a dysfunctional element, in that a large grouping of adults without income support are forced to rely "second-hand" on access to child and elderly grants. This illustrates a gap in the system and results in these grants being unable to support the groups they are targeted at. The current exclusion of most of the able-bodied adult unemployed between the ages of 18 and 59 is presumably premised on the assumption that they can earn income in the labour market. While efforts must be made to expand employment opportunities, the goal of full employment will not be realised in the foreseeable future. In a country with chronic underemployment and unemployment, grants cannot be limited to the "deserving poor".<sup>19</sup>

An expansion of the system of cash transfers, towards a guaranteed income for all, will enhance the benefits noted, and will create greater cohesion in the system. It will increase the incomes of both the unemployed and working poor.

The South African constitution guarantees the universal right to social security or social assistance and stipulates that the government has to move towards progressively achieving this outcome within available resources.<sup>20</sup> This Constitutional requirement is reinforced by South Africa's commitments in terms of international law. In 2018, South Africa was reviewed regarding its progress towards fulfilment of binding obligations within the International Covenant on Economic, Social and Cultural Rights. The reviewing committee raised a number of concerns, including the limited nature of social security protections. In particular, their concluding observations noted that the current social grant levels were insufficient to provide an adequate standard of living for all, and that the adult unemployed were excluded by the existing grant system. As a result, they recommended consideration of the introduction of a universal basic income grant.<sup>21</sup>

7. Bhorat, Lilenstein, Oosthuizen, Thornton. 2020. *Wage polarization in a high-inequality emerging economy: The case of South Africa*. WIDER Working Paper 2020/55. Available: <https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-55.pdf>

8. Stats SA. 2019. General Household Survey 2018.

9. Ibid.

10. Compared with the economy-wide average import propensity. See: *A Fiscal Stimulus for South Africa* by Sibeko & Isaacs. Available: <https://iej.org.za/a-fiscal-stimulus-for-south-africa/>

11. Banerjee et al. 2020. *Effects of a Universal Basic Income during a pandemic*.

12. Gentler, Martinez, Rubio-Codina. 2012. *Investing Cash Transfers to Raise Long-Term Living Standards*.

13. Eyal & Woolard. 2013. *School Enrolment and the Child Support Grant: Evidence from South Africa*.

14. Baird, et al. 2013. *Relative effectiveness of conditional and unconditional cash transfers for schooling outcomes in developing countries*.

15. Carranza et al. 2020. *Job Search and Hiring with Two-Sided Limited Information about Workseekers' Skills*. World Bank Policy Research Working Paper 9345.

16. Banerjee & Sequeira. 2020. *Spatial Mismatches and Imperfect Information in the Job Search*.

17. Bastagli et al. 2016. *Cash Transfers: What Does the Evidence Say? A Rigorous Review of Programme Impact and The Role of Design and Implementation Features*.

18. Ibid.

19. Dawson & Fouksman. 2020. *Why South Africa needs to ensure income security beyond the pandemic*. The Conversation. Available: <https://theconversation.com/why-south-africa-needs-to-ensure-income-security-beyond-the-pandemic-137551?fbclid=IwAR2VQ5qwKv0ZvVJWt2qBfB17xLpfrs9p-TMS0xDJPxnDk0q0mOrpi9Rhni4>

20. Studies in Poverty and Inequality Institute (SPII). 2016. *Gap Analysis Report and Performance Monitoring Framework*. Available: <http://spii.org.za/wp-content/uploads/2018/05/2016-SPII-Gap-Analysis-and-Monitoring-Framework-for-the-SAHRC.pdf>

21. South African Human Rights Commission. 2018. *Policy Brief: Basic Income Grant*.

## The current grant system

As noted, the current grant system excludes most of the able-bodied adult unemployed between the ages of 18 and 59. As shown in Table 1, the two most widely-accessed grants are the Child Support Grant (CSG), provided to those below the age of 18 via their caregiver, and the Older Persons Grant (OPG), covering those 60 and above. Despite their importance, the current amounts of the grants, particularly the CSG, are problematically low, and are, in fact, spread thinly within households. The CSG – despite being the most effective grant available to reduce food poverty<sup>22</sup> – is set at R440, below the food poverty line of R585 per person per month.

**Table 1: Social assistance measures, amounts, and recipients.**

Type	Amount (ZAR, as at 1 April 2020)	Recipients ('000)	Total Annual Spend (R bn)
Child Support	440	12 777	67.5
Old Age <sup>23</sup>	1 860	3 655	81.6
Disability	1 860	1 058	23.6
Foster Care	1 040	350	4.4
Grant in Aid	440	222	1.2
Care Dependency	1 860	155	3.5
<b>Total</b>		<b>17 996</b>	<b>181.66</b>

Source: Grant amounts from SASSA's *You and Your Grants 2020/21*, available: <https://www.sassa.gov.za/publications/Documents/You%20and%20Your%20Grants%202020%20-%20English.pdf>; recipients based on 2019/20 revised estimates from National Treasury's *Budget Review 2020*, available: <http://www.treasury.gov.za/documents/National%20Budget/2020/review/FullBR.pdf>

Note: Total annual spend differs from National Treasury's expenditure totals due to changes to grant amounts over the measurement period. The estimate given by National Treasury is R175bn.

## Special COVID-19 grants

In the midst of the COVID-19 pandemic, a COVID-19 grant of R350 was implemented. The grant is available to those above the age of 18, are South African citizens, permanent residents or refugees registered with Home Affairs, not currently employed or receiving any form of income, not currently receiving a grant or other government COVID-19 support (including an exclusion

of caregivers who receive a grant on behalf of their dependant), not receiving an Unemployment Insurance Fund (UIF) benefit nor qualifying to receive UIF benefits, not receiving a stipend from NSFAS or other financial aid, and are not resident in a government funded or subsidised institution.<sup>24</sup> This is estimated to be between 9.5 and 13 million eligible people (a wide range depending on how eligibility is assessed, for example, in practice it is difficult to exclude informal workers or unregistered workers receiving some form of income).<sup>25</sup>

Access has been patchy. According to the Department of Social Development, between 4.4 and 4.8 million people were paid the grant each month, between May and August 2020<sup>26</sup> (the number of reported grants paid varies per month). By the end of November 2020, SASSA reports 6.9 million applications had been approved.<sup>27</sup> Many people have had great difficulty in accessing the grant, with applications taking a long time to process, leaving people without income for months during some of the most difficult periods of the lockdown. There is also no clear and frequent public reporting of the uptake of the grant, and those not receiving communication from SASSA have no avenue of appeal.<sup>28</sup> Despite the under-coverage of the COVID-19 grant, it has been relatively pro-poor in terms of its recipients.<sup>29</sup> The grant has brought millions into the social assistance system, who were not previously receiving any other income support. This grant was due to expire at the end of October 2020, but was extended for three months until end January after considerable pressure from civil society organisations. The President announced a further three-month extension in the February 2021 State of the Nation address. However, demands for the increase of this grant and the Caregiver's Allowance to the food poverty line of R585 per month were not met, caregivers were not included in the COVID-19 grant or the Caregiver's Allowance extended, and three months remains an insufficient extension period.<sup>30</sup> This is currently the subject of a campaign, and meetings have been sought with government to achieve its extension and improvement.<sup>31</sup>

All grants, apart from the CSG, received an increase of R250 from May to October 2020. The CSG, however, received an initial increase per child in May of R300, and then returned to its pre-COVID-19 level once the Caregiver's Allowance of R500 was implemented. These increases provided those recipients with additional support against destitution and hunger, benefitting approximately 17 million people already within the social assistance circle. In an environment where incomes are depressed, labour market opportunities are scarce, and basic needs are

22. Devereax & Waidler. 2017. *Why does malnutrition persist in South Africa despite social grants?* Food Security SA Working Paper Series No.001. DST-NRF Centre of Excellence in Food Security, South Africa

23. Includes War Veterans, which are negligible in size.

24. SASSA. 2020. *Special COVID-19 Social Relief of Distress Grant: What is the qualifying criteria for the special COVID-19 Social Relief of Distress Grant?* Available: [https://www.sassa.gov.za/Pages/COVID-19\\_SRD\\_Grant.aspx](https://www.sassa.gov.za/Pages/COVID-19_SRD_Grant.aspx)

25. Borat, Kohler, Oosthuizen, Stanwix, Steenkamp. Thornton. 2020. *The Economics of Covid-19 in South Africa: Early Impressions*. DPRU Working Paper 202004.

26. Department of Social Development. 2020. *Social Development Portfolio Update on Measures Put in Place to Respond to COVID-19 Pandemic: 14 October 2020*.

27. South African Government News Agency. 2020. *R13.5bn distributed in social relief*. Available: [sanews.gov.za](https://www.sanews.gov.za)

28. C19 People's Coalition. 2020. *Media Statement: No to the termination of the Special COVID-19 Grant!* Available: <https://c19peoplescoalition.org.za/media-statement-no-to-the-termination-of-the-special-covid-19-grant/>

29. Kohler, Borat. 2020. *Social assistance during South Africa's national lockdown: Examining the COVID-19 grant, changes to the Child Support Grant, and post-October policy options*.

30. A Black Sash court case brought for the renewal of the Caregiver's Allowance, supported by IEJ expert evidence, was rejected on procedural grounds. Civil society organisations have expressed their concerns about various aspects of the partial extension, which are highly prejudicial, particularly to women see [Coalition Statement: President's inadequate grant announcement is deeply anti-women and anti-poor – C19 People's Coalition](#).

31. C19 People's Coalition. 2020. *Media Statement: #PayTheGrants Joint Statement: Response to State of the Nation Address extension of the COVID-19 SRD*. Available: <https://www.iej.org.za/wp-content/uploads/2021/02/SONA-relief-grant-extensions-.pdf>

increasingly difficult to meet, it would have been prudent to continue with the pandemic amounts of these grants. Below, we detail the costing which would have been required to continue with these increase amounts for these grants. An alternative option would have been to include increases to the CSG per child of R300 – see the costing below.

**Table 2: Additional Cost of grant top-ups (R million)**

Grant Type	# Grants	Increase / month	5 Months	12 Months
Care dependency	143k	R250	178	429
Caregiver allowance	7.1m	R500	17 829	42 791
CSG per child	12.7m	R300	19 165	45 997
Disability	1m	R250	1 297	3 114
Foster care	253k	R250	316	760
Old age	3.7m	R250	4 588	11 012

Note: War Veterans grant increase is excluded due to negligible additional cost. Costings for the continuation of the CSG per caregiver and per child are included. Note the similar cost of changing the CSG increase to per child at a lower increase amount. Grant in aid not included due to no increase.

The most urgent priority for government is to continue and improve these emergency measures until such time as a UBIG

is implemented, hopefully within one year, particularly the COVID-19 grant, and to incorporate caregivers into the COVID-19 grant. Between 1.9 and 4.7 caregivers would be eligible for the COVID-19 grant. This will provide important support to those without income or other government support, especially in the context of a depressed labour market. Whilst civil society has appropriately called for the COVID-19 grant to be increased to at least R585, its extension at current levels until a UBIG is introduced would certainly be better than abolishing it. Although the amount of R350 per month makes it difficult to live in any decent manner, the amount is similar to the per capita household income of the bottom 10% (R352 pm).<sup>32</sup>

The stringency of application criteria should be drastically relaxed. The requirement of zero other income is inappropriate in the context of labour market income being insufficient to support households even before the pandemic. This has been aggravated by widespread retrenchments, working-hour reductions, and the cessation of wage support mechanisms (TERS) from October. Further, those that receive other social assistance should not be excluded from this grant. CSGs are received by caregivers on behalf of the child and are not meant to be social assistance for the caregiver. The Department of Social Development has made a number of important recommendations to improve the administrative processes.<sup>33</sup>

Note: We outline the cost of extending and improving the COVID-19 grant in table 7 below.

## EXISTING UBIG PROPOSALS

A number of proposals have been made with regards to the implementation of the UBIG\*. Here we review a small number of these that have gained traction, before proceeding to evaluate and cost a series of options.

\*As noted above, proposals use variations of acronyms (UBI, BIG) generally denoting very similar policy measures. In this brief we use "UBIG" to denote a universal grant, except when referring to other proposals that use another of the acronyms, or only target a select group.

### Social Transformation Committee

The ANC Social Transformation Committee's (STC) presentation to the National Planning Commission Plenary in August of 2020 detailed a staged approach to a UBI Grant for all before 2030, but a grant for all adults would only be introduced in 2024. The paths towards this end consisted of including those aged 58 and 59 without income within the OPG in 2021, whilst continuing to register all job seekers between 18-59 and channelling youth into training and work placements. By 2024, those aged 55-57 without income would receive the OPG, whilst introducing a UBI Grant to those economically active but

unemployed aged 19-59 at R500 per person per month, with an estimated 50% uptake of the economically active population. Finally, a UBI Grant for all is envisioned before 2030 in order to meet NDP and SDG goals of reducing food poverty to zero. The financing of this consists of the reclaiming of the full UBI amount from all employed people,<sup>34</sup> and then funding the balance through additional taxation measures. The level of R500, although below the food poverty line, removes people from food poverty according to the STC (assuming some other nominal form of household income is available). Table 3 shows the total annual cost of providing those aged 19-59 with a monthly R500 UBI Grant.

**Table 3: STC Total cost of a BIG of R500 pm (R billion)**

Universal Basic Income Grant	Population Count	Gross Cost (R billion)
19 - 59	32.96m	197.78

Source: Social Transformation Committee: Basic Income Grants, Social Relief and Food Security (2019: 11)

32. South African Presidential Economic Advisory Council. 2020. Briefing notes on key policy questions for SA's economic recovery: October 2020.

33. Department of Social Development. 2020. Social Development Portfolio Update on Measures Put in Place to Respond to COVID-19 Pandemic: 14 October 2020.

34. This would require a special mechanism if it is to be applied to all employed, including those below the income tax threshold of around R85k pa. Consideration could be given to applying such a clawback mechanism only to workers earning above the NMW full time equivalent.

## Department of Social Development

The Department of Social Development (DSD), drawing on advice from the STC (see above), begins by adopting National Treasury's claim of limited fiscal ability to fund a UBI Grant. Their suggestion is to roll out an income Grant to more at-risk age groups first, whilst expanding the range of coverage over a three-to-five-year period. This is in contrast to providing a smaller amount to a larger number of people. The DSD suggests an initial rollout to youth (18 to 24/35) and the elderly (50 to 59) as they face increased precarity in the labour market, as well as being less equipped to weather the uncertainty that the pandemic has brought. The Department also notes the need to combine income support with access to labour markets and training opportunities, especially for youth that are not in employment, education or training (NEET). Financing concerns are balanced by the DSD by outlining how increases in taxes for the purpose of increasing transfers will likely be neutral and serve a redistributive purpose. Notably, the DSD highlights the administrative challenge that the disbursement of an Income Grant to large groups presents, learning from the bottleneck and exclusions prevalent in the rollout of the COVID-19 grant. The need to increase capacity at SASSA is paramount to the impact that any income support measure will have.

**Table 4: DSD Total Cost of a BIG Per Year Per Age Group (R billion)**

Age Group	FPL R560	LBPL R810	UBPL R1200
18-21	24.5	35.5	52.5
18-24	42.6	61.6	91.3
18-35	116	167.9	248.7
36-59	80.7	116.8	173
36-50	56	81	120
50-59	24.7	35.7	53
55-59	11.1	16	23.8
18-59	196.8	284.6	421.6

Note: Figures rounded to nearest decimal.

## Black Sash

As shown in Table 5, the Black Sash costs grants for three groups of grantees – all citizens, all unemployed, and youth unemployed – at two levels of R561 and R1227 (a cost for all citizens at R1227 is not given). These two amounts are based on the 2019 food poverty and upper-bound poverty lines respectively, and the 2019 population estimates. They highlight the possibility of a staggered introduction of Basic Income Support to the groups listed. This would lessen the strain of funding the grants, especially in a difficult COVID-19 economic environment, whilst still giving support to some of those who need it, but would have the disadvantages of being a means-tested grant. The groups suggested could be amended to prioritise people outside of the labour force who receive no labour market compensation or other social support. Black Sash recommend financing through government expenditure re-prioritisation from low-impact programmes, money returned via VAT, consumption

tax increases (on luxury goods), ensuring the full collection of corporate taxes, fiscal drag, minimising illicit financial flows, using UIF surpluses, increasing carbon taxes, and through the longer-term savings of government expenditure on health, crime prevention, and other areas.

**Table 5: Black Sash Total Cost of Basic Income Support Per Year (R billion)**

Group	Number of people	R561	R1 227
All citizens	56.5m	383	--
Unemployed (18-59)	10.4m	70	153
Unemployed (18-35)	6m	40.4	88.3

Note: No proposal was made for all citizens at the R1 227 per month level, and thus is excluded.

## COPAC

COPAC have suggested consideration of six different levels for a UBI Grant to be set at, for the population aged 18-59. R1 280, just above the 2019 upper-bound poverty line of R1 227; R2 500, proposed as a means to "extend Covid relief social grants and integrate for all"; R3 500, close to the basic basket of essentials (R3 470.92 for May 2020) and below the national minimum wage (R4 045); R4 200, purportedly beyond a poverty wage; R7 326, for a decent standard of living; and R12 500, the Marikana-inspired "living wage". The costs are shown in Table 6. COPAC suggests the UBI Grant would be subject to progressive taxation for those earning more than R240 000 per annum. They further suggest taxation on wealth, income, corporate income, carbon emissions, natural resources, and anti-tax avoidance measures to finance the grant.

**Table 6: COPAC Total Cost of a Basic Income Grant Per Year (R billion)**

Group	Number of people	R1 280	R2 500	R3 500	R4 200	R7 326	R12 500
18-59	33.97m	521	1 018	1 425	1 710	2 983	5 090

Source: Author's calculations based off COPAC's suggested amounts.

## Comments on existing proposals

These proposals add important content to the public debate, including proposed levels, means of implementation, and funding sources. There are, however, a number of weaknesses:

- The "phased" proposals involve somewhat complex processes of targeting that may make implementation more cumbersome and less effective;
- Outdated poverty line levels are used in some proposals;
- Tax proposals are not fully quantified, and are sometimes regressive; and
- In some, firm recommendations between the various options are not given.

The analysis and proposals made here seek to enrich the public conversation by addressing some of these gaps.

# UBIG PROPOSALS AND COSTING

We now present a series of basic income options and our calculated costing.

## Maintaining the COVID-19 grant

As noted above it is crucial to maintain the COVID-19 grant in the face of the pressing concerns of hunger, job loss, and income insecurity. Table 7 shows the cost of this at three different levels of uptake – the 6.9 million approved recipients announced by SASSA as of November 2020, with a higher and lower estimates of eligible caregivers. It shows the cost for both the current amount of R350, and the FPL of R585. It gives these costs per month and for a 12-month period.

At November 2020 approval levels, the cost of maintaining the grant at R350 for 12 months would only be R29 billion. Given its significant impact this is a policy “no brainer”. Even if grant recipients grew to include the maximum eligible estimates of caregivers the grant is still affordable (see next section). Even more effective would be increasing the level to, at least, the food poverty line. At uptake by 6.9 million beneficiaries, for 12 months, this would cost R48 billion, rising to R62 billion if the lower range of caregivers were included. Again, given the massive benefit this would have, it should be a serious policy consideration.

**Table 7: Costing of extension of COVID-19 grant (R billion)**

Eligible for receipt	Number recipients	1 MONTH EXTENSION		12 MONTH EXTENSION	
		R350	R585	R350	R585
Current*	6.9m	2.4	4.0	29.0	48.4
Current + 1.9 million caregivers	8.8m	3.1	5.1	37.0	61.8
Current + 4.7 million caregivers	11.6m	4.1	6.8	48.7	81.4

\* Approved beneficiaries as of November 2020. Beneficiaries actually paid out may be lower than approved beneficiaries.

## Reinstating the Caregiver’s Allowance

The Caregiver’s Allowance of R500 per month per caregiver has also been vital in supporting women and those with young dependents. Table 8 shows the cost of extending the grant per month and for a period of 12 months, at the current R500 and an increase to the food poverty line of R585 per month. The extension of the Caregiver’s Allowance per month at R585

would only cost R4.2 billion, and R50 billion for 12 months. This increase and extension supports millions directly, though not adequately when shared between other household members. This reinforces the importance of extending the COVID-19 grant to those receiving other grants.

**Table 8: Total cost for the extension of the Caregiver’s Allowance at various levels (R billion)**

Number recipients	1 MONTH EXTENSION		12 MONTH EXTENSION	
	R350	R585	R350	R585
7.1m	3.6	4.2	42.8	50

Research has shown that the increase of the COVID-19 grant and Caregiver’s Allowance to R585 per month each, at these uptake levels, would save approximately 6.8 million people from hunger.<sup>35</sup> If grants to caregivers and the unemployed are not extended beyond April 2021 therefore, millions more people will go hungry. While also continuing the other COVID-19 grant tops up would be ideal, continuing and increasing the COVID-19 grant, and incorporating caregivers into this grant is clearly the priority. The pandemic is not over, further waves of the pandemic are predicted, and this support is crucial in cushioning the increases of poverty, inequality, and hunger.

## Scenarios for a UBIG

As is visible in the proposals already made, there are various permutations to the UBIG, in particular who should get the grant and at what level it should be set.

### What should the level of a UBIG be?

It is important we set an aspirational target for the level of a UBIG to be achieved over the medium to long term. This level could be commensurate with the national minimum wage, decent living level, or living wage. Determining this level should involve a broad range of stakeholders. As seen in the COPAC proposal, such levels would require anywhere from a 30% to 300% increase in *total* national budget expenditure. The higher end of this range is not feasible in the near term. We therefore focus on costing scenarios using poverty lines given in 2020 Rands, while including two higher levels of R2 500 and R3 500 for illustrative purposes. By targeting poverty lines, the UBIG would result in the substantial reduction of poverty. These poverty lines are given in Table 9.

35. Bassier & Leibbrandt. 2020. *Social Protection in Response to COVID-19*.

**Table 9: Poverty Lines and amounts in April 2020 ZAR**

Poverty Line	2020 Line Values (ZAR)
Food poverty line (FPL)	585
Lower-bound poverty line (LBPL)	840
Upper-bound poverty line (UBPL)	1268

Source: Stats SA. 2020. Available: <http://www.statssa.gov.za/publications/P03101/P031012020.pdf> (Based on April 2020 prices which are likely to have increased)

### Who should get the grant?

The goal of a UBIG should be to make it *universally* applicable, that is, everyone is eligible (although, as shown below, those earning above certain levels will be taxed to “claim back” the grant). We provide costing for seven groups, all consisting of people aged 18-59, to build a picture of available options for phasing a universal grant in. These groups are all people who are of working age, have families to support, and are offered the least social assistance in other forms. A partial or targeted BIG, introduced as a step towards a universal income guarantee, could cover one, or a combination of these groups (who have overlapping membership). Alternatively, a UBIG could be introduced for all those aged 18-59. The latter is our preference as outlined in the recommendations.

- **All.** All people between the ages of 18-59. Not dependent on any other criteria.
- **All, but with partial uptake (60% or 80% uptake).** It is unlikely that the UBIG will be accessed by all even if available to them. This is because this group includes those with other forms of income who will likely not self-select for receipt of the grant. There may also be geographical disparities, administrative inefficiencies, and lack of procedural knowledge from potential recipients that reduce uptake of the grant. We therefore include groups at 60% and 80% of the total cohort (the rationale for these levels are discussed further below).
- **Informal sector workers.** Informal sector workers are given as a specific group due to their relatively higher precarity in the labour market, though active participants. The informal sector sees a higher share of women than the formal sector and is less regulated. Incomes are lower than those in formal sector employment, and a UBIG would create larger benefits for these workers as a result.
- **Unemployed.** Unemployed people are included due to no labour market compensation. This is defined in the expanded sense (there is therefore an overlap with the NEA group which also includes discouraged work seekers and those with other reasons for not searching for employment).
- **Not Economically Active (NEA).** These are people outside of the labour market, which are not classified as unemployed. For example, unemployment figures would exclude those running households who are primarily involved in unpaid care work and who are without income. This also includes discouraged workers and those with other reasons for not searching for employment.

- **Not formally employed (NFE).** Includes those who are employed in the informal sector, those who are unemployed, and those not economically active. These groups are near impossible to differentiate administratively.

Given the volatility of the labour market due to the lockdown and the return to work, the people moving between the informal sector, being unemployed, and not economically active are likely to be frequent and high in volume. These groups, while commonly separated in surveys, are almost impossible for grant administrators to distinguish in practice. A grant aimed at the “unemployed” would necessarily have to include the NEA and informal sector workers, who could simply claim to be unemployed. Similarly, it would be difficult to target the informal sector and could risk creating a perverse incentive for informalisation. Only via UIF contributions or PAYE data could the formally employed be distinguished and potentially excluded. As such, costings should include a combination of the latter three groups identified above – the “not formally employed”. This also avoids artificial shrinking of the “unemployed” as people move to not being economically active.

The number of people within each group is based on Stats SA’s [third quarter (Q3)] Quarterly Labour Force Survey (QLFS). Results from Q2 showed significant changes in unemployment due to COVID-19. Specifically, 2.2 million jobs were lost, but the number of job seekers also fell, leading to a statistically lower unemployment rate (by the narrow definition). If a reversion towards pre-pandemic labour market dynamics occurs, we would expect a large increase in those unemployed as people are able to look for work, a large increase in informal workers, and a substantial decrease in the number of those NEA as employment (and unemployment) recovers. The update from QLFS Q3 confirms the beginning of this reversion to pre-pandemic levels, with mild recoveries in employment (increase of 543 thousand), increases in those unemployed, and decreases in those NEA. The net result on those not formally employed is a slight decrease due to the increase in the number of those employed.

The tumultuous changes within the various labour market definitions highlight the difficulty of targeting a specific segment within it. This is a considerable administrative challenge should a portion of the labour market be targeted, as experienced with the challenges of the rollout of the COVID-19 grant. A UBIG to all would mitigate these challenges.

Table 10 shows the annual costings for the introduction of a UBIG for different groups, at the amounts listed above. As visible, a UBIG for all adults between 18 and 59 at the food poverty line would cost R239 billion per annum, and R343 billion and R519 billion at the lower-bound and upper-bound poverty lines respectively. A UBIG targeted at the “not formally employed” (NFE) and set at the upper-bound poverty line would cost R341 billion, and R226 billion and R157 billion at the lower-bound and food poverty lines respectively, all per annum. For 80% of all adults the cost would be R192 billion, R275 billion, and R415 billion for the three poverty lines respectively, and 60% R144 billion, R206 billion, and R311 billion respectively.



**Table 10. Total annual cost of a Universal Basic Income Guarantee at different levels (R billion)**

Group (18-59)	Number of people	FPL (R585 pm)	LBPL (R840 pm)	UBPL (R1268 pm)	R2500 pm	R3500 pm
All	34.1m	239	343	519	1023	1432
All (80%)	27.3m	192	275	415	818	1146
All (60%)	20.5m	144	206	311	614	859
Informal Workers <sup>36</sup>	2.5m	18	25	38	76	106
Unemployed	11m	78	111	168	332	464
NEA	13.4m	94	135	203	401	561
NFE	22.4m	157	226	341	672	940

Source: QLFS 2020:Q3.

Note: Unemployed is by expanded definition. NEA denotes those not economically active. NFE denotes those not formally employed. An additional annual cost estimate for an additional 1 million people by any definition would be R7bn at the R585 level, R10bn at the R840 level, R15.2bn at the R1 268 level, R30bn at the R2 500 level, and R42bn at the R3 500 level.

Most of the costings estimated in Table 10 assume a 100% uptake rate of a UBIG within each group. In practice, however, this may be substantially lower. For the unemployed and informal sector workers, geographical disparities, administrative inefficiencies, and lack of procedural knowledge from potential recipients would reduce uptake of the grant. Those NEA face the same but also include those with incomes who choose not to work, for example, those in affluent households who are not breadwinners, who are unlikely to self-select in. The “all” group would be smaller because of all these reasons, and because a fair portion included here are formally employed with reasonable incomes.

The gradual uptake of other grants provides important lessons:

- The Child Support grant was introduced in 1998. The eligible age range was extended from those aged 0 to 7 years of age to all those 18 years and younger in a staggered fashion.<sup>37</sup> The level of uptake within the eligible group at the time also grew gradually over time, from 30% coverage in 2003 and 45% in 2006,<sup>38</sup> to 82.5% of eligible recipients in 2016.<sup>39</sup> Most prominent exclusions<sup>40</sup> were due to not having the right documentation and that caregivers had not gotten around to applying.<sup>41</sup>
- The Older Persons Grant suffers from a history of exclusion during Apartheid and it is difficult to proxy an uptake rate. However, the upper range of uptake is around 80% of those eligible.
- The implementation of the COVID-19 grant in May 2020 resulted in 6.6 million applications, of which 4.4 million were approved and paid. This is approximately 34-46% of those eligible to receive the grant.<sup>42</sup> By August, the number of applications grew to 8.3 million, of which 5.6 million were approved, and 4.56 million paid. There has been little increase in those paid over the course of the grant’s duration, yet applications have increased by some 27%, to 43-59% of those eligible to receive the grant.

This gives some indication as to what uptake of a UBIG will be, although it is vital to consider the relatively stringent eligibility criteria that the various grant carry. Uptake in the first year may be as low as 60% in the first year and may never reach higher than around 80% in subsequent years.

## Targeting and conditionality

The targeting criteria of a UBIG determines who qualifies to receive it based on a range of demographic and socio-economic factors. Whilst limiting the pool of recipients through targeting, it also allows for the amount disbursed to be increased, all else being equal. In the context of finite resources, there is a trade-off between increasing the pool of recipients and the amount which they receive.

Targeting, generally, experiences greater allocative inefficiencies. There is a question as to who to target and on what grounds, as well as the administrative inefficiencies that hamstring their effective rollout. Further, setting multiple criteria (as with the COVID-19 grant) tends to exclude people unjustly. With a rapidly changing labour market structure, little administrative capacity, and a history of inefficient rollouts, setting targeting criteria other than age seems unlikely to be effective. This also excludes a UBIG as being established as a fundamental right as per national and international commitments.

Providing a UBIG to all aged 18-59 negates these challenges. It allows for the closing of a major gap in South Africa’s social assistance net, as well as recognises the assistance as a fundamental human right. The positive welfare and economic effects of an untargeted, universal UBIG are likely to be larger too as more people are given additional spending power. However, there is a danger of setting the UBIG at too low a level should appropriate and urgent financing interventions not be implemented, which would negatively decrease the guarantee’s impact.

36. This refers to informal sector workers only (not domestics, precariously employed etc.)

37. Katherine Eyal. 2016. *Follow the Child: The Effect of an Unconditional Cash Transfer on Adolescent Human Capital and Mental Health*.

38. Centre for Global Development. nd. *A Step Up for the Children Apartheid Left Behind: South Africa’s Child Support Grant*. Available: <http://millionsaved.cgdev.org/case-studies/south-africas-child-support-grant>

39. Department of Social Development, SASSA, UNICEF. 2016. *Removing Barriers to Accessing Child Grants: Progress in reducing exclusion from South Africa’s Child Support Grant*.

40. Excluding the reason of income being too high.

41. Department of Social Development, SASSA, UNICEF. 2016. *Removing Barriers to Accessing Child Grants: Progress in reducing exclusion from South Africa’s Child Support Grant*.

42. Department of Social Development. 2020. *Social development portfolio update on measures put in place to respond to COVID-19 pandemic*. 14 October 2020.

# FINANCING

## Thinking about financing

The UBIG will need to be paid for out of the fiscus. This requires careful analysis of where funds may be derived from, particularly in the context of COVID-19 and the associated economic recession. In general, the primary sourcing of financing a UBIG must be taxation. In the near term, some of the government funds may need to come from borrowing. This recession has led to a significant drop in tax revenue and rising levels of debt. However, South Africa maintains access to capital markets, together with pools of available local funds, albeit with relatively high borrowing costs. In the face of the COVID-19 crisis, capital markets are tolerating significantly increased debt levels, including from emerging markets. There is also scope for monetary policy interventions to lower the cost of borrowing and ensure government's on-going access to capital. Additionally, funds may be accessible from other state, or quasi-state, funds. Some surpluses remain within the UIF, for example, which could be lent to the government as a bridging measure. This is particularly appropriate given the mandate of the UIF. These issues are explored in other policy briefs.

What is critical to stress here, is that it is not only a question of "can we afford to do this?" but also one of "can we afford *not* to do this?". This must be asked in light of the massive human cost that the pandemic is wreaking – with soaring levels of hunger, malnutrition, depression, and so on – and the associated social ills this will exacerbate – gender-based violence, criminality, and so on. But this question is also relevant in terms of our economic health and public finances. An economy without money being spent means business shutting and rising unemployment. An economy with starving people means worse educational outcomes. The economic evidence is clear – this destruction of business and social capital will have a long-lasting depressive impact on the economy.<sup>43</sup> In turn, a shrinking economy means less taxes and greater debt. We cannot get out of the economic and social crisis or ensure sustainable public finances without spending on critical social programmes such as a UBIG.

## Sources of financing

As noted, taxation is the primary source of funding. In this respect, a number of principles should guide our decisions here.

1. Recoup the UBIG from those with taxable income.
2. Tax those with middle, high and very high incomes on a sliding scale.
3. Tax wealth and income from wealth.
4. Limit tax breaks for those with higher incomes.
5. Cancel ineffective corporate tax breaks.
6. Tax environmentally damaging behaviour.

43. World Bank Group. 2020. *Global Economic Prospects: June 2020*.

44. Colin Coleman. 2020. From a "Two-Speed Society" to One that works for All.

45. Ibid.

46. Ebrahim, Leibbrandt, Ranchhod. 2017. *The effects of the Employment Tax Incentive on South African employment*. WIDER Working Paper 2017/5. Shows no evidence of increased youth employment or churn.

47. Torslov, Weir, Zucman. 2018. *The Missing Profits of Nations: 2017 Figures*. Available: [missingprofits.world](http://missingprofits.world)

48. Institute for Economic Justice. 2018. *Mitigating the impact of the VAT increase: can zero-rating help?* Inflated by Headline CPI from March 2018 prices to August 2020 prices.

7. Reduce wasteful and irregular expenditure.
8. Reduce tax evasion.

In addition, a certain level of funds will be recouped from increased spending by grant recipients, predominantly through expenditure on VATable items; and through indirect economic stimulus.

In Table 11, we summarise key sources of tax financing. These sources are non-exhaustive but are all progressive by design. Regressive tax revenue collection avenues should not be pursued as they aggravate already high inequality and put disproportionate pressure on lower-income earners and their dependents, those who stand to gain the most from a UBIG.

**Table 11: Summary table of financing options**

Item	Amount (R billion)
1. Social Security Tax.	64.7
2. Eliminate Medical Tax Credits for those earning above R500k (2018/19).	6.3
3. Eliminate retirement fund contribution deductions for those earning above R1m (2018/19).	32.0
4. Increase Dividend Tax to 25%, from 20% (2018/19)	7.0
5. Replace Estate Duty with Progressive Inheritance Tax. <sup>44</sup>	5.0
6. Securities Transfer Tax to be increased from 0.25% to 0.3% (2018/19).	1.2
7. Increase carbon tax to one quarter of EU standard. <sup>45</sup>	2.0
8. Employment Tax Incentive to be cancelled. <sup>46</sup>	4.8
9. Reduce Cabinet size, departmental duplication, expenditures on conferences, travel, and overall Government saving of 5% on R107 billion spent on "General Public Services", as per Budget 2020, for year 2020/2021.	5.4
10. Claw back irregular / wasteful expenditure, last reported by the Auditor General for 2019 to be R42.8 billion, by a target of 30%.	12.8
11. Reduction of profit shifting by MNCs by a target of 25% (2018). <sup>47</sup>	5.75
12. Luxury vat of 25% on select items. <sup>48</sup>	11
<b>TOTAL (1-12)</b>	<b>158</b>
Spending of UBIG amount on VATable Items.	12 - 13.5% of total
Wealth Tax	34 – 189

The above measures are calculated using publicly available SARS tax tables for 2019/2020.

This does not represent an exhaustive list of possible tax interventions, and other revenue measures could be considered. These include the reworking of the Securities Transfer Tax into a proper Financial Transactions Tax with much wider coverage, and the introduction of a Resource Rent Tax.

Below, we elaborate on the Social Security Tax, Wealth Tax, and the clawback from spending on VATable items. We then highlight what grant options could be funded within this envelop.

## Social Security Tax

The introduction of a Social Security Tax (SST) is one of the primary mechanisms that can be used to finance a UBIG. This tax is a tax on income, dedicated to financing extension of social security. It is progressively levied on all income earners – at 1.5 to 3% of taxable personal income. The tax revenues collected should be ring-fenced to provide funding specifically for a UBIG. For a more accurate collection estimate, access to administrative tax data from SARS is required.

The rate schedule shown in Table 12 indicates an annual collection of R64.7 billion if you levy a rate of 1.5% on those earning up to R80 000 per annum, 2% on those earning between R80 000 and R350 000, 2.5% on those earning R350 000 to R1 million, and 3% on those earning above R1 million. Consideration should be given to requiring employers and workers to each contribute half of this tax, as is done with the UIF.

**Table 12: Social security taxation options per income bracket (R billion)**

Earnings (R)	# Taxpayers	Taxable income	1.5%	2%	2.50%	3%
0 - 80k	6,822,326	218.8	3.3	4.4	5.5	6.6
80k – 350k	4,927,667	908	13.6	18.2	22.7	27.2
350k - 1m	1,910,855	1018	15.3	20.4	25.5	30.5
1m +	307,912	593.6	593.6	11.9	14.8	17.8

Source: National Treasury. 2020. Budget Review 2020.

Assuming that the UBIG goes to all adults 18-59, lower-income households walk away with increased income despite the SST, even if the UBIG is only set at the FPL. That is, the SST for these workers is less than the annual value of the UBIG at the FPL. In fact, this is true for all those earning up to R350 000 per annum. The value of a UBIG at the food poverty level is R7 020 per annum. Those earning R350 000 will pay R7 000 in SST. Above this level, the value of UBIG is progressively clawed back from higher income earners by the SST. This ensures the UBIG benefits lower-income households without cumbersome and exclusionary targeting measures.

## Wealth Tax

A wealth tax should be considered in order to fund a UBIG. South Africa has massive and increasing wealth inequality. This wealth is often unproductive “dead” capital, which

generates returns to the owner either locally or offshore with little (if any) residual benefit to anyone else. By implementing a wealth tax on those with high wealth, not only can a substantial portion of any UBIG financing requirement be fulfilled, but this also drives the owners of that wealth to use their assets more productively.

The potential finance raised through a wealth tax is substantial, even at a 1% level. Table 13 shows that a 1% wealth tax for the for top 1% of earners raises R63 billion, a 3% wealth tax on the richest 0.1% raises R103 billion.

**Table 13: Estimated revenue collection through a wealth tax (R billion)**

Group	Number of people	Average wealth per person	Total wealth (R Billion)	1% tax	3% tax
Top 1%	354 000	R17 830 000	6 312	63	189
Top 0.1%	35 400	R96 970 000	3 433	34	103

Source: Author's calculations based off (Chatterjee, Czajka & Gethin. 2020)

The implementation of a wealth tax will take time. Collecting the relevant data necessary to set an appropriate level of taxation of wealth is crucial, and currently not sufficient. A period of two years should be considered where wealth is required to be declared, though not taxed. This would build the database necessary to formulate an efficient and appropriate tax regime, enabling policymakers to propose more detailed wealth taxation schemes.

## VAT Collection

As grant recipients will spend this money, a substantial amount will be recouped through VAT. This is based on the assumption of the full amount of the BIG being spent, with recoupments equal to 12% of the total cost of implementation available if 80% of money spent is on VATable items. This is based on the fact that the lowest 7 deciles spend 81.2% on VATable items, with the top 3 deciles closer to 91%. We anticipate uptake of the UBIG to be larger amongst the lower deciles, and thus base the calculation on a conservative 80% spend on VATable items.

**Table 14: VAT collection for different groups (R billion)**

Group (18-59)	# Recipients	R585	R840	R1268
All	34.1m	28.7	41.3	62.3
All (80%)	27.3m	23.0	33.0	49.8
All (60%)	20.5m	17.2	24.8	37.4
NFE	22.4m	18.9	27.1	40.9

Note: NFE denotes those not formally employed, comprising informal sector workers, those unemployed, and those not economically active. Assumes zero saving of UBIG amounts. Based on QLFS 2020:Q3 data. Figures rounded. Based on 80% expenditure of income on VATable items.

# WHAT IS POSSIBLE WITH THIS FINANCING?

Reading Table 10 and Table 11 together it is possible to assess what variants of the UBIG – differing by population group and levels – is fundable using these particular revenue sources. Table 15, replicates a version of Table 10 to illustrate this.

**Table 15: Total Cost of a Basic Income Guarantee Per Year Grouped at Poverty lines (R Billion)**

Group (18 -59)	Number of people	FPL (R585 pm)	LBPL (R840 pm)	UBPL (R1 268 pm)
All	34.1m	239	344	519
All (80%)	27.3m	192	275	415
All (60%)	20.5m	144	206	311
NFE	22.4m	157	226	341

*Note: NFE denotes those not formally employed, which is the total number of people in the informal sector, those unemployed, and those not economically active.*

If we consider the R158 billion in additional taxes outlined in Table 11 as almost immediately available then this could fund all those not formally employed at a level of R585 per month – a cost of R157 billion – or a UBIG for all adults if we expected only 60% uptake. This R158 billion could, of course, be supplemented by other funds from the fiscus to either increase the net or the level of the grant. The increased VAT revenue would also provide further income of at least an estimated R17 billion.

As noted above, these funds, could be supplemented by borrowed funds, including from the UIF surpluses.

If a wealth tax of R189 billion was collected in the medium term this would increase the envelop available to R347 billion. This would be enough to fund all the not formally employed at the upper-bound poverty line of R1 268. It would also be sufficient to cover 100% of adults at the lower-bound poverty line of R840p/m, or the UBPL to 60% of all adults.

**Table 16: UBIG financeable from tax revenue**

Financing	Affordable UBIG Implementation	
R158 billion in additional taxes	All 18 – 59 assuming a 60% uptake @ food poverty line of R585	All 18 – 59 not formally employed @ food poverty line of R585
R158 billion in additional taxes + R189 bn from wealth tax	All 18 – 59 assuming a 100% uptake @ lower-bound poverty line of R840 All 18 – 59 assuming a 60% uptake @ upper bound poverty line of R1 268	All 18 – 59 not formally employed @ upper bound poverty line of R1 268

The above scenarios only consider direct financing from tax revenue, without considering VAT recouped from UBIG expenditure, or additional financing from borrowing. When these are considered, a UBIG at a higher level than considered in the above scenarios becomes more easily affordable. For example, with relatively modest borrowing of R30 billion and

the VAT recouped (R 25 billion), a UBIG with 60% uptake could be financed at the LBPL of R840 p/m. Initially, such financing could come from a no-interest loan from the UIF, given the UBIG’s contribution to supporting the unemployed, and the large surplus historically run by the UIF.

## RECOMMENDATIONS

The need for a UBIG is evident – the potential positive impact on livelihoods, poverty, and the economy is clear. Further, the above has shown it is affordable. The benefit of universality is also clear – in impact, the manner in which it fulfils obligations for social security for all, and in ease of administration.

Given the urgent need for support exacerbated by large scale employment loss, wage decreases, working hour decreases, as well as South Africa’s constitutional mandate to provide adequate social security and the benefits of universality, but acknowledging the financing difficulties, we make the following recommendations:

### Immediately

Extend the COVID-19 grant until the end of the 2021/22 financial year, drop exclusionary criteria, and increase the level to the food poverty line of R585pm. Incorporate caregivers into this grant.

### In the short term

Implement a UBIG for all adults at the food poverty line of R585 per month, using the R158 billion of tax increases mentioned above; or the lower bound poverty line of R840 per month, with fairly modest borrowing. Assuming a gradual uptake of the grant, this is affordable.

### In the medium term

Implement a wealth tax and use this and the taxes mentioned above to fund an increase of the UBIG to either the level of the lower-bound or upper-bound poverty lines depending on uptake.

### In the long term

Engage in a process of social consultation and long-term planning in order to ensure a UBIG sufficient to meet basic needs, and that there is a coherent overall transformation of the social security system.

Government should commit to the introduction of a UBIG as a means of dignity, freedom, and economic prosperity. A UBIG has been considered by government for at least two decades without implementation. South Africa has a Constitutional obligation to provide the UBIG. A UBIG enables people to live with greater dignity and freedom, and serves as one of the main tools against economic decline.