DESIGNING A BIG: UNIVERSALITY, TARGETING & OTHER CONSIDERATIONS

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The Importance of Design

How a Basic Income Guarantee is designed is virtually as important as whether it is adopted at all.

Two broad versions of a BIG can be imagined:

- A **Universal BIG** that is made available to all those between ages 18-59.
- A **Targeted BIG** that is made available to only a select group of the population defined by some kind of criteria
    - This can refer to identifying a group of people who earn below a particular income threshold, or those defined by their un/employment status (or, such as the new SRD Grant, a mix of the two).
    - Another aspect of targeting is whether a BIG should be aimed at individuals or households.

The core arguments for targeting a big:

- It is more efficient because it focuses resources on those who need assistance the most
- It is more affordable due to limiting the potential coverage, thereby limiting costs
- It is more effective as it allows higher transfer values to fewer people, increasing impact on poverty
- It avoids creating dependency by limiting the eligibility to economic status instead of creating permanent entitlements

- Mirroring this, proponents of targeting therefore assert that Universality is wasteful and inefficient, is unaffordable at meaningful levels, and encourages laziness and disengagement from labour by creating entitlements.

- However, we see these arguments as not only often flawed in understanding and practice, but based within a conceptual framework that undermines the potential for genuine social protection and development.

Income Supports as a Constitutional Right

- In South Africa, income support is a guaranteed right
  - Section 27 of the Constitution gives universal right to social security for those who cannot otherwise adequately provide for themselves (Whereas Section 7 & 36 prevents unjustifiable delays in realising this right).
  - The International Covenant on Economic, Social and Cultural Rights (ICESCR), of which SA is a signatory, similarly asserts that all persons should be covered by the social protection system, especially those most marginalised and disadvantaged.
- Considering the context of South Africa:
  - Highest inequality rates in the world
  - Structural unemployment (unemployment rate of 34.4% [44.4% by broad definition])
  - Job creation, while critically important, cannot answer the scale and urgency of SA's crisis
- In this context, the historic exclusion of majority able-bodied working age persons from the social grants system is inexcusable and untenable.
- However, the question is, how best can income support be provided to those who need?

The Targeting Flaw

- All cash transfer programmes face challenges of administration and access that risk inclusion errors (including the ineligible) and exclusion errors (excluding the eligible).
- Yet targeting greatly exacerbates the risks and problems involved, as it requires more complex systems in order to identify, isolate and reach the specific group.
- Common barriers include: Outdated databases, exclusionary technology, inadequate administrative capacity, exclusionary conditionalities, social stigma, burdensome and bureaucratic criteria, private costs and misunderstood criteria.
- In considering Kidd & Athias's research on targeted schemes globally: out of the 25 poverty-targeting programmes studied, 12 reflected exclusion errors above 70%, while five reflecting above 90%
  - What their research shows painfully clearly, is that the more narrow a scheme is targeted, the greater the levels of exclusion
- But why are targeted schemes so often seen as successful?
  - Error Bias: policy-makers are generally far more concerned about preventing the cost of inclusion errors, whereas exclusion errors are now costs not incurred
  - Popular Appeal: targeting, in theory, fulfils the anti-poor obsession with only helping the "deserving poor".
  - Poor Research: evaluations of effectiveness in targeted schemes are often vastly miscalculated - by measuring the receipt of the grant against a general poverty demographic, rather than its exact intended category population.

*Kidd, S., and Athias, D. 2020. "Hit and Miss: An Assessment of Targeting Effectiveness in Social Protection," Development Pathways, Working Paper, https://doi.org/10.13140/RG.2.2.16951.16809

The Targeting Flaw 2

- The fundamental flaw of means-testing and targeting is inability to define a fixed group called ‘the poor’.
- The context of high levels of poverty and highly dynamic incomes found in low- to middle-income countries further confounds this because:
  - The targeted group is in constant flux,
  - And a large proportion of the population that are excluded would genuinely benefit from being recipients.

The Means-Tested Paradox:

“a system that is designed to deliver resources to the people who are most in need, unintentionally excludes those people from that system” - Martin Farley

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The Dependency Debate

- The popular argument is that grants create dependency; foster laziness; discourage recipients from working; and distort the labour market. Relatedly, some argue that targeting limits this by ensuring that people can 'graduate' from a BIG and lose its benefits.
- 'Dependency', in this sense, is seen as an undesirable product of human nature that must be actively warded off.
- This belief of the negative impact of grants, however, is grounded by neither global research on cash transfer programmes and UBI pilots, nor local research on South African's attitudes towards work or their working behaviour
- Yet to avoid this boogeyman, proponents of targeting stand likelier to create it by creating new poverty traps
    - If receipt of a BIG is based on being unemployed, then a job must a) offer enough to offset both loss of the grant and costs incurred by working life, and b) be sufficiently secure enough to forgo secured income support based on income-threshold, then moving from below to above the threshold means loss of benefits,
    - If receipt of a BIG is which is only worthwhile if the gains offset this loss, yet wage increments are often modest, especially at lower levels.
- The idea that a targeted or conditional grant will help recipients 'graduate' from poverty is therefore misplaced. Instead, a new poverty trap can be entrenched.

Challenged to Targeting Options: *Employment Status*

- Targeting the "Unemployed" faces the inability of differentiating those unemployed from either informal-sector workers or those not economically active.
- Hence the realistic alternative is targeting the combined group, the Not-Formally-Employed (by excluding the formally employed based on UIF or PAYE data).

Challenges:

- The NFE is a much larger group (22m), hence far more expensive.
- UIF & PAYE databases are not wholly reliable, creating exclusion.
- SA's Labour market is significantly volatile, meaning many would-be-beneficiaries would constantly shift eligibility status.
- Basing eligibility for a BIG on not having formal employment can incentivize shift towards informalisation, perpetuating precarity for many.

Challenges to Targeting Options: *Income Thresholds*

- Targeting income thresholds may be preferable to employment status, as this avoids a more arbitrary proxy for economic wellbeing (formal employment does not equate to not living within poverty).
- This can be set at numerous thresholds (e.g. Poverty lines, Child Support Grant means-test threshold, Personal Income Tax Threshold)

Challenges:

- Using the smaller Poverty Lines entails stringent targeting requirements that will greatly exacerbate exclusions.
- Borrowing the CSG means-test threshold (R4600) means significant eligible number (24.2m) would face burdensome application process – very slow to implement.
- Using the PIT threshold is preferable, due to being able to be administered far more quickly and efficiently by SARS, yet costing similar to UBIG
- More-so, use of income thresholds does not escape arbitrary issue -> eg. Someone earning R4599 and another earning R4601 are not in different levels of poverty.

Challenges to Targeting Options: *Individuals or Households*

A different question is whether a BIG should be targeted at Individuals or Households (Treasury's recent announcement indicating consideration of the latter).

Targeting households or families does not evade the issues of targeting, it worsens them, and undermines a BIG's impacts

- Critical issue of historic lack of clear definition of a 'household' or 'family' in South Africa
- Significant fluid and porous nature of households.
- Challenges of informal dwellings, proof of residence, etc.
- Lessens potential impact of pooling many grants, by instead receiving one.
- Threatens deepening dependency of household members on the head of house, and worsens gender power imbalances.
- Does not directly account for household conditions or number of dependents – which are skewed against women-headed households carrying heavier burden.
- Lack of usable database or household registry required for roll-out.

Need to ask then why this choice by Treasury?
Desire for cost-saving, recognition of difficulty of strictly targeting the unemployed, and potential interest in collapse of other grants into one lesser package

In/Efficiency of a UBIG

- UBIG is criticised as inefficient by being given to those who don't need
  - Critique bears both cost & moral concerns, yet misunderstands potential design of a UBIG
- As a UBIG is given to everyone, a taxation measure on income can be created to 'claw-back' the benefits given to the wealthy (eg the'Social Security Tax' [SST] combined with other progressive tax proposals)
  - This can be designed to put an incremental tax rate on personal income across increasing tax brackets in such a way that distribution of benefits are focused on no-to-lower income earners, while creating a significant UBIG financing mechanism
  - Ironically, this means a UBIG can be 'targeted' more efficiently to those who need it

Earnings Per Year	35 000	70 000	150 000	250 000	340 000	500 000	1 000 000
SST rate (%)	1.50%	1.50%	2.00%	2.00%	2.00%	2.50%	3.00%
SST tax paid (R)	525	1 050	3 000	5 000	6 800	12 500	30 000
Total UBI received (UBIG at R585 pm)	7 020	7 020	7 020	7 020	7 020	7 020	7 020
Net benefit / contribution	6 495	5 970	4 020	2 020	220	-5 480	-22 980
Total UBI received (UBIG at R840 pm)	10 080	10 080	10 080	10 080	10 080	10 080	10 080
Net benefit / contribution	9 555	9 030	7 080	5 080	3 280	-2 240	-19 920

Unpacking Cost & Cost-Effectiveness

- A fundamental argument for targeting is that this allows a cheaper BIG by limiting its coverage
  - Based on the direct costs of distributing benefits, this is plainly obvious
- One issue is recognising the costs of targeting in real terms:
  - Targeting will create significantly higher administrative expenses
  - Its means-testing requirements will place private costs onto applicants and recipients
  - By limiting its coverage and 'saving' costs, targeting ensures that the cost of poverty that would be addressed under a UBIG will be retained; with a UBIG these costs are borne not only by those within it but society as a whole.
  - If targeting creates a BIG too limited to address the dire situation of poverty and desperation, it will also maintain the potential costs of a crumbling social contract
  - On the other hand, to 'cost' a UBIG by taking the grant value and multiplying it by the estimated recipient pool is a flawed way of understanding its real costs

Unpacking Cost & Cost-Effectiveness 2

- However, this critique against UBIG is also that it is simply unaffordable, and therefore the cheaper option is a necessity.
  - Is a UBIG expensive? Relatively speaking, yes
  - But is a UBIG affordable and sustainable? Yes
- The issue is centering the priority of a cost-saving framework, rather than asking the vital question of whether the cost is worth it; and comparing it to the cost & efficacy of other anti-poverty interventions.
  - This clash calls to how we fundamentally understand a BIG: as a cost or an investment?

Impact on Poverty & Inequality

- An additional critique is that Targeting allows greater transfer values to fewer, increasing its impact; which means UBIG is the less valuable investment, as it spreads its benefits "too thinly" across too many people, lessening its impact.
  - It is transparent that for any given budget, increasingly larger transfers can be given to increasingly fewer recipients (however, here there is no cost-saving logic behind targeting, if the same budget is used for fewer recipients).
  - It is also a given that targeting a BIG can be done narrowly enough so that it can offer both larger transfers while also being cheaper.
- If this logic is accepted, universality would be the worse choice
- Yet this critique can be problematic on basis of:
  - Underlying assumption that Universality cannot be afforded at meaningful levels
  - Limited view of a UBIG that reduces its developmental impact to a comparison of transfer value levels, and fails to take into account multipliers, & other social/ economic impacts
  - Seeing livelihood survival strategies as individualistic affairs instead of collective
  - The range of exclusion issues outlined above

Impact on Poverty & Inequality 2

- The important unit in exploring impact is Households, not Individuals
  - Pooling incomes within households is the common trend within SA (for example, 88% of COVID SRD grant recipients reported doing exactly this with their grants).
  - Under a Universal BIG, we can reasonably expect a significantly larger average number of beneficiaries per household, than if targeted.
  - Hence, even if we accept that a UBIG would give lower transfer values, the collective impact on household income can be greater. For example, this scenario is shown in ADRS's recent work.

Household Disposable Income (Compound Annual Growth Rate between 2020-2025, %)										
	Baseline	Broad Unemployment BIG			Adult Universal BIG (ages 18-59)			Fully Universal BIG (all ages)		
Household Disposable Income		FPL	LBPL	UBPL	FPL	LBPL	UBPL	FPL	LBPL	UBPL
Quintile 1	14.7	16.1	16.7	17.7	18.6	20.1	22.4	19.9	23	27.5
Quintile 2	14.4	15.2	15.6	16.2	17.5	18.7	20.7	18.6	21	24.7
Quintile 3	11.8	11.8	11.8	11.9	12.1	12.2	12.9	13.3	14	15.1
Quintile 4	11.5	11.3	11.2	11.1	10.5	10.1	9.3	10	9.6	8.9
Quintile 5	10.3	10.3	10.3	10.4	10.1	10.1	9.9	9.9	9.9	9.9

Source: Adelzadeh, A. 2021. Fiscally Neutral Basic Income Grant Scenarios: Economic and Developmental Impacts.

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Impact on Social Fabric

- Positive effects of cash transfers on the social fabric and individual wellbeing are widely documented
- Targeting measures often undermines these gains
  - Issues of arbitrary selection, exclusion errors, fraud, corruption, stigma, shame and indignity foster unfairness, fuel intra-community tensions, and breakdown of trust between beneficiaries and non-beneficiaries (as well as limit take-up rates).
- Universality does not solve all these problems (eg. discourse of 'dependency' and resulting stigma is already ingrained).
- However, it can foster an inclusive and universal 'right to citizenship'. This is far better placed to repair, instead of undermine, South Africa's already disintegrating social fabric.

Implementation & Pathways to a UBIG

- A final form of targeting is the 'phasing-in' of the BIG: This entails initially making it available only to limited groups (eg. age cohorts), and expanding eligibility over time.

- This presents significant problems
  - "Policy-roadmaps" for phasing-in tend to ignore that social protection expansion is often driven by civil society pressure (such as the CSG), not political goodwill.
  - Initial selection is ultimately arbitrary choice of who is more deserving in the context of widespread desperation.
  - Doing so requires more complex targeting means, dilutes BIG impact, and risks loss of support.
  - A slow approach risks not meeting the current urgency.

Implementation & Pathways to a UBIG 2

- If phasing-in is rejected and rapid implementation is critical, then how?
  - DSD believes that even if SASSA's current capacity was doubled, a BIG based on the CSG means-test with 20-30m applicants *would take over 20yrs to implement.*
  - Given the comparative ease, universality becomes the most feasible option.
- Other pathways to a BIG
  - Incremental approach may be deemed a 'necessary evil' due to finances, capacity or political contestation. This may entail moving from SRD Grant extension in short term, to an Unemployment or Income Threshold targeted Grant in medium term, towards a UBIG in longer term.
  - Myriad of risks involved, primarily:
    - Policy pathway dependency (i.e. once targeting is institutionalized for a BIG, can it be removed?),
    - Implementation and meagre impact of an inadequate BIG can be used as 'proof' of failure of BIG as a policy,
    - Requires extraneous and extended action from civil society to maintain progress.

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