

How to design a basic income grant for South Africa

*Long-term livelihood crises have made a universal basic income guarantee (UBIG) an attractive route towards human well-being security for all in South Africa. Despite its attractiveness, questions remain about how to design a basic income grant for the country. Who should be the targeted recipients of this basic income assistance? How can authorities ensure that those in need of basic income support are its actual recipients in practice? How to design a UBIG was the focus of the second of four UBIG webinars hosted by the HSRC, the Institute for Economic Justice and the Pay the Grants movement. **Asanda Ntunta** and **Peter Jacobs** share their thoughts.*

When it comes to the design of a basic income grant, authorities must decide, first and foremost, whether it should be universal or targeted. A universal basic income guarantee (UBIG) is a relatively simple instrument through which everyone in the population receives a grant of the same value. International evidence shows that universal grant programmes are effective in reaching the poor and the middle-income population, as it eliminates the exclusion errors associated with targeted or means-tested programmes. It might be more expensive but, if its design is right, it will produce much better results in terms of reducing poverty and inequality in the short term, and is also more favourable for the economy as well as social cohesion.

On the other hand, categorical or conditional grants have a defined purpose. The would-be recipients undergo a means test to target people in dire socioeconomic circumstances. This type of grant design can either be an age-related benefit, like the elderly grant or child support grants, or a health-condition-related grant, such as a disability grant. Sometimes, targeted grant programmes concentrate support on fewer recipients.

Designing targeted social protection schemes in middle-income countries is fraught with conceptual and empirical errors. Theoretically, targeting splits those who meet the qualifying criteria for social protection from those who do not qualify. This allows for distinguishing the eligible from the non-eligible based on rules such as age and income profiles (poverty status), usually codified in 'means testing'. These eligibility thresholds (means tests), however, come with inclusion and exclusion errors that impose (unintended) costs on society, invariably subverting the intent of basic income assistance schemes. An inclusion error happens when individuals who are not eligible access the grant. Exclusion errors create the opposite problem: eligible beneficiaries are not accessing the social protection programme. These errors may have many causes, including tough decisions on how the government prioritises its spending. In the final analysis, political contests over public finances determine these budget priorities.

Evidence of exclusion errors

Dr Stephen Kidd, a senior policy analyst at Development Pathways, recently labelled social protection targets a "fictional construct". This was during his presentation on grant targeting at the second of four UBIG seminars, which were hosted by the HSRC, the Institute for Economic Justice (IEJ) and the Pay the Grants movement.

Kidd's argument flows from a comparison of [global evidence of exclusion errors](#) from developing countries that invest a lot of funds in administrative capacity for social protection. "Guatemala is an example of a country that still had relatively strong administrative capacity, but actually the targeting is incredibly bad, with 96% of the intended recipients of the programme being excluded," said Kidd. He also highlighted the case of a conditional-cash-transfer programme in Indonesia, which targets the poorest 8% of its population, but generated an exclusion error of 82%.

To shed more light on the negative outcomes of targeting, Kidd zoomed in on a child support programme to combat stunting in the Philippines. Kidd explained: "Stunting among the children who were selected by the programme was reduced. However, stunting increased by 11 percentage points among non-recipient children, because it distorted the prices of high-protein goods in the communities. Those who were excluded, who were just as poor as the recipients, were no longer able to afford the high-protein foods and ended up having to depend more on rice, which increased stunting."

In South Africa, a growing proportion of the population is effectively excluded from labour and social protection programmes due to a shrinking core of stable employment at a living wage and the informalisation of work. Unemployment insurance, as a category of social protection, is an income source for a very small fraction of those who end up jobless. This is so because large and growing sections of the labour force are in precarious jobs without social protection (also known as working poverty), whereas those in structural and chronic unemployment struggle to find work with income security.

Debating design options

Debates on design options for a basic income grant in South Africa are happening against this backdrop and fluctuate between two broad proposals: a UBIG that benefits those between the ages of 18–59 years, and a targeted basic income grant with various targeting and means testing (food poverty line or income tax threshold) options.

The South African government favours a variant of a targeted basic income grant. Brenton van Vrede, the chief director of social assistance at the Department of Social Development (DSD), explained the pros and cons of suites of targeting configurations, premised on unemployment status or various poverty lines.

Using the tax system might be more streamlined, Van Vrede showed, and will include the largest number of potential recipients, but at a relatively high cost to the fiscus. In this instance, “your tax threshold in essence becomes your means test threshold, which in South Africa is quite high. That would probably mean you would then include around 75% of your population – you’re looking at about 27 million people – which then makes it quite expensive”, cautioned Van Vrede.

If targeting rests on the food poverty line, then it could reach 13 million people, compared to an unemployment-based target that should include 7–11 million people, depending on whether the narrow or broad definition of unemployment is used. In addition, Van Vrede also considered the complexities of using a means test threshold: “The child support grant is a very simple threshold of R4 600 a month, but that does create what we call a ‘cliff’: If you are earning R4 610, you are not going to get the grant, versus someone earning R4 550. Arguably there is no real difference between those two individuals in terms of poverty.”

A way forward for South Africa?

Neil Coleman, a senior policy specialist at the IEJ, reported new insights from their research on [UBIG designs](#). With this evidence, Coleman exposed and countered the flaws in design assumptions of UBIG opponents, but he also mapped pathways to transition to a UBIG tailored for South Africa. He weighed up if the design features of the Social Relief of Distress (SRD) grant – assistance introduced in the context of the COVID-19 pandemic – would be a model for a UBIG. Assessments of the SRD to date, Coleman reported, found that the grant “is currently excluding 3–4 million beneficiaries who should be getting the grant”. A large proportion who are excluded would actually benefit from being recipients. DSD reported more than 9.5 million recipients of the SRD grant, but design and administration flaws have aggravated its exclusion errors. Coleman emphasised that if the SRD is to be a model for the future, even as a transitional individual or household grant leading to a UBIG, the flaws that bedevil it must be removed.

Note: *Towards the end of 2021, the HSRC’s Inclusive Economic Development (IED) division, the IEJ and the Pay the Grants movement co-hosted four poverty and inequality webinars on the UBIG debate. This overview is based on the [second webinar](#) under the title [#BigQuestionsForUBIG: Why Does Design Matter?](#)*

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