



PATHWAYS TO BASIC INCOME IN SOUTH AFRICA

Neil Coleman

Institute for Economic Justice

Presentation to EURASIA Group

9 May 2024

Introduction

- Broad social consensus that we need a basic income, arising both from the international and SA evidence on its developmental value, as well as the objective social realities in the country.
- Space to raise level of social assistance. At around 3.5% of GDP in 2022/3 (down from a peak of 4.5%), not comparatively high, particularly given our high levels of poverty.
- Leaders in government have embraced notion that while many economic measures medium term in character, cash transfers can be rolled out quickly, make an immediate impact, and stimulate economic pathways
- Because of popularity in society of U/BIG, many political parties have adopted or are considering adopting proposals for basic income. Proposals adopted recently for a basic income system include: ANC, Action SA, GOOD, MK, UDM, EFF to an extent, and possibly others.
- Others are considering or paying lip service to it because of its popularity.

Why Basic Income is on the agenda in South Africa

Urgency of this issue reflects the country's challenges- while categorized as an upper middle income country, the reality facing the majority is different:

- **Crisis of hunger:** over a quarter of South Africans (around 16 million) live below the food poverty line. 2023 Wits University study-1 in 5 South African households are regularly sending a family member out to beg for food.
- **Crisis of poverty:** over 55% of South Africans, or over 30 million people, live in poverty
- **Crisis of unemployment:** 11.7 million people or over 41% are unemployed, according to QLFS Q4 2023. Nearly 80% are long term unemployed ie with little hope of a job.
- **The crisis of inequality:** "South Africa... is the most unequal country in the world, ranking first among 164 countries" World Bank

The political economy of Basic Income in South Africa

- **Deeply entrenched structural factors** mitigating against sustainable livelihoods for the majority include:
 - landlessness and the lack of a vibrant peasant economy;
 - the small size of our informal economy;
 - financialisation and deindustrialisation of the economy; and
 - Historical marginalisation of black rural and urban communities from the economic centres.
- Before the SRD grant was introduced during Covid-19 there was effectively **no social security for the vast majority of people aged 18-59**. Only children and old people were covered. Grants (particularly the Child Support Grant (CSG) and the Older Persons' Grant (OPG) make up 24.4% of household income.
- The SRD Grant is received by about 8 million beneficiaries. But the current means-tested grant excludes around 50% of those who most need it, & is far too low (less than half the FPL). Government estimates that 18.3 million in the 18-59 age group live below the food poverty line (FPL). Active labour market measures that address cyclical changes have been unable to address deep structural poverty and unemployment.

The political economy of a UBI for South Africa cont.d

- The **crisis of hunger and destitution** haunting the country require rapid high impact interventions to transfer income, which a UBIG could do. Longer-term structural interventions will take time to have an impact.
- The **crisis of state capacity** & inability to roll out more complex economic interventions in the short to medium term, given challenges eg corruption, can be short-circuited by basic income- seen with the SRD grant which, despite problems, has been rapidly rolled out, with relatively minor corruption issues, when compared to other programmes, & rapidly transferred income into the pockets of those who need it most.
- The **stimulus impact** of the injection of income into poor communities provides a platform for economic renewal and development. This is backed up by international evidence on the impact of basic income trials, which has been comprehensively documented by the IEJ in a [recent paper](#).

What is the evidence on UBI?

- Compelling international and local evidence from Basic Income trials around the world, and the SRD Grant in SA, that basic income transfers have multiple developmental impacts.
- A basic income grant is not just a large expense, but an investment. It is a development intervention that, if implemented as part of a broader policy framework, will make a significant contribution to addressing many of our socio-economic challenges:
 - Evidence shows basic income boosts economic activity (especially in depressed areas), through stimulating:
 - Increased consumption—directed to local businesses
 - Investment in productive assets
 - Enterprise formation
 - Jobseeking
 - Job creation

What is the evidence?

- These impacts create a multiplier effect, flowing back to government as revenue, partially offsetting cost of the grant
- Basic income has positive social impacts across various areas (providing public services are resourced & accessible):
 - Improved school attendance and achievement
 - Better health and mental health outcomes
 - Improvements in social cohesion and reduction in crime
 - Partial compensation of unpaid care work
 - Decreased vulnerability to financial abuse and gender-based violence
- **These impacts reduce the costs of poverty to the state & individuals, and can catalyse a virtuous macroeconomic cycle.** However Basic Income by itself is not a silver bullet and must be part of a development package.

Impact of the SRD grant

- Though the grant is so small (less than half the FPL), impacts documented in terms of **hunger, poverty alleviation and economic stimulus**:
 - In 2020, 93.3% of grant recipients used the grant for food
 - 80% said the grant made a positive difference in their lives
 - 53.1% pooled their grants with other household income
 - 88.14% of recipients said the grant should be given to everyone that applies
- Grant mitigated poverty levels 2020-21. Without it 1.8-3.1 million more people would have entered into poverty.
- Receipt of the SRD grant increased the likelihood of employment by three percentage points.
- Positive impact on both formal & informal activity documented, including greater customer spending, improved ability to invest & start new ventures.
- **The SRD grant provides a strong basis for a system of basic income.**

Cost of a BIG

- There are multiple BIG scenarios, depending on value, numbers qualifying, take-up, the means test, financing mechanisms etc.
- Various financing options have been examined including 18 financing modalities advanced by IEJ in 2021 for consideration- see attached.
- It is important to distinguish between the gross, nominal cost of a BIG, and the **real net cost**, having considered various feedback loops.
- A serious discussion of the viability of BIG options therefore must consider all the above.
- The IEJ, and various experts advising government, including Presidency and DSD, have modelled various options and concluded that a BIG is affordable, and sustainable. However Treasury has adopted an extremely conservative posture, and is opposed.
- Broad sense of potential numbers and **gross costs** is seen in extract from this 2021 research by IEJ:

GROUPS (18 – 59)	NUMBER OF PEOPLE (millions)	FPL (R585 pm) (R billion)	LBPL (R840 pm) (R billion)	UBPL (R1268 pm) (R billion)	R2500 pm (R billion)	R3500 pm (R billion)
All	34.1	239	343*	519	1023	1432
All (80%)	27.3	192	275*	415	818	1146
All (60%)	20.5	144	206	311	614	859
Informal Workers ⁷³	2.5	18	25	38	76	106
Unemployed ⁷⁴	11	78	111	168	332	464
NEA ⁷⁵	13.4	94	135	203	401	561
NFE ⁷⁶	22.4	157	226	341*	672	940

Source: Own calculations based off IEJ Policy Brief. 2021. *Introducing a Universal Basic Income Guarantee for South Africa.*

NET cost of a BIG

- As a rough estimate, the net cost of a BIG would be roughly 60% of its gross cost.
- For an entry level BIG of R760 for 16 million people, a gross cost of R146bn p/a and a net cost of R87bn p/a/.
- This is when we factor in:
 - VAT returns from beneficiary spending;
 - Tax clawbacks
 - Other revenue benefits from increased economic activity in local communities;
 - Economic multiplier impacts in broader economy;
 - The actual level of take up (estimated initially at between 60-80%)
 - The 'poverty dividend' of reduced expenditure on health care, crime etc
- Exact multiplier impacts of basic income in SA not known but international and local evidence suggest they are high. Cf IMF and Sao Paulo University research- multiplier higher in developing countries & high inequality contexts. Propensity to consume.
- The larger the stimulus, within a feasible band, the larger the returns to the economy. So a more substantial entry level BIG, pegged to the FPL, should have greater multiplier impacts than a very small SRD grant

Pathways to a UBIG

- Civil society has taken a position of progressive realisation of a UBIG:
 - Start with Food Poverty Line (FPL) & progress to Upper Bound Poverty Line (UBPL)
 - Progressively include more beneficiaries, progress towards universality over time, including by significantly raising income thresholds.
 - Guided by constitutional imperatives of progressive realisation.
- ANC Resolutions also give expression to notion of progressive realisation.
- To investigate the impact of this approach, IEJ with ADRS modelled BIG pathways incorporating macro economic impacts. Pathways realisable and sustainable- see below.
- Pathways to BIG 2023-2030, see universality as a longer term goal, but aim to progressively incorporate a greater number of beneficiaries, reduce exclusion to a minimum. Avoid categorical targeting, by employment status, age etc.

Macroeconomic pathways - BIG is viable & sustainable

Table 3: Projections of Macroeconomic Impact of BIG Pathways (2023-2030)

Macroeconomic Indicators	Baseline	BIG PATHWAY: Low Ambition	BIG PATHWAY: Medium Ambition	BIG PATHWAY: High Ambition
GDP Growth (Ave)	2.2	2.8	3.2	3.5
Gross Domestic Expenditure (CAGR, Real)	2.2	2.5	2.8	3.0
GDP Per Capita (CAGR, Real)	0.8	1.3	1.5	1.8
Aggregate Supply (CAGR, Real)	2.3	2.6	2.8	2.9
Aggregate Demand (CAGR, Real)	2.4	2.6	2.7	2.8
Unemployment Rate (Ave)	32.1	29.7	28.2	27.2
CPI (Ave)	3.8	3.6	4.5	5.1
Interest Rate (Ave)	6.9	6.9	7.1	7.2
Current Account-GDP Ratio (Ave)	-4.3	-4.3	-4.5	-4.6

Source: Dynamically Integrated Macro-Micro Simulation Model of South Africa (DIMMSIM), www.adrs-global.com.

Figure 5: Comparison of Pathways With and Without BIG



Source: Dynamically Integrated Macro-Micro Simulation Model of South Africa (DIMMSIM), www.adrs-global.com.



Positions of political parties on BIG

- UBIC coalition has developed a scorecard of 19 party positions on BIG- draft to be published. See scorecard attached- this is under embargo until 15 May.
- Reflects growing support in society for basic income.
- At least 4 of 8 major parties support
- Estimated voter support of these parties is around 55-60%
- Corresponds to polling conducted by University of Johannesburg, which found 60% support for introduction of a BIG.



UBIC RELEASES ELECTION SCORECARD SHOWING HOW PARTIES PERFORM ON BASIC INCOME GRANT POLICY

15 May 2024

[Under embargo until 10:00 am on Wednesday, 15 May 2024]

South Africa needs a basic income grant. More than half of the population lives in poverty, with at least 17 million working-age adults below the food poverty line. 60% of people in South Africa [believe](#) the government should introduce a basic income, and several parties have pledged to do so if they win enough support at the election.

Today, the Universal Basic Income Coalition (UBIC) launches our Universal Basic Income Policy Election Scorecard—a resource for voters to compare where parties stand on the question of basic income. The scorecard is attached below.

Out of the 19 parties we analysed in our scorecard, 10 have committed to expanding the social protection floor, and five have committed to a basic income grant or a universal basic income. Collective voter support for parties advancing basic income is estimated at over 50%.

This is a moment of huge potential and sets South Africa apart amongst peer countries. If a universal basic income grant (UBIG) becomes a reality after the election, it would position South Africa as a leader in charting a new path of inclusive growth.

But the Election Scorecard shows that there is a huge difference between the parties when it






READ THE FULL STORY
 For a notes, sources and a full explanation of our scoring criteria and how they were applied, along with the methodology used to produce this scorecard, see the appendices to this report. Access the full document [here](#).

UNIVERSAL BASIC INCOME POLICY SCORECARD



	Expanding social protection *IF NOT MET, NO OTHER CRITERIA CAN BE MET.	Clear plan / timeframes	A BIG of adequate value	Universal for ages 18-59	Building on the SRD	Available to everyone in poverty (at minimum)	No conditions	Redistributive financing	Provided to individuals	No unfair exclusion	Protecting the data of beneficiaries	Retaining other social grants, increasing CSG	GRADE
ACDP	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
ACT SA	✓	✓	✓	✓	✓	+	✓	+	✓	✓	✗	+	A
AIC	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
AL JAM	+	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	E
ANC	✓	✓	✓	✓	✓	+	✓	✓	✓	+	✗	+	A
ATM	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
BOSA	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
COPE	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
DA	✓	+	✗	✗	+	✗	✗	✗	✓	+	+	+	D+



EFF 	✓	+	✗	+	✓	✗	+	✓	✓	+	✗	+	C+
FF+ 	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
GOOD 	✓	✓	✓	+	✓	+	✓	✓	✓	✓	✗	+	A
IFP 	✓	✗	✗	✗	✓	✗	✗	✗	✓	+	✗	+	D
MK 	✓	✗	✓	+	✗	✗	✗	✗	✓	✗	✗	+	C
NFP 	✓	✗	✗	+	✗	✗	✗	✗	✓	✗	✗	+	E
PAC 	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
PAT ALI 	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
RISE 	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	F
UDM 	✓	+	+	+	✓	✓	✓	✓	✓	✗	+	+	B

IEJ possible tax options

<https://www.iej.org.za/financing-options-for-a-universal-basic-income-guarantee-in-south-africa/> IEJ 2021

Table 2: Summary of financing options

Billions	2022/23	2023/24	2024/25	Notes
Income Taxes:				
Social Security Tax (SST)	R62.20	R63.90	R65.60	<ul style="list-style-type: none"> • 1.5% of taxable income for income between R0 and R80 000 per annum; • 2% of taxable income between R80 000 and R350 000 per annum; • 2.5% of taxable income between R350 000 and R 1 million per annum; • 3% of taxable income more than R1 million per annum.
Resource Rent Tax	R38.80	R38.40	R38.30	Assuming a tax that can extract 25% of the Natural Resource Rent value in South Africa in line with Ghana and Zambia.
Selective removal of pension fund contribution deduction	R22.04	R22.64	R23.25	Removal of deduction for those with taxable income of more than R1 000 000 per annum.
Selective removal of Medical Aid Tax Credit	R6.03	R6.23	R6.36	Removal of tax credit for main member and main dependent for those with taxable income > R500 000 per annum.
Dividends Tax	R7.70	R8.10	R8.60	Increase rate from 20% to 25%.
Consumption Taxes:				

Implementing a Luxury VAT	R8.41	R8.78	R9.17	25% VAT rate on luxury goods.
Increase in Excise duties	R3.36	R3.56	-	14% annual increase; temporary measure.
Carbon Tax	R2	R2	R2	Increase to one-quarter of EU standard.
Wealth and Property Taxes:				
Wealth Tax	-	-	R59	1% tax rate for top 1% and 3% tax rate for top 0.1%. Evasion rate of 30% and 20% stock depreciation assumed.
Estate Duty Tax	R1.79	R1.87	R1.93	<ul style="list-style-type: none"> • Estates valued between R3.5 million and R30 million are taxed at a rate of 36%. • Estates valued between R30 million and R146.89 million are taxed at a rate of 41%. • Estates above R146.89 million are taxed at a rate of 45%.
Currency Transaction Tax ¹²	R3.68	R3.75	R3.88	0.005% tax on all onshore currency transactions.
Securities Transfer Tax (STT)	R1.37	R1.41	R1.45	Increase rate from 0.25% to 0.3%
Financial Transaction Tax (FTT)	R41	R41	R41	0.1% tax rate.
Removal of corporate tax breaks:				
Reduce profit shifting of MNCs	R5.75	R5.75	R5.75	Target of 25% reduction.
Cancel Employment Tax Incentive (ETI)	R4.8	R4.93	R5.06	
Reverse Corporate Income Tax (CIT) reduction proposal	7.6	8.2	8.2	Reverse proposed reduction of CIT from 28-27%.
Reduce wasteful and irregular expenditure:				
Reduce irregular expenditure	36.4	42.5	48.5	Target of 30% of R121.3 billion, reported by Auditor-General in 2021.
Reduce wasteful expenditure	R1.85	R1.85	R1.85	A further 2.7% reduction of R68.4 billion spent on "General Public Services".
Total	R249.03	R261.12	R329.90	



The Institute for Economic Justice (IEJ) is a progressive economic policy think tank committed to advancing economic justice, systemic change, and the equitable distribution of resources to ensure rights realisation and planetary wellbeing.



www.iej.org.za