



FACTSHEET SERIES – NOVEMBER 2022

UNIVERSAL BASIC INCOME GUARANTEE

1. Why does South Africa need a Universal Basic Income Guarantee?
2. No one left behind: Why universal basic income makes more sense than targeted grants
 3. Jobs versus Grants: Are employment and basic income a policy trade off?
 4. How a UBIG can support healthier kids, happier adults, and lifelong learning
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 7. "But how will we pay for it?" Financing a UBIG



November 2022

UNIVERSAL BASIC INCOME GUARANTEE FACTSHEET SERIES

WHY DOES SOUTH AFRICA NEED A UNIVERSAL BASIC INCOME GUARANTEE?

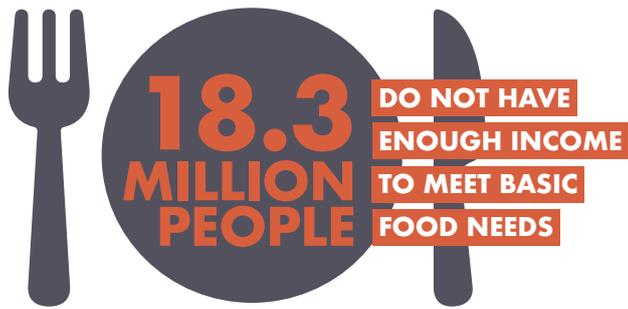
A universal basic income guarantee (UBIG) is a commitment by government to ensure that everyone has a minimum level of income to meet their basic needs. This is done through a regular cash transfer or grant, that spurs development and promotes sustainable livelihoods. But the benefits of a UBIG are not just economic. A UBIG can benefit society by improving health and education outcomes, increasing social cohesion, and supporting gender equality.

Throughout this factsheet series, we present evidence to show that a UBIG can improve the lives of many millions in South Africa. But it is not by itself a silver bullet. Maximising its impact requires a range of complementary interventions: amongst others, an appropriate macroeconomic framework that stimulates development; expansion of affordable, universally available public services; a coherent strategy for a just energy transition; and a well resourced high-impact industrial policy that promotes jobs rich economic diversification.



THE FOUR ELEMENTS OF A UBIG

- ✓ **UNIVERSAL** – applies to all adults.
- ✓ **BASIC** – covers basic necessities.
- ✓ **INCOME** – a regular cash benefit.
- ✓ **GUARANTEE** – provided as a right.



The role of social grants in poverty alleviation

South Africa is one of the most unequal countries in the world with high rates of unemployment and poverty. In the second quarter of 2022, South Africa had an unemployment rate of 44.1% based on the expanded definition (which includes discouraged workers, or those who have given up searching for a job).¹

Social grants, or regular cash transfers provided by government to individuals or households, have been post-apartheid South Africa's most effective weapon against extreme poverty. In 2021, approximately 50% of households in South Africa had benefited from a social grant—up from 43.5% in 2011 and 30.8% in 2003.² The role of social grants in relieving extreme poverty is further illustrated by the fact that 24.4% of households report social grants as their main source of income.³ The current social grants system includes the old age pension, child support grant and disability grant. Since COVID-19, it has also included the Social Relief of Distress (SRD) grant, introduced in April 2020, and recently extended to March 2024.

However, gaps remain in the social grant system, and millions of people remain exposed to extreme poverty without government assistance. South Africa does not have any permanent income support for able-bodied people between the ages of 18 and 59 despite the fact that a large number of them have no income or means of survival due in large part to the unavailability of employment. While many people in this grouping have benefitted from the

SRD grant, the grant remains a temporary measure and has many limitations because of its low value, its low income eligibility threshold, and other barriers to access for the most vulnerable. This context of high unemployment and limited support underscores the importance of permanent social security for working age adults.

By contrast, the labour market has not served to progressively reduce poverty in South Africa. In addition to steadily increasing unemployment this is because (at least between 2000 and 2015) average real wage growth has not breached 2% per annum for the bottom 80% of income earners—and this has no doubt worsened considerably since the economic devastation wrought by COVID.⁴ As a consequence it is not only the unemployed who face poverty—a large proportion of those in employment in South Africa still live below the poverty line.

Income support as a constitutional right

Section 27 of the South African Constitution guarantees the right to social security for all, including social assistance if they cannot provide for themselves and their dependents. Sections 7 & 36 state that there must be no unjustifiable delays in realising this right. South Africa is a signatory to the International Covenant on Economic, Social and Cultural Rights (ICESCR) which asserts that all persons should be covered by the social protection system, especially those most marginalised and disadvantaged.

In 2018, South Africa's obligations under this treaty were reviewed by the United Nations Committee on Social, Economic and Cultural Rights.⁵ The Committee found that the current grant system was insufficient to ensure an adequate standard of living for recipients and their families and pointed to the problem of the lack of support for those between the ages of 18 and 59 who are capable of working.⁶ The Committee called for moves towards the establishment of a basic income grant.

1. Statistics South Africa. August 2022. [Quarterly Labour Force Survey 2nd Quarter 2022](#).

2. Statistics South Africa. June 2022. [General Household Survey 2021](#).

3. Ibid.

4. Bhorat, H. et al. May 2020. [Wage polarization in a high-inequality emerging economy: The case of South Africa](#). WIDER Working Paper.

5. See: Committee on Economic, Cultural and Social Rights. 2018. Concluding observations on the initial report of South Africa.

6. For more see: IEJ, Section27 and CESR. 2021. [Social Protection during COVID-19](#).



The role a UBIG can play in development

There have been debates about the introduction of basic income support since the 1990s.⁷ A UBIG can have transformative effects in South Africa helping to shift structural poverty, alleviate some of the impacts of deeply entrenched unemployment and end hunger in the country. Rather than being a drain on the economy, a UBIG can contribute to growth as more people spend money in their local communities and have the means to better their economic position.

What can a UBIG do?

Many countries have introduced basic income support in some form, often to trial its impacts, and there is extensive research available from these initiatives.

The evidence shows that basic income has many positive effects encompassing and also going beyond immediate poverty alleviation. These include:

- ✔ **Basic income support can end hunger:** Government estimates suggest that 18.3 million people in South Africa do not have enough income to meet their basic food needs, and more than half the population lives in poverty. A UBIG set at the value of the highest poverty line would by definition eliminate poverty and end hunger in South Africa.
- ✔ **Basic income support can improve health and education outcomes:** Poverty produces unjust and costly social consequences, including poor health outcomes and barriers to education. This makes it harder for people to escape poverty, and can trap generations in a cycle of poverty. Extensive evidence shows that basic income support (if it is accompanied by public healthcare and education)

7. See: COSATU and NEHAWU. 2003. [Joint Submission to the Public Hearings on The Report of the Committee of Enquiry into Comprehensive Social Security System.](#)



Arguments against a UBIG

Arguments often made against a UBIG include:

- ✘ It will create dependency, and result in people withdrawing from the labour market.
- ✘ Investment in grants will detract from investment in jobs.
- ✘ Beneficiaries will waste their grant money on things like alcohol.
- ✘ It is unaffordable, and financially unsustainable.
- ✘ It will benefit those who don't need it, because everyone will receive it, including the wealthy.

In this series of factsheets we will consider these concerns, and show why the international and local evidence do not support these arguments against a UBIG; and that some of these perceptions result from a basic misunderstanding of how a UBIG will work.

can improve peoples' nutrition, health, and educational attainment, and help them escape long-term intergenerational poverty. Studies also show that income support reduces stress and improves peoples' psychological well-being. Evidence from Alaska, Kenya and South Africa (and elsewhere) shows the positive impact of cash transfers on child nutrition and health outcomes. Other research points to the fact that cash transfers help keep young people in school for longer.

- ✓ **Basic income can help grow the economy, and promote local economic development:** Critics of basic income support often think about grants as a financial drain on the state or the economy but research shows they can play an important role in growing the economy. This is partly because people spend the money they receive in local communities. Research also shows that basic income support helps people to join the formal labour market because it takes away the stress of trying to ensure basic needs are met and/or gives people the money to cover the costs of looking for a job. In addition, basic income support can improve the quality of jobs and wage levels in our labour market. If minimum wages and labour protections remain in place, basic income reduces workers' vulnerability to exploitation. Finally, research shows that basic income can also help to support people to build sustainable livelihoods through self-employment or starting businesses.
- ✓ **Basic income can help address gender inequality:** Women perform the bulk of unpaid domestic and care work in the home, and are also disadvantaged in the labour market. This means that they are more likely to experience poverty, and are also more likely to be dependent on men. This reality exposes the injustices of relying on jobs alone to provide dignity. Basic income support (provided to all individuals—not just heads of households) gives women more autonomy and independence, and can also reduce their vulnerability to gender-based violence.
- ✓ **Basic income can improve social cohesion:** A UBIG is a fairer way of sharing the wealth in our society, and this can help to improve social solidarity, stability, and democratic participation. For instance a basic income trial in Namibia led to a reduction in crime.

In this series of factsheets we will explore this evidence in more detail, and unpack the reasons why we believe that introduction of a Universal Basic Income Guarantee will help to unlock a fairer, safer and more prosperous future for South Africa.

Visit our special UBIG portal by scanning the QR code



Read more in the IEJ's Policy Brief [Designing a Basic Income Guarantee](#), and the IEJ's Working Paper [Can a Universal Basic Income Contribute to Breaking Structural Poverty in South Africa?](#), and accompanying [Annotated Bibliography](#).

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- UBIG and the just transition

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NO ONE LEFT BEHIND

Why universal basic income makes more sense than targeted grants

Not all BIGs are equal

A basic income guarantee (BIG) is a commitment by government to ensure that people have a minimal level of income to meet their basic needs. This is done through the provision of a regular cash transfer or grant. While adoption of income support in general is important, research shows that not all basic income systems are the same: how they are designed—especially whether they are **targeted** or **universal**—has a significant impact on outcomes.

Targeting vs Universality

A major decision in designing a basic income guarantee scheme is whether it is universal or targeted.¹ A Universal Basic Income Guarantee (UBIG) is an income transfer that everyone is eligible for,² regardless of their income or employment status. A targeted basic income on the other hand is only provided to those who meet some kind of qualifying criteria, usually that they are unemployed and/or have income below a certain level—typically referred to as a means-test threshold.



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1. For an overview on targeting see: White, H. 2017. [Effective targeting of social programmes: an overview of issues](#). Journal of Development Effectiveness.

2. In South Africa a UBIG is currently only being considered for working age adults, as there is social security support for children and pensioners which play a critically important role.

Targeting is often counterproductive

Targeting systems are intended to ensure that income support goes only to those who need it most—thus making the most efficient use of available resources. However, means-tested or unemployment targeting is known to leave many behind in practice.

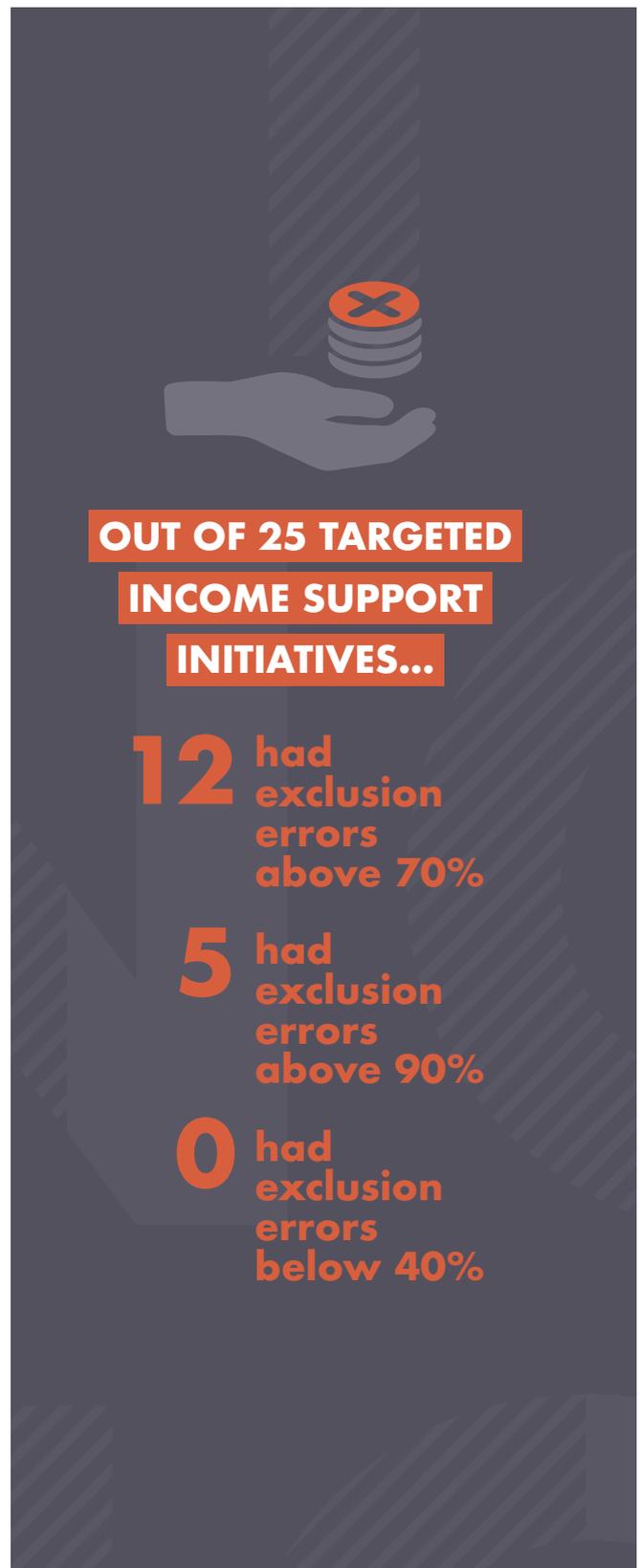
This happens for many reasons, including:

- the fact that government agencies often have flawed data about peoples' status and eligibility³
- the use of application systems which are difficult for the poorest and most vulnerable to access—like online forms
- the use of means-testing systems that are highly burdensome or bureaucratic (such as monthly bank account checks)
- the fact that people constantly move into and out of eligibility, especially in fluid labour markets like South Africa's with high levels of informality.

Paradoxically, such challenges usually mean that targeting measures intended to reserve income support for those who need it most, often end up excluding many in this exact grouping.

Targeting has been shown to be extremely administratively complex and costly. A recent study found that 12 out of 25 targeted income support initiatives had exclusion errors above 70% and 5 had exclusion errors above 90%.⁴ None had exclusion errors of less than 40% (the best performer being Brazil's *Bolsa Familia* which excluded 44%). This means that in most cases of targeted grants, the majority of the target group are excluded from receiving it.

The experience of the rollout of South Africa's Social Relief of Distress (SRD) grant supports these findings. When legislative changes to the SRD introduced a very low means-test threshold, the number of approvals and, subsequently, applications for the grant plummeted, well below the budgeted allocation.⁵ The means test requirements added costs to the state (for example by having to pay banks to perform income checks on applicants) and resulted in significant delays in payments and a loss of faith in the system. A number of other targeting requirements served to worsen these exclusion errors.



3. See for example: Goldman, M. et al. 2021. [Simulation of options to replace the special COVID-19 Social Relief of Distress grant and close the poverty gap at the food poverty line.](#) WIDER Working Paper.

4. Kidd, S., and Athias, D. 2020. ["Hit and Miss: An Assessment of Targeting Effectiveness in Social Protection"](#) Development Pathways, Working Paper.

5. See IEJ Statement - [The R350 SRD Grant crisis is far from resolved.](#)

The case for universality

With a universal grant, everyone qualifies regardless of their income or employment status. This affirms everybody's right to a basic level of income support. But this does not necessarily mean that the wealthy receive the benefit of a UBIG. Appropriate taxation measures and clawbacks on high income earners will ensure that the wealthy make a net contribution to financing the safety net, while the poor receive a net benefit.

Advocates of a UBIG argue that this reduces the administrative burden on the state because government officials do not have to go through difficult, expensive and time-consuming assessments of whether an applicant qualifies or not, and do not have to expend resources identifying and policing those who might have received the grant without being eligible. A universal grant would mean there is less chance that people who need the grant won't receive it and, because of its relative administrative simplicity, allows far more expeditious implementation of a BIG to address the current socio-economic crisis with the urgency required. Unconditional or universal cash transfers have also been shown to be better suited to crisis situations.⁶

Evidence shows that universal grants ensure that no one can be left behind, and are more effective at achieving their policy aims. However, universality may take time to achieve. In the meantime, it is important to ensure that as many people are supported as possible. We have proposed that pathways to a universal BIG in South Africa could start with a BIG targeted to the most vulnerable initially, and gradually expanded over time, to include all working age adults.

To ensure that a targeted BIG had the desired impact, unnecessary conditionalities would need to be removed which exclude poor people, an appropriate income eligibility threshold would need to be set (for example the Child Support Grant has an eligibility threshold of R4800 income per month) and the value of the grant would have to be set at the very least at the Food Poverty Line, progressively increasing to the Upper Bound Poverty Line.



Universality benefits households who pool their income

The **value** of the grant is also an important decision as it is critical to strive towards ensuring the grant reaches a high enough level that it improves people's life choices, rather than trapping them in poverty. However, it is still better to give a smaller amount of money to a bigger group of people, than a larger sum to a smaller targeted group.

Economic modelling shows that a UBIG, even at a relatively low level, has a greater impact on poverty than a targeted grant set at a significantly higher level, because it reaches a range of adults of different employment statuses living in low income households, who are able to pool their income—a common practice in South Africa. In the case of the SRD, 88% of recipients reported doing this.⁷ With a UBIG, we can expect a larger average number of beneficiaries per household than with a targeted grant, meaning that the pool of resources available to a household is greater.

6. Orkin, K. et al. 2022. [International evidence to inform decision making on implementing urgent response social protection measures](#). Psychology, Health & Medicine.

7. Zulu, L. 4 August 2021. [Speaking notes for Minister Lindiwe Zulu's media briefing following the announcement of the re-introduction of the special COVID-19 SRD grant](#).



Broader societal considerations

Targeting carries the added risk of creating new forms of social division and tension. In some cases it has been shown to attach social stigma to the targeted group, increasing unwillingness to claim the benefits, or resulting in non-recipients undermining recipients' entrepreneurship and consumption.⁸ Universality on the other hand, recognises everybody's interreliance, contribution to society, and right to meet their basic needs.

There is no evidence that universal social assistance creates dependency or discourages labour market participation—as is explained in factsheets 3 and 6 of this series. In fact, targeted grants can reduce incentives to seek employment in case it disqualifies the recipient from receiving the grant in the future.

Local and international evidence shows that targeting is often counterproductive in achieving its policy goals of directing support to those most in need. Drawing boundaries of inclusion and exclusion is an arbitrary exercise, as in reality people do not fall neatly into the categories of vulnerable and not vulnerable, and government agencies are unable to determine neediness through blunt bureaucratic tests which are also expensive and complicated. Universal eligibility on the other hand is easy to implement, ensures nobody is left behind, will be redistributive if accompanied by progressive taxation, and fosters social solidarity and cohesion.

8. Della Guardia, A. et al. 2022. [Selective inclusion in cash transfer programs: Unintended consequences for social cohesion](#). World Development.

Visit our special UBIG portal by scanning the QR code



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JOBS VERSUS GRANTS

Are employment and basic income a policy trade off?

Introduction

There is a common belief in South Africa that social grants come at the expense of jobs. It is thought that grants create a disincentive to work—or cause people to stop working or looking for work, and lock recipients into ‘dependency’ on the state.

For example, the Minister of Finance Enoch Godongwana has said that grants trap young people in a “cycle of dependency”.¹ In addition some people argue that grants slow economic growth and lead to fewer jobs being created.

This is not supported by the evidence, which shows that people have a range of motivations to engage in work, beyond financial insecurity. In reality, income support increases people’s agency and motivation to pursue work that is meaningful to them.

Unconditional cash transfers (or grants with no strings attached) in countries similar to South Africa have had the effect of growing local economies, increasing people’s participation in the labour market, and increased rates of self-employment.

It’s time to stop pitting jobs against grants. They play different, but connected and complementary functions. We need both.



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| Key problems with the “jobs versus grants” narrative

Alleviating hunger now and creating jobs for the future are not a trade-off—they are mutually dependent. The argument that jobs should be prioritised over grants overlooks the fact that we are in an immediate humanitarian crisis of hunger. There is a desperate need for a long-term job creation strategy, but these jobs will realistically take a long time to be produced, and even if job creation succeeds, we will still have significant levels of unemployment, probably for decades. In the meantime a basic income will actually support job growth at the same time as alleviating hunger.

Being poor is not a moral failing. The assumption that grant recipients are inclined towards laziness or dependency is rooted in ideologies which suggest that anyone can find a job and become wealthy if they are willing to work hard enough. This idea leads to people viewing grants as a “handout” and grant recipients as undeserving. However, in most places including South Africa, not everybody can get ahead by working hard. Factors like privilege and background can contribute significantly to economic success, and many people face poverty despite working extremely hard. More than half of people in South Africa live in poverty, not because they are not willing to work, but because our economy is structured in a way that produces poverty. Everyone deserves a basic standard of dignity, regardless of whether they have been successful at finding a job.

Not all valuable work is paid. Our society and our economy would stop functioning without unpaid work disproportionately performed by women—like caring for children, elderly, sick or disabled relatives, domestic work like cooking and cleaning, and volunteering. But this kind of work is not considered a “job”, and it is not paid. As a result, women are especially vulnerable to poverty. Trying to solve our crisis of poverty through jobs alone thus disadvantages women and makes it harder for people to care for their families and communities. We need a universal basic income grant as well as jobs, to support our carers and fight gender injustice.



| The facts

1. Do grants reduce labour market participation?

Cash transfers do not result in labour market withdrawal (“dependency syndrome”)—they do not cause people to stop working or to stop looking for work.

Evidence shows that people are motivated to work for many reasons beyond simple survival. For instance, research has found that grant recipients in South Africa are highly motivated to work.² Intrinsic motivations to work include personal fulfilment, skills development, and contributing to one’s community. Income support can make it more possible for people to fulfil these needs.³

There is also evidence that cash transfers can increase labour market participation—or help more people enter into paid work. In dozens of evaluations of conditional and unconditional cash transfers in low- and middle-income countries (LMIC), recipients did not reduce their overall work hours, and in some cases they increased work hours.⁴ In Namibia, a basic income pilot saw the unemployment rate fall from 60% to 45% in the target area.⁵ In Iran, a monthly cash transfer introduced in 2011 did not result in reduced labour market participation, and increased women’s labour market participation.⁶

In South Africa, the biggest barriers to labour market participation are (1) income poverty, and (2) a lack of available jobs. In 2019 the average monthly cost of searching for a job in South Africa was R938—well above the food poverty line.⁷ By reducing income poverty, income support enables people to search and apply for jobs. This is supported by evidence from other grants in South Africa, showing that the SRD grant increased job search probability by 25 percentage points,⁸ and that 27% of young jobseekers use grant money to supplement their job search.⁹



2. Do grants slow economic growth and lead to fewer jobs in the economy?

Overwhelming evidence shows cash transfers are spent in productive ways which contribute to human capital development, self-employment and economic growth. This economic growth is especially concentrated in local communities, which supports people’s livelihoods and leads to job creation.

According to evidence from South Africa and other African countries, cash transfers support children to enter and stay in schooling, and improve students’ educational achievement. This improves their long-term economic and livelihood prospects.¹⁰

Cash transfers in similar contexts to South Africa have led to an increase in people starting businesses or investing in their small businesses. For example, in Zambia there was an increase in the total area of land worked, investment in hired labour, and non-farm enterprises—an overall increase in production value of 50%;¹¹ in Lesotho there was an 8% increase in the use of agricultural inputs and expenditure;¹² and in Kenya, ownership of productive assets increased 51 percentage points.¹³

Cash transfers have been shown to have an income multiplier effect. That means that people who receive cash transfers, and their communities, see their incomes grow over and above the value of the cash transfers, which in turn drives increased consumption, enterprise formation and employment in local economies. In Zambia there was an increase in consumption of 25% over the value of the grant—indicating a multiplier effect.¹⁴ An income multiplier was also observed in Ghana, with spillover effects on non-beneficiaries—where even those who didn’t receive a grant saw their income grow because of additional local demand/spending.¹⁵ And in Mexico, raised incomes showed a rate of return of cash transfers of 17.55%.¹⁶

3. Are grants spent “wastefully” on things like alcohol?

Some people claim that grant recipients will spend their grants on “temptation goods” like alcohol and tobacco, and this is an argument against giving social grants. However, research into this claim, by (amongst others) UNICEF in Africa,¹⁷ and a World Bank review of 30 case studies,¹⁸ consistently finds that people do not increase their consumption of alcohol and tobacco when they receive grants. In 2021, a study found that 93.3% of recipients of the SRD R350 grant in South Africa spent much of their grant on food, with the next highest reported spending being on electricity (31.8%).¹⁹

4. How do grants impact wages and working conditions?

Work is often considered the pathway out of poverty, but there is a very high prevalence of working poverty in South Africa. An estimated one quarter of those with work fall under the Upper Bound Poverty Line, with informal sector, black, and women workers more likely to be working poor.²⁰

Universal basic income support provides workers with an “exit option” – or a safety net which allows them to decline or exit exploitative work and to seek better quality work. This improves the bargaining power of workers, which in turn lifts wages and working conditions over time.²¹

However, this effect of basic income support is only possible if it is set at a value that doesn’t institute a poverty trap by keeping beneficiaries living below the poverty line, and supported by strong labour protections including collective bargaining and minimum wages.²² If these conditions are not in place, basic income support can function as a subsidy to exploitative employers, enabling them to suppress wages as workers have another source of income to ensure their basic survival.

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HOW A UBIG CAN SUPPORT HEALTHIER KIDS, HAPPIER ADULTS, & LIFELONG LEARNING

Introduction to UBIG

A universal basic income guarantee (UBIG) is a commitment by government to ensure that everyone has a minimal level of income to meet their basic needs. This is done through a regular cash transfer or grant. The benefits of a UBIG are not just economic. A UBIG can benefit society by improving health outcomes, increasing human capital, and improving educational outcomes.



THE FOUR ELEMENTS OF A UBIG

- ✓ **UNIVERSAL** – applies to all adults.
- ✓ **BASIC** – covers basic necessities.
- ✓ **INCOME** – a regular cash benefit.
- ✓ **GUARANTEE** – provided as a right.

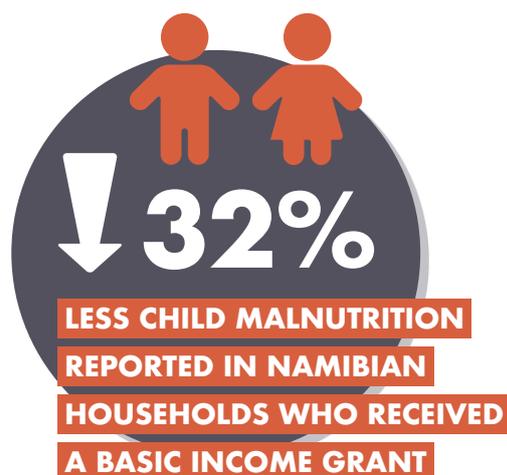
| UBIG and health

There is a mutually reinforcing relationship between poverty and poor health. Poverty not only leads to poor health outcomes: poverty-related illnesses themselves create a poverty trap. As such, direct poverty reduction interventions like the UBIG also contribute to reducing poverty-related illnesses, and the social and economic costs of poor health outcomes over time.

The evidence for this effect of cash transfers comes mostly from research on child and infant health. Health outcomes in childhood have lifelong implications in adulthood, and broader socioeconomic implications. As such we focus predominantly on the impact of cash transfers on child health here. Poor maternal health and nutrition results in lower birth weight for infants, poor growth in childhood, impairment of cognitive and physical development, higher prevalence of diseases in adulthood, and impedes on school success and productivity in the labour market in adulthood.¹ All of these factors lessen the chances that someone will be able to escape poverty. There is strong evidence that cash transfers can diminish these effects and produce health benefits in both the short and long term, as well as contribute to breaking the reproduction of structural poverty.

In South Africa, research has shown that the Child Support Grant (CSG) has immediate welfare benefits as well as longer-term payoffs. Evidence shows that the CSG results in gains in child height (an indication of improved child health) and higher adult earnings.² International studies have shown that cash transfers substantially decreased malnutrition levels in children. Transfers also improved child health outcomes, with improved infant health indicators, increased birth weight and a decreased likelihood of child obesity.³ Cash transfers in India allowed recipients to meet their daily food needs and improve dietary variety.⁴ Increased food security and nutrition resulted in a higher age-to-weight ratio for children. Households in Namibia that received a basic income grant reported that levels of child malnutrition decreased by 32 percentage points a year after the introduction of the grant.⁵

Cash transfers improve child health outcomes. Over time this can also reduce peoples' long term vulnerability to poverty—helping to disrupt structural poverty, along with its negative health consequences.



| UBIG and mental health

Some promising evidence also shows that cash transfers can have a positive impact on mental health. Poverty and economic insecurity produce stress and anxiety.⁶ In Gauteng, there is a negative relationship between socio-economic status and the risk of depression, and this risk has increased since COVID.⁷ A UBIG can increase peoples' agency over their lives and in turn their life satisfaction.

Research demonstrates that cash transfers improve the wellbeing of recipients. A UBIG can support the five markers of psychological wellbeing, namely agency, security, connection, meaning, and trust.⁸ Research from an unconditional cash transfer programme in Kenya showed increases in life satisfaction, and happiness.⁹ These results are in line with other meta-studies which have found a significant positive relationship between cash transfers and mental health.¹⁰

In the long term, cash transfers can mitigate the effect of intergenerational transmission of depression and decrease the likelihood of adolescent depression for those with a depressed parent.¹¹ Furthermore, recent research from South Africa shows these positive effects of social grants enables individuals to improve their labour market outcomes which can decrease their long-term risk of poverty.¹²

UBIG and educational outcomes

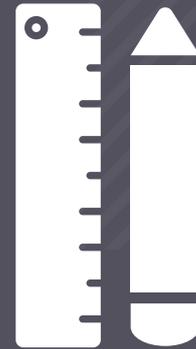
Even if education is free, additional income from grants often goes towards school transport, uniforms, materials as well as menstrual products for children who would otherwise have to miss school.¹³

Research on the impact of the CSG in South Africa has shown that it results in children completing higher grades of schooling, and achieving higher test scores on arithmetic and reading. There is also a reduction in grade repetition, and an increase in grade attainment for learners in households that received a CSG.¹⁴ Notably, the CSG reduced the educational gap between children whose mothers were more or less educated—helping to reduce the historical legacy of inequality. However, the benefits of a CSG are diluted as the grant, despite being targeted at children, is in practice spread across the needs of households. A UBIG, introduced as a complement to the CSG, would enable the CSG to have an even more pronounced impact on children's education. Furthermore, the universal nature of a UBIG ensures that everyone can receive these benefits, and that none are excluded due to just missing the threshold for the CSG.

These positive impacts hold true in both domestic and international studies—research shows an increase in secondary school enrolment. School enrolment at the secondary level increased by 5 to 15 percentage points across eight Sub-Saharan African countries as a result of cash transfers.¹⁵ The cash transfers were used on educational materials, as well as spending which improves school attendance such as clothing and shoes. In Tanzania, a cash transfer programme increased both school participation rates and the rate of primary school completion.¹⁶ Such impacts are pronounced even when transfers are not conditional on children being in school. Unconditional cash transfers increased school enrolment by 20% in a metastudy focusing on low- and middle-income countries.¹⁷

Cash transfers such as UBIG also support adult education. They allow people to adapt to changing economic conditions by learning relevant skills, bolstering their economic security. The money is spent on both the direct costs of education and re-skilling for adults, as well as compensating for the opportunity cost of time spent in education.¹⁸ A UBIG can contribute to re-skilling adults, by giving them greater choices, thus increasing their productivity in the labour market, which is especially important in the face of climate change and the need for skilled workers in a green economy.

A UBIG is considered an investment into human capital due to its positive impact on labour market productivity and education, and helps to disrupt the cycle of structural poverty.



5–15%

INCREASE IN SCHOOL ENROLMENT AT SECONDARY LEVEL AS A RESULT OF CASH TRANSFERS IN 8 AFRICAN COUNTRIES

20%

INCREASE IN SCHOOL ENROLMENT FROM UNCONDITIONAL CASH TRANSFERS ACROSS MANY LMICS

Endnotes

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Visit our special UBIG portal by scanning the QR code



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HOW A UBIG CAN ADVANCE GENDER JUSTICE AND SOCIAL COHESION

Introduction to UBIG

A universal basic income guarantee (UBIG) is a regular government cash transfer or grant which everyone is entitled to receive on the basis of being a citizen or resident, to meet their basic needs. The benefits of a UBIG are not just economic. A UBIG can benefit society by improving gender equality, and boosting social cohesion and civic engagement.



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UBIG and women's empowerment

For many working age able bodied people in South Africa, employment is the only possible way to gain income and escape poverty. This reality especially disadvantages women, for several reasons:

- Women face higher barriers to entering the labour market and are overrepresented in unemployment statistics: In 2020, 40.6% of women-headed households did not have an employed member in contrast to 22% of men-headed households;¹
- Women carry a much higher burden of unpaid domestic and care labour. They have to spend a greater proportion of their time doing work like cleaning, cooking and caring for children, elderly and sick family members or persons with disabilities. Our economy would not function without this work, but it is unpaid. These responsibilities further limit womens' time and ability to take on paid work;
- Women who are employed, have poorer working conditions and lower pay. On average they earn only 76% of what men earn;²
- Because women are overrepresented in low wage work, and work that is not seen to be "productive", they are more likely to lose their employment during economic downturns or crises. This was seen in the COVID-19 lockdown period, during which women accounted for two thirds of job losses.³

As a result of all of these factors, women are more likely to experience poverty than men. In 2015, 26.5% of women in South Africa lived below the Food Poverty Line, compared to 23.7% of men.⁴ In addition, women are more likely to be economically dependent on men—relying on income earned (and often controlled) by a male partner. This reduces womens' agency and control over their own lives, and increases their vulnerability to financial abuse, and to intimate partner violence (IPV).

A UBIG has the potential to decrease these structural challenges that women face. Because a UBIG provides regular income to all adults, it can improve women's agency and independence. A basic income study in India has shown cash transfers to women have contributed to their financial independence allowing many to open up their own bank accounts for the first time.⁵ With the introduction of basic income transfers, women also gained more power over spending decisions.

Research also shows that a UBIG can decrease IPV by improving household economic security, reducing conflict around spending decisions, and by increasing women's self-worth, empowerment, and agency.



This was found to be true in 16 out of 22 cases in low and middle income countries.⁶ A recent study in Kenya found that cash transfers significantly reduced IPV.⁷ Cash transfers can also improve education and economic prospects for girls — they have been shown to increase school attendance for girls and reduce their drop-out rate.⁸

A UBIG would help to compensate much of the essential work in our economy that currently goes unpaid — domestic and care work performed by women. This is an important part of recognising that not all socially necessary work is tied to employment. While we need job creation for women and gender pay equity, it would inherently disadvantage women to link dignity and income solely to waged labour.

UBIG and social cohesion

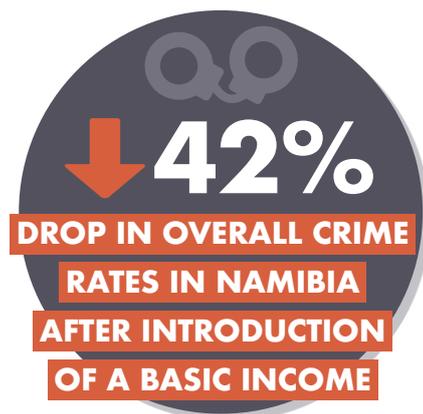
Extreme poverty and inequality often undermines social cohesion and threatens social stability. Social cohesion is understood to mean shared solidarity and loyalty between people in a country or a community. A UBIG can support social cohesion by recognising everybody's right to participate in our economy and society.

This is supported by evidence showing that cash transfers strengthened social inclusion and contributed towards more cohesive societies in five case studies across the Middle East and East Africa.⁹ A case study in Tanzania found that cash transfers increased trust in leaders and willingness to participate in community programmes.¹⁰

By addressing poverty and inequality, a UBIG may affirm recipients' sense of belonging. In receiving their rightful share of society's economic surplus people are more likely to exhibit civic mindedness and democratic participation at both the national and local level.

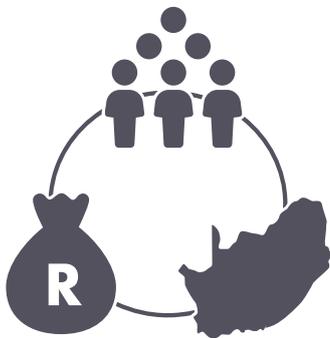
A UBIG can further aid social cohesion by decreasing crime rates, especially theft, which is most often linked to economic conditions. A basic income pilot in Namibia led to a 42% drop in overall crime rates.¹¹

The above evidence shows that basic income support has the potential to contribute to building more stable democracies and providing a greater sense of inclusivity and tolerance. These are all benefits South Africa needs more of. However, there are some important caveats to this — these outcomes depend on how the support is implemented.



Universality is key to realising gender and social cohesion benefits

International evidence shows that universality — or giving the grant to all adults with no strings attached — is key to these benefits being realised. Grants that have imposed eligibility criteria to exclude certain groups, have been shown to undermine social cohesion and create a social stigma against recipients.¹² With regard to the impacts for gender equality, it is critical that income support is directed towards all adults in order to increase women's agency — as opposed to giving it to (usually male) heads of households, or conditioning it on women being caregivers. A more detailed discussion on the benefits of universality can be found [here](#).



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NOT JUST A HANDOUT

How a UBIG gives people the power to prosper

Introduction to UBIG

A universal basic income guarantee (UBIG) is a commitment by government to ensure that everyone has a minimum level of income to meet their basic needs. This is done through a regular cash transfer or grant. Research shows that a UBIG can help remove barriers preventing people from building sustainable livelihoods, and can contribute to stronger local economies.

UBIG and sustainable livelihoods

Research from countries as diverse as Kenya, Zambia, Mexico and Namibia shows that basic income initiatives can enable people to overcome barriers to building sustainable livelihoods. This means that individuals can gain the necessary means and capabilities for supporting themselves; recovering from shocks or crises; and improving future earning capabilities.¹

By allowing people who have previously been excluded to participate in economic activity and grow their incomes over time, cash transfers can meaningfully contribute to macroeconomic growth and development through increased income, consumption, productivity, and employment.



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Investment, productivity and enterprise formation

Recipients of cash transfers are able to build their economic resilience to ultimately escape the poverty trap, in multiple ways. People are able to invest in self-employment and productive activities alongside skills and education, increase their savings and increase their access to credit. In turn, recipients are able to reduce their long-term vulnerability to poverty.

A study on cash transfers in Sub-Saharan Africa showed that cash grants lead to investment in agriculture, improved productivity in existing enterprises, and the creation of new microenterprises.² For example, in both Zambia and Lesotho, the area of agricultural land worked increased as a result of cash transfers, and recipients were able to invest in hired labour. The agricultural produce was mostly sold on the local market.

In Namibia, a Basic Income Grant (BIG) pilot provided the start-up capital required for establishing new enterprises and increasing productivity in existing enterprises. As a result, average incomes increased by 29%, over and above the income from the BIG, and income from self-employment increased by 301%.³ A Kenyan study found similar results—recipients of a cash transfer increased their investments in self-employment and productive assets, which translated into increased revenue from both agricultural and non-agricultural enterprises.⁴

In Mexico, a study found that cash grants relieved some of the liquidity constraints previously faced by recipients, which resulted in increased investment.⁵ Greater investment led to sustained, higher incomes over time and a long-term improvement in consumption. The cash transfer, because of its regular sustained nature, provided recipients greater economic security and they were thus able to take greater risks when it came to investing.

The UBIG can contribute to more sustainable livelihoods by stimulating demand in local economies, as well as allowing recipients to invest in skills, self-employment and productive activities. The grant allows people to employ external labour, create their own microenterprises and expand on existing enterprises. Greater investment results in an increased return on the cash grant, and sustained higher incomes in the longer term. Recipients are thus able to reduce their vulnerability to poverty, escape poverty traps, and build their resilience.

NAMIBIA BIG PILOT

↑ 29%

INCREASE IN
AVERAGE INCOME
OVER AND ABOVE
THE GRANT ITSELF

↑ 301%

INCREASE IN
INCOME FROM
SELF-EMPLOYMENT

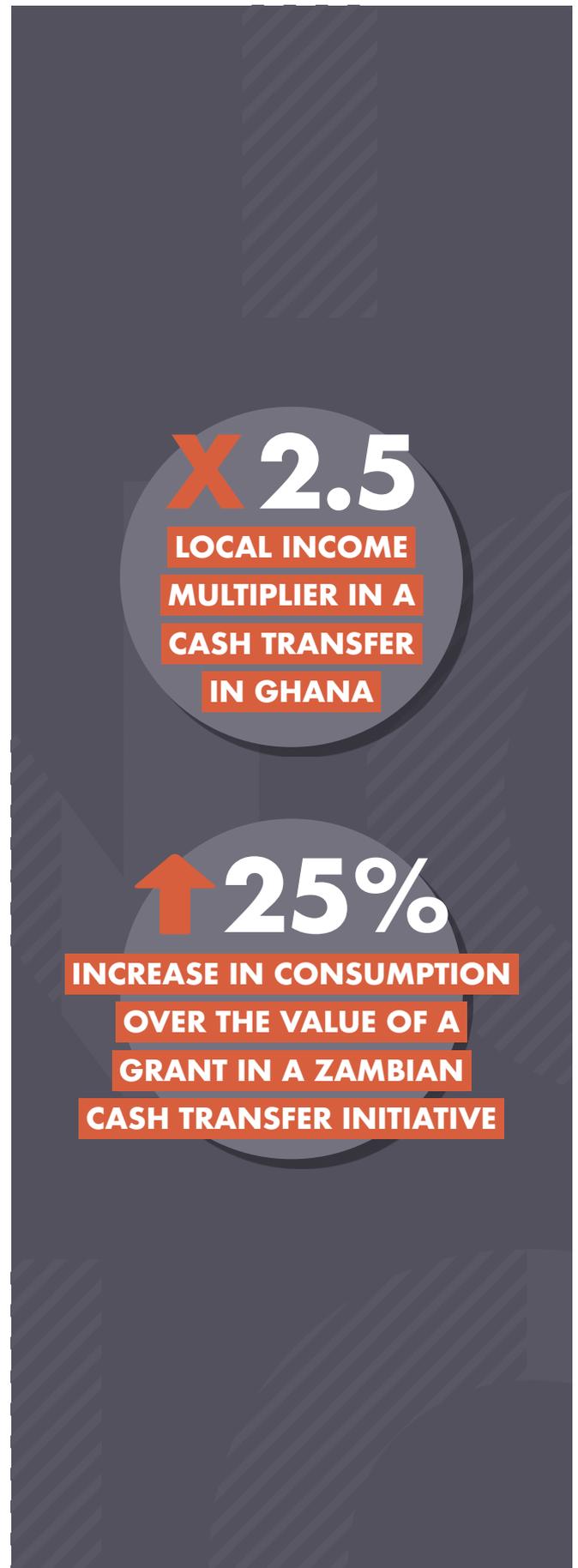
Consumption and the multiplier effect

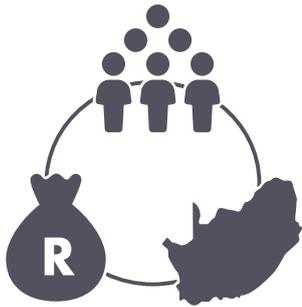
A cash transfer has ripple effects in the local and national economy beyond the increased income of recipients. This is known as the multiplier effect. Because lower income individuals spend a greater proportion of their income in local economies, cash transfers boost local businesses through increased spending power.⁶ Higher consumption (or “aggregate demand”) boosts local businesses, and grows the local and national economy, creating additional livelihoods.⁷ This in turn increases the tax base and promotes national economic development.

For instance, in a cash transfer initiative in Ghana, the majority of beneficiaries’ income was spent in the local economy, thus increasing local income by a multiplier of 2.5.⁸ In a similar initiative in Zambia, there was an increase in consumption of 25% over the value of the grant—indicating an income multiplier effect.⁹ These experiences show that cash transfers not only benefited the targeted recipient, but also grew the overall local economy so that even those who were not recipients saw an increase in their incomes.

These results hold true across multiple studies. The impact of cash transfers extend beyond immediate income poverty reduction, to produce deeper structural change in the economy, and help people escape poverty traps long-term. Transfers increase consumption, investment, and productivity, which is especially concentrated in areas that have been excluded and deprived.

Much of the evidence we draw from in this factsheet is derived from targeted and conditional—as opposed to universal—basic income schemes. This is because there is very little experience internationally with universal basic income. However, the scale, consistency and guaranteed nature of a UBIG means that the benefits outlined above would likely be much more pronounced. An important underlying factor in driving these positive impacts is that people are enabled to take greater risks when they know they are going to be receiving a regular basic income no matter what. Therefore we can make quite an informed prediction that the impacts we have detailed above would be even greater with a UBIG.

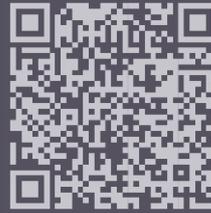




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“BUT HOW WILL WE PAY FOR IT”?

Financing a UBIG

An important question in the discussion of a UBIG in South Africa is how much it will cost and how the government will pay for it. In general, governments have three ways they can finance new programmes like this: (1) they can raise taxes, (2) they can borrow (that is take on more debt), or (3) they can reallocate public spending from one item to another. Governments have the choice of focusing on one, or a combination of these options. Further, when assessing the cost of any budgetary item, it is important to take into account both the gross and the net cost. The gross cost is the actual amount of money that government budgets for the programme. The net cost, however, is this gross cost minus the money that flows back to the government as a result of the programme, in this case the UBIG.

What is the gross cost of a UBIG?

A UBIG paid to all adults between the ages of 18 and 59 at the level of the Food Poverty Line (FPL) of R624 per month would have a gross cost of R255 billion per year.¹ However, this number assumes that everyone who qualifies will take the grant up. Contrary to this, research shows that a significant portion of the population is likely to opt to not receive the UBIG, usually because they have alternative income sources.² We can assume, based on historical uptake of other grants, that only 60% of those eligible will opt in to receiving the grant initially, improving to 80% over time. If the UBIG is taken up by 60% of adults it would cost about R153-billion per year (or around 7% of the 2022/23 government budget) and at 80% uptake it would cost about R204-billion per year (or around 8% of the projected 2025/26 budget).



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What are the benefits that offset the cost of a UBIG?

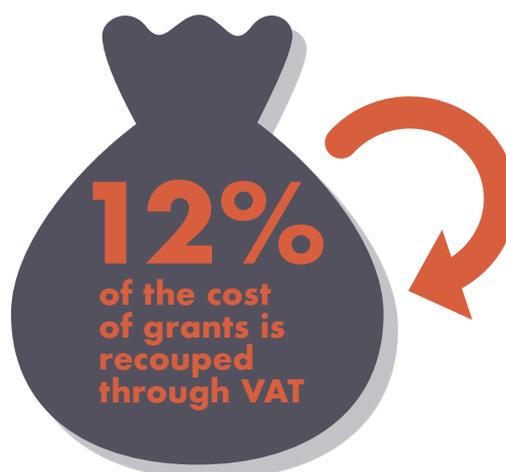
This upfront cost still tends to give an exaggerated picture of the financing requirement for a UBIG. A significant amount of money is directly returned via VAT, and other taxes set aside as a direct 'clawback' for the UBIG. Further, the UBIG should be understood as a form of investment or "stimulus" that promotes economic activity and creates new government revenue.

Put simply, the government makes some of the money back, as a result of the economic activity that putting large amounts of money into poor communities generates (the "multiplier" effect). If we consider the benefits of a UBIG to government as a deduction from the gross cost, we see that a UBIG has a much lower fiscal impact overall.

The latest research on the use of the COVID-19 Social Relief of Distress (SRD) grant shows that people use it to purchase food and basic necessities.³ That means they spend a significant portion within their local economies. Research from StatsSA shows that the bottom 70% of spenders, spend 81% of their disposable income on items which carry VAT, the tax paid to government on goods and services. This means that about 12% of the money spent on grants is recouped through VAT. As a result, if there is an 80% uptake of a grant set at R624 a month, government would recoup about R24-billion from VAT alone.

In addition to being partially recouped through VAT, government spending on UBIG flows back into government revenue in other ways through increased local economic activity. People with lower incomes spend more of their income on goods produced in South Africa than people with higher incomes, and they also spend more near where they live. When people spend more money in their local economies, local businesses grow. That means that the incomes of small business owners and entrepreneurs goes up, and businesses employ more people.

This added business, income and employment all contributes tax to the government, helping to offset the gross cost of the UBIG. This is often referred to as the "multiplier effect". This positive ripple effect through the economy is well supported by international evidence.



How can we pay for the net cost of a UBIG?

Even taking into account the above, the government would need to finance the net cost of the UBIG, which would still be significant.

Ideally, the government would pay for most of the UBIG with tax revenue, and would limit the amount of extra debt it takes on for this purpose. Further, while financing could draw on a degree of reallocation of expenditure, and reduction of wasteful spending, this should not be done in a manner which undermines provision of public services — which need to be expanded, and not cut.

Not all forms of taxation are the same. Some taxes eat up a large share of the income of poor people (called regressive taxation). An example of this is VAT. If a UBIG was paid for by increasing regressive taxes, this would cancel much of its poverty alleviating benefits. On the other hand, taxes that target the wealthiest people and companies, or that require wealthy people to pay proportionately more than poor people (called progressive taxation⁴) can be effective at redistributing income to poor households — as long as they can be sustained and administered. Studies also find that regressive taxation such as VAT have negative growth, equity and employment effects.⁵

Progressive taxation is the best option for funding a UBIG in South Africa to achieve poverty alleviation and inclusive economic growth which uplifts the poorest. While some critics claim that this will overburden a shrinking number of taxpayers in South Africa, it would actually help to grow the tax base by giving millions more people the means to participate in consumption, business

and work. In addition, a recent study by economists found that while higher earners are paying more income tax in absolute terms, their income has increased more than their income tax payments.⁶ Therefore, despite claims that South African taxpayers are overburdened, there is scope to increase tax for the wealthy and high-income earners.

There are many options for introducing progressive taxes in South Africa. One important funding mechanism is a *social security tax* (SST). This functions as a “clawback” mechanism to cross-subsidise the UBIG, which means that although everybody pays the tax, people pay it at different rates depending on their income. High income earners pay more in SST than they receive in UBIG benefits, and lower- or middle-income earners, while contributing something, would receive a benefit from the UBIG. The social security tax would cover around 25% of the cost of a UBIG.⁷

Taken together, the revenue directly generated by a UBIG, combined with a progressive clawback from higher-income earners through an SST, and an anticipated lag in uptake in the short- to medium-term overall, will result in a net cost of as low as 50% of the gross cost. Studies have shown that this cost could be covered by progressive taxation. International evidence shows that progressive income tax, corporate taxes and taxes on wealth are better at redistributing and improving incomes for poor households than regressive forms of tax such as VAT. They are also better at promoting increased employment and economic growth.

What other taxes can we use?

Additional sources of revenue would still be needed to finance a UBIG beyond a social security tax. Introducing a UBIG would require a careful rebalancing of the taxation system that is phased in over time, including the removal of measures that currently disproportionately benefit the wealthy.

In South Africa, a large amount of wealth is tied up in things like assets, savings and land, which are currently undertaxed especially amongst the extremely wealthy. In addition, tax breaks and credits related to medical insurance and retirement fund contributions subsidise wealthy people with little to no policy benefit. This all has the effect of syphoning money upwards, and increasing inequality.

Options which could target runaway inequality to fund a UBIG include:

- ✓ **A wealth tax:** Researchers have shown that a wealth tax on the wealthiest 1% of the population — just 340,000 people — could raise up to R143-billion a year, but this could take several years to implement.⁸
- ✓ **A VAT on luxury goods:** The IEJ has shown that a higher rate of VAT on luxury goods of 25% would raise an average of R9-billion annually.⁹
- ✓ **A reduction in government subsidies on pension fund and retirement fund assets:** Research estimates subsidies on pension fund contributions to be R87 billion, while subsidies on the return on investments of retirement fund assets are estimated to be R46 billion. This is a total subsidy of R133-billion on retirement fund benefits alone, much of which is to wealthier South Africans. A significant portion of this could instead be used to benefit poor households.¹⁰ The same holds true with medical aid subsidies, although the amounts are generally lower.
- ✓ **A Financial Transactions Tax (FTT) and Resource Rent Tax (RRT):** A FTT set at 0,1% of financial transactions could achieve R41 billion annually, and a RRT could raise over R38 billion per year.
- ✓ There are **various other** financing options that have been proposed for consideration.

Collectively, these and other sources of revenue, including a reduction in wasteful and irregular expenditure, could be used to finance the UBIG. The IEJ financing policy brief offers 18 financing options — see full details [here](#)¹¹ — which if appropriately selected and sequenced, could finance a variety of UBIG models.

What does affordability really mean?

The question of “affordability” in the context of government finances is not just technical, it is also political. It requires the government to make decisions about what should be prioritised — whether it is realising everyone’s right to live with dignity now, or reducing public expenditure and debt as fast as possible.



While a UBIG does present a significant fiscal cost, there is also a heavy price tag that comes with not doing anything. That cost is borne by the poorest, in the form of trauma, malnutrition and the theft of their agency and opportunities, but it is also borne by the government in the form of a shrinking tax base, a stagnating economy and inevitable social instability. We saw this danger in the July 2021 looting and continue to see it in the ongoing low intensity destruction of infrastructure in communities.¹²

Without taking bold action now, the country will find itself in a position we are even less able to afford in the long run. A UBIG is feasible and affordable without compromising South Africa's fiscal position, and without cutting spending on public services or on existing grants.

The IEJ is currently working on modelling alternative pathways and scenarios to transition to a UBIG over the short to medium term. This work will be the subject of a forthcoming factsheet.

Endnotes

1. Note: calculations and data in this factsheet are from the IEJ July 2021 Financing policy brief, unless otherwise stated.
2. Institute for Economic Justice. 2021. Financing options for a Universal Basic Income Guarantee in South Africa. *Social Protection Series Policy Brief #2*
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6. Goldman, M. and Woolard, I. 22 June 2022. [How effective is income tax in reducing inequality in SA? Econ 3x3](#).
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10. Van den Heever, A. 30 January 2022. [Is opposition to basic income support for vulnerable adults informed by evidence or ideology?](#) Daily Maverick.
11. www.iej.org.za/wp-content/uploads/2022/09/FINAL-IEJ-policy-brief-UBIG-july2021.pdf
12. See Coleman, N. 29 September 2022. [Basic income grant is needed to avert social upheaval](#). Institute for Economic Justice.

Visit our special UBIG portal by scanning the QR code



Read more in the IEJ's Policy Brief: [Financing Options for a Universal Basic Income Guarantee in South Africa](#), and the IEJ's [Working Paper: Can a Universal Basic Income Contribute to Breaking Structural Poverty in South Africa?](#), and accompanying [Annotated Bibliography](#).

This factsheet is part of our series on the universal basic income guarantee (UBIG) in South Africa.

Factsheets in this series are:

1. Why does South Africa need a Universal Basic Income Guarantee?
2. No one left behind: Why universal basic income makes more sense than targeted grants
3. Jobs versus Grants: Are employment and basic income a policy trade off?
4. How a UBIG can support healthier kids, happier adults, and lifelong learning
5. How a UBIG can advance gender justice and social cohesion
6. Not just a handout: How a UBIG gives people the power to prosper
7. "But how will we pay for it?" Financing a UBIG

Forthcoming factsheets in this series will focus on:

- Modelling pathways to a UBIG
- UBIG and the rising cost of living
- UBIG and the just transition

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