



Report 3

Financial Feasibility of the Basic Income Grant

*Author: Costing conducted by the
Actuarial & Analytical Solutions (A&AS)
Team at Deloitte and Touché South
Africa*

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ABBREVIATIONS AND ACRONYMS

BIG	Basic Income Grant
CIT	Corporate Income Tax
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CSG	Child Support Grant
DAC	Davis Tax Commission
DSD	Department of Social Development
EITC	Earned Income Tax Credit
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund IMF
NDP	National Development Plan 2030
NHI	National Health Insurance
NIDA	National Income Dynamic Study
NIT	Negative Tax Income
NPC	National Planning Commission
OAG	Old Age Grant
PIT	Personal Income Tax
PPP	Purchasing Power Parity
SAM	Social Accounting Matrix
SARS	South African Revenue Service
SASSA	South African Social Security Agency
StatsSA	Statistics South Africa
UBPL	Upper Bound Poverty Line
VAT	Value-Added Tax
WHO	World Health Organization

EXECUTIVE SUMMARY

The purpose of this project is to assess the fiscal feasibility of providing income support to individuals who are between the ages of 18 to 59 in South Africa, considering the following:

- The nature of income support (universal or means tested, and conditional or unconditional);
- The value of income support (cover nutritional needs, reduce poverty or provide a certain standard of living);
- Links to the labour market;
- The macroeconomic and socio-economic impacts; and
- The delivery mechanisms.

From a fiscal perspective, the costs of implementing a Basic Income Grant (BIG) are significant, particularly in relation to providing universal coverage and considering higher levels of a BIG. Under the Base Growth Scenario, which represents National Treasury forecasts over the projection period, the cost of universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant ranges from 2.8% to 2.9% of nominal GDP over the projection period. This increases to 9.7% to 10.4% of nominal GDP over the projection period if a universal BIG is introduced at the Upper Bound Poverty Line (UBPL) level. The corresponding ratios to total tax revenue are 10.9% to 11.4% of total tax revenue for universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant and 38.1% to 40.8% of total tax revenue for universal BIG coverage at the UBPL.

Allowing for a High Road Scenario with respect to GDP growth from 2021/22, the cost of universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant ranges from 2.8% to 2.7% of nominal GDP over the projection period. This increases to 9.7% to 9.8% of nominal GDP over the projection period if a universal BIG is introduced at the UBPL level. The corresponding ratios to total tax revenue are 10.9% to 10.5% of total tax revenue for universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant and 38.1% to 37.9% of total tax revenue for universal BIG coverage at the UBPL.

Comparison of the cost of universal BIG coverage under the Base Growth Scenario and the High Road Scenario demonstrates the fiscal significance of the BIG, although the resulting funding requirements can be reduced through higher economic growth.

Despite, the fiscal significance of implementing the BIG, the BIG should be viewed as a means to restructuring income in South Africa which suffers from the triple challenges of poverty, unemployment and inequality.

It is widely recognised that social assistance, particularly through the Old Age Grant (OAG) and Child Support Grant (CSG), has contributed significantly towards the reduction of poverty levels in South Africa. Implementing a BIG has the potential to make significant inroads into improved income equality in South Africa and possible economic gains through the multiplier effect. Based on author analysis, the implementation of a universal BIG at the level of the current special COVID-19 Social Relief of Distress Grant has the potential to reduce the concentration of income of the top 10% to 49.9% in 2019/2020 on an income per capita basis to just below 47.1% by 2024/2025. The share of household income per capita as a percentage of the total in the lowest income decile is projected to increase from 0.8% in 2019/2020 on an income per capita basis to 7.0% by 2024/2025. The corresponding income per capita Gini co-efficient decreases from 0.61 to 0.49, representing a 20% decrease.

A BIG could impact macro-level economic growth directly, through increasing household productivity and employment, stimulating aggregate demand, affecting labour force participation, and influencing savings and taxation. Based on analysis of the multiplier effects of the BIG at the level of the current special COVID-19 Social Relief of Distress Grant, the grant has the potential to positively contribute around 0.5% to GDP growth over the forecast period through improved household demand as well increase employment by 4.0% by the end of the projection period.

Further, basic income assistance supports investment into human capital development, for example: improved nutrition, health care, housing and transportation. The importance of human capital, in particular with respect to health education, in social and economic development is widely accepted. There is a strong correlation between Gross Domestic Product (GDP) per capita and education levels and life expectancy as a proxy for the level of health in a population.

If funded through Personal Income Tax (PIT), a universal BIG at the level of the special COVID-19 Social Relief of Distress Grant would result in an approximate average increase in effective tax rates of 8.2% across taxable income bands considered for 2023/24. A universal BIG at the LBPL would result in an approximate average increase in

effective tax rates of 19.8% across taxable income bands considered for 2023/24. A universal BIG at the UBPL would result in an approximate average increase in effective tax rates of 30.0% across taxable income bands considered for 2020/21. Similar results arise under the High Road Scenario.

The projected clawback of the cost of implementing the BIG through PIT under the universal scenario represents approximately 5% of the cost of a universal BIG (at all levels of BIG considered). This relatively small clawback is a result of the large number of recipients that fall in the lowest taxable income band (including those that who do not earn any taxable income) and hence are not subject to PIT, reinforcing South Africa's relatively small tax base. This small tax base is a symptom of South Africa's high and persistent inequality. Inequality in South Africa, as measured by the consumption Gini coefficient, was 0.61 in 1996, increasing to 0.63 in 2014³³. This is despite the efforts to reduce inequality that the government has made since 1994.

The Inequality Trends Report by Statistics South Africa (StatsSA) found that labour market activity largely influenced the level of inequality within the economy, stating that about 67% of total inequality was driven by inequality in earnings. Income from the labour market had accounted for the largest proportion of income inequality at about 77.2% in 2006, decreasing to 74.2% in 2015. Wage distributions of South African income earners was found to have a "long upper tail" – highlighting that the bulk of the population was comprised of low-income earners, while the top decile of income earners held a substantial majority of the national income.

In the 2020 Budget Statement, Government announced tax relief on personal income to the value of R2 billion for the 2020/21 tax year in the hope that this will boost not only economic activity, but also increase tax revenue income. Furthermore, government signalled intent in the 2020 budget to cut corporate income tax in future budgets. Tax revenue has continuously deviated to the downside from its expected level, which strongly suggests that South African consumers are close to or at the maximum referred to in the Laffer curve theory of tax revenue, though no modelling with regards to the Laffer curve in respect of South Africa.³⁴

While there have been warnings regarding raising taxes to reduce South Africa's budget deficit, it is important to note the difference between raising taxes to fund a BIG and raising taxes to fund a budget deficit. There are strong moral arguments given South Africa's history and high-income inequality for expanding PIT to fund a BIG, be it partially or fully. Economic arguments for expanding PIT on high-income earners, particularly in relation to the current economic crisis, include the provision of funding for the necessary state expenditure on low-income households.

It is noted that the economic effect of COVID-19 will include reduced revenue collection. PIT, Corporate Income Tax (CIT) and Value Added Tax (VAT) collections are expected to fall substantially over 2020/21. Given the economic impact of COVID-19, the capacity to raise PIT, CIT and VAT tax rates is limited. National Treasury has signalled the possibility of an inheritance tax and a "solidarity tax", which is regarded as a wealth tax, in a bid to raise additional finances for the fiscus.³⁵ The Davis Tax Commission (DAC) investigated the feasibility of a wealth tax. It was concluded that with the highly unequal levels of wealth in South Africa, a taxation system that ignores such inequalities in wealth, lacks legitimacy in the tax system.³⁶ It further concluded, however, that the introduction of a wealth tax cannot be implemented in the short-term. The DAC recommended that the decision regarding a wealth tax could not be made until the following actions were undertaken:

1. Determination of an appropriate tax base, that is, which forms of wealth to include within the scope of a wealth tax;
2. Provision of comprehensive data on the pattern of wealth ownership in South Africa; and
3. Undertaking a cost-benefit analysis as to whether the tax revenue generated would exceed the administrative and economic burden on taxpayers and the South African Revenue Service (SARS).

Given the significance of the cost of a universal BIG, alternative sources of taxation such as those mentioned above, should be assessed for viability in financing (partially or wholly) the implementation of a BIG. However, such alternative sources of taxation may only be practically implemented over the medium term, therefore PIT, CIT and VAT remain the alternatives over the short-term if implementation of a BIG takes place within the short-term.

³³ https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZA&most_recent_year_desc=true

³⁴ <https://static.pmg.org.za/170301wCsubmission.pdf>

³⁵ <https://businesstech.co.za/news/finance/411919/the-taxes-which-are-likely-to-increase-in-south-africa-and-those-that-wont/>

³⁶ <https://www.taxcom.org.za/docs/20180329%20Final%20DTC%20Wealth%20Tax%20Report%20-%20To%20Minister.pdf>

In line with the recommendation of the DAC in relation to financing National Health Insurance (NHI), the implementation of a universal BIG lends itself to a financing base that is as broad as possible, in the interests of social solidarity. The cumulative effect of the combination of tax instruments should be progressive. The importance of social solidarity is in line with International Labour Organization (ILO) recommendation No. 202, which refers specifically to the principle of solidarity of financing.

Implementing a targeted BIG will reduce the resulting cost and hence consequent funding requirements that will likely need to be met through taxation. Various scenarios are considered in this respect. However, targeting is associated with the administration burden and cost created by applying this targeting in practice. It is noted that certain of the scenarios presented may not be practical to implement in relation to targeting and therefore should be considered for illustrative purposes only.

Alternatively, the cost of implementing the BIG can be funded through the reallocation of public expenditure. However, reallocating public expenditure comes with trade-offs. Spending of health, education and social development currently accounts for 56% of government expenditure, as per the 2020 Budget Statement. Furthermore, the implementation of NHI is a policy priority, which will result in additional demands on the fiscus. Ultimately, the introduction of a BIG will require trade-offs with other development programmes, including other social security reforms and tertiary education.

1. INTRODUCTION TO THE ASSESSMENT OF THE FINANCIAL FEASIBILITY OF THE BIG

1.1. Background and Introduction

“Achieving an inclusive and responsive social protection system”

The Constitution of the Republic of South Africa, Act 108 of 1996 (the Constitution) provides that everyone has the right to have access to social security, including appropriate social assistance for those who are unable to support themselves and their dependents. The State has a further obligation to take reasonable legislative and other measures within its available resources to achieve the progressive realisation of this right.

The Department of Social Development (DSD) provides social assistance to citizens in terms of the Social Assistance Act (No.13 of 2004). According to the 2018/2019 Annual Report published by the South African Social Security Agency (SASSA), as of March 2019, a total of 17.8 million social grants were paid. Child Support Grant (CSGs) and Old Age Grants (OAGs) make up the majority of grants issued, amounting to 89.9% of total grants issued. Other grants issued include the disability grant, care dependency grant, war veteran's grant, grant-in-aid and the foster grant.

It is widely recognised that social assistance, particularly through the OAG and CSG, has contributed significantly towards the reduction of poverty levels in South Africa. However, the importance of social protection for the unemployed has also been identified. The lack of social protection for the unemployed is a significant gap, in terms of social assistance. In 2002, the Taylor Committee first proposed the introduction of a Basic Income Grant (BIG) to all South Africans as a means of tackling unemployment, poverty and inequality. In 2012, the National Planning Commission (NPC) stated that this group had no choice but to depend on 'goodwill transfers' from those with access to income through employment or some form of social grant such as the OAG or the CSG. Furthermore, the Taylor Committee stated that dependency on social grant recipients dilutes the anti-poverty effects of social grants.

The National Planning Commission developed the National Development Plan 2030 (NDP), which provides for the long-term vision for the development of South Africa and an agenda until 2030. One of the central principles of the NDP is the elimination of poverty and the reduction of inequality. Furthermore, the NDP envisages that by 2030 South Africa will have a defined and sustainable social protection floor that provides a diversity of easily-accessible guarantees aimed at preventing or alleviating poverty, as well as protecting citizens against vulnerability. Discussions are currently underway regarding the introduction of a BIG. It is clear that a social protection floor necessitates such a grant given that such a floor guarantees a minimum income and service such as health to individuals.

1.1.1. Impact of COVID-19

During December 2019, patients were identified as being infected with a novel Corona virus in Wuhan, China. On 7 January 2020, 'Severe Acute Respiratory Syndrome Coronavirus 2' (SARS-CoV-2) was confirmed as the causative agent of 'Coronavirus Disease 2019', or COVID-19. Since then, the virus has spread to 213 countries, including South Africa. The World Health Organization (WHO) declared COVID-19 a pandemic on 11 March 2020.

President Cyril Ramaphosa declared a State of Disaster on 15 March 2020 in order to bring into effect certain non-pharmaceutical interventions deemed necessary to suppress the spread of the disease. A national lockdown came into effect as of midnight of 26 March 2020. From 1 May 2020, a gradual and phased easing of the lockdown restrictions began in line with a Risk-Adjusted Strategy which outlines activities that can be carried out at various alert levels, which are dependent on the spread of COVID-19. Currently, South Africa is on level 3 as per the Risk-Adjusted Strategy.³⁷

Interventions such as prolonged lockdowns to help delay the spread of the disease have severe economic effects, including job losses, lower tax revenue and higher poverty. This is particularly relevant for South Africa. On 21 April 2020, a R500 billion stimulus package was announced by President Ramaphosa to counter the economic effects of the pandemic.

³⁷ <https://sacoronavirus.co.za/COVID-19-risk-adjusted-strategy/>

The pandemic has led many countries, such as Spain, Brazil, Namibia and Singapore, to implement some form of emergency income transfer measure. Spain has implemented a means-tested BIG permanently.³⁸ In South Africa, a special COVID-19 Social Relief of Distress Grant of R350 per month, payable from May 2020 to October 2020, has been introduced for unemployed people who need financial relief during the COVID-19 coronavirus pandemic. This is seen as a precursor to the adoption of a permanent BIG.

1.2. Purpose of the Project

The purpose of this project is to assess the fiscal feasibility of providing income support to individuals who are unemployed and between the ages of 18 to 59 in South Africa, considering the following:

- The nature of income support (universal or means tested, and conditional or unconditional).
- The value of support (cover nutritional needs, reduce poverty or provide a certain standard of living).
- Links to the labour market.
- The macro-economic and socio-economic impacts.
- The delivery mechanisms (tax credits, grants, wage subsidies etc.).

The provision of the BIG will involve decisions as to the nature, value (level) and form of the grant, that is, a universal subsidy design. The nature of the grant includes whether the BIG will be universal or means-tested, and conditional or unconditional. The various scenarios in relation to as to the nature, level and form of the grant have been considered in assessing fiscal feasibility.

The potential impact of the BIG include links to the labour market and economic and socio-economic outcomes. Section 2.1 covers a review of research of the potential impact of a BIG including delivery mechanisms.

Fiscal feasibility has been assessed by considering the direct costs of BIG provision including claw-backs through taxation under universal coverage, the resulting impact on individual taxpayers and the direct economic and socio-economic benefits deemed possible to include in the feasibility model.

Research into the theoretical aspects of basic income is provided in the appendices for reference.

1.3. Sources of Data and Information

The project made use of data obtained from tabled budget information (2020 Budget Statement, 2020 Supplementary Budget Statement³⁹ and the 2019 Medium-Term Expenditure Policy Statement) from National Treasury, SARS Individual Panel Data, SASSA grant information, National Income Dynamic Study (NIDS) Panel Data and various StatsSA reports (including underlying data).

Aside from the above-mentioned data sources, a variety of documents and reports were utilised in the qualitative analysis as set out in the appendices for reference.

³⁸ <https://blogs.unicef.org/evidence-for-action/from-crisis-comes-opportunity-spains-basic-income-response-to-COVID-19/>

³⁹ Economic forecasts relating to the 2020 Supplementary Budget Review was also sourced from the following International Monetary Fund document: <https://www.imf.org/en/Publications/CR/Issues/2020/07/28/South-Africa-Request-for-Purchase-Under-the-Rapid-Financing-Instrument-Press-Release-Staff-49612>

Table 1: Data Sources

Data/Information	Source
2020 Budget Review 2020 Supplementary Budget Review	National Treasury
SARS Individual Panel Data	National Treasury (SA-TIED)
SASSA Grant Information	SASSA
General Household Survey (2018) Living Conditions of Households in South Africa(2014/15) Mid-year population estimates (2019)	StatsSA (www.statssa.gov.za)
National Income Dynamic Study Panel Data	NIDS (http://www.nids.uct.ac.za/)

1.4. Limitations of the Study

Projections set out in this report are estimates only and should be interpreted as such. The projections are highly dependent on economic forecasts which have been derived in the context of much uncertainty of the epidemiological outcomes relating to and the economic outcomes resulting from COVID-19, which in of itself is nearly unique in the vastness of the economic impact it is having on South Africa and the rest of the world. Projections should therefore be treated with caution.

1.4.1. Limitations to the Social Matrix Multiplier Model

The Social Accounting Matrix (SAM) multiplier model, used to demonstrate the distributional and economic impacts of a BIG in Section 2.8, estimates the circular flow of activities around the economy. Pyatt & Round (1985) describe the model as: a “circular flow of income around the familiar macro-economic loop of demands on activities, leading to demands for factors, hence to the incomes of institutions, and from there back to demands on activities”. The model tracks how sectors interact among themselves, other sectors and the rest of the world, using intermediate inputs, labour and capital to produce final goods and services.

According to Alarcon (2000), the following assumptions are required for inference to be conducted using the SAM multiplier model:

- Average propensities to spend are fixed, linear, and considered constant or at least stable over the short-to-medium term;
- Relative prices are constant over the time horizon of the model, usually the short-term. This implies that the components which make up any account have substitution elasticities which are zero across accounts and infinite within accounts, i.e., they are homogenous within and heterogeneous across accounts;
- Expenditure-income elasticities are constant and equal to unity;
- There is perfect complementarity between capital and other factor inputs;
- The economy has idle capacity utilization; and
- A number of accounts are exogenous.

The model has the following advantages:

- Inter- and intra-sectoral linkages are specified by identifying income and expenditure interrelationships.
- This allows for the incorporation of factors of production, such as capital and labour, and additional economic actors, such as households, firms, capital and enterprises.

However, the SAM model also contains the following limitations:

- The level of disaggregation of households limits the behaviour to homogenous by income grouping. This means that for a given level of income, households behave in an identical manner to other households with a similar income level.
- The data and skill-intensive nature of building the SAM matrices for use in the multiplier model mean that often the latest available data may be a few years delayed.

- Utilisation is represented statically, as is production. Firms cannot adjust production coefficients as a response to changes in prices. That is, production is fixed in inputs.
- The model cannot capture the behavioural elements of firms and other economic actors in response to changes, income levels.

The SAM multiplier model remains an effective tool to measure the introduction of a shock such as a transfer of income that would exist with the introduction of a BIG. The static nature of the model means that the model is best used as a measure of gauging initial economic impacts. However, in the case of a BIG, it is recommended that effective longer-term study should be conducted alongside a pilot study that would quantify initial behavioural and labour market situations.

As Jami (2006) describes: “While some of the assumptions may be justified and some remains to be the limiting features of the model, the SAM and the SAM-based multiplier model has been widely appreciated in examining the effects of real shocks on the economy on the distribution of income across socio-economic groups of households, particularly from a short term perspective”

2. FISCAL FEASIBILITY ASSESSMENT OF THE BASIC INCOME GRANT

2.1. Potential Impact of a Basic Income Grant in the South African Context

The potential impact of the BIG include links to the labour market and economic and socio-economic outcomes. This section covers a review of research of the potential impact of a BIG.

2.1.1. Links to the Labour Market

2.1.1.1. Supply of Labour

Concerns exist that social protection creates disincentives to work and could perhaps negatively affect investment in education and training. The underlying theory behind this is that unearned income acts as a disincentive to enter, or remain in, formal employment, especially where earned income is close to the level of the grant. However, social cash transfers in South Africa have increased job-seeking efforts and migration and resulted in more recipients than non-recipients finding employment (Samson *et al.* 2004). This was primarily driven by the increased ability to explore employment possibilities resulting from the increase in income at household level. Seekings (2007) also finds that the effect of the disincentive to work is non-existent given the high and sustained rate of unemployment in South Africa. Any withdrawal from the labour supply of the working-age population will still be met with net positive results in terms of overall employment outcomes. Furthermore, it is suggested that this disincentive may only be a factor in developed nations, where accepting social assistance encourages behaviour of accepting unemployment and “*living off the state*”.

In the case of the BIG in Iran, without any behavioural conditions attached, it could be expected that the nationwide unconditional cash transfer programme would create labour market disincentives. Saleh-Isfahani and Mostafavi-Dehzoeei (2017) examined evidence of the impact of a government transfer on hours worked and labour force participation rates in Iran. They acknowledge that a rational assumption is that the increase in unearned income should increase leisure, thereby reducing the labour supply. However, their analysis finds that there is no negative impact on the labour supply as a result of the unearned income.

Banerjee *et al.* (2017) provide further evidence that unearned income does not negatively impact the supply of labour. Using a randomised controlled trial of government cash transfer programmes for six developing countries, they find no systematic evidence that cash transfer programmes discourage work. The authors do however make an interesting observation: one of the relationships tested was between the total size of the cash transfer and the attitude that poverty is as a result of laziness (over an unfair society), an attitude that has also been backed up by Seekings (2007). The result saw an increase in resentment between the net contributors to the cash pool and net recipients. In a country such as South Africa, which is characterised by high levels of income inequality, introducing a higher taxation for upper income households is likely to be met with backlash over those who believe that poverty is a result of laziness.

In addition, social protection through, for example, the use of unconditional cash and food transfers, have been shown to lead to better employment opportunities for resource-poor households by freeing up time, allowing a portion of the transfer to be invested in job-seeking or migration to areas where job opportunities are greater. For example, Brazil's Bolsa Família increased labour-market participation of beneficiaries by 2.6% compared with non-beneficiaries (Oliveira *et al.* 2007 cited in Holmes and Jones 2013). It is noted that Bolsa Familia is a conditional cash transfer programme where conditions include children being kept in school to complete education which is a deliberate human capital investment. Another key condition was linking beneficiaries to employment training

The design of social protection schemes can help mitigate the risks involved with the impact of social protection on the supply of labour. For example, Turkey's Conditional Cash Transfer requires participants to visit government offices and banks to increase contact with job markets (Grosh *et al.* 2008).

2.1.1.2. Demand for Labour

As cited in the Taylor Report, there is evidence of a positive efficiency wage effect in many industries in South Africa as per a Dresdner Bank study of South African manufacturing sectors. This is consistent with international experiences in many low-wage developing countries as per various World Bank studies. Maloney and Ribeiro (1999) find significant efficiency wage effects using firm-level data from Mexico. Valenchik (1997), using Zimbabwean firm-level data, demonstrates positive efficiency wage effects as well.

The role of remittances from the working poor to the very poor as a social safety net is well documented, particularly in the case of South Africa. This is viewed as a tax on the working poor and therefore reducing the "efficiency wage" effect. Therefore, basic income assistance reduces the reliance on workers providing remittances. This allows workers to channel more of their wages to productivity-enhancing consumption and human capital investment, increasing firm competitiveness and thus raising production and the demand for labour.

2.1.2. Economic and Socio-Economic Impacts of Basic Income Support

2.1.2.1. Socio-Economic impacts

Basic income assistance supports investment into human capital development, for example: improved nutrition, health care, housing and transportation. Evidence exists internationally of the impact of income transfers on these social determinants of poverty.

The Alaskan experience with respect to a BIG suggested a 38.8 gram increase in birth weight in babies of participants, along with a 14% decreased likelihood of low birth weight. These results were more significant among low-income mothers.

The universal basic income support pilots in India and Namibia, have also demonstrated positive impacts on beneficiaries and their families, namely with regard to improved food and nutrition, health outcomes, school enrolment, as well as a marked reduction in child labour (Davalala *et al.*, 2015; NANGOF, 2009; Schjoedt, 2016). In the Indian Madhya Pradesh pilot programme, a relatively trivial amount to test whether a small amount could still make a difference, for an unconditional benefit level of US\$4.40 for adults and US\$2.20 for children resulted in positive changes across all indicators. Families experienced increased productivity, improved education outcomes as children could spend longer in school, improvements to food security, while actually seeing a decrease in alcohol consumption despite the increase in unearned income. Subsequent research from the Indian pilot also found that expanding the universal basic income to approximately US\$6.30 with a coverage of 75% of the population could have a greater impact than the Public Distribution Scheme, as well as the Mahatma Gandhi National Rural Employment Guarantee Scheme (Ortiz *et al.*, 2018). In South Africa, the OAG and CSG have led to improved nutrition, health and height of children (Samson *et al.* 2004).

The receipt of transfers also has the potential to enable excluded groups to participate in growth processes. Targeting women with transfers has been shown to increase their decision-making power within the household with respect to expenditure decisions. This often leads to greater spending on children, which improves their chances of survival, as well as their health and educational outcomes (Samson & Miller 2012; Scott 2009). The highest increase in enrolment rates among children living in recipient households of South Africa's social pension, for example, was amongst girls (7%) (Scott, 2009).

Social assistance can reduce or prevent the need for distress selling of productive assets, such as livestock after an income shock. Berhane *et al.* 2011 performed an evaluation of Ethiopia's Productive Safety Net Programme which showed that 60% of beneficiaries avoided having to sell productive assets to buy food after an income shock.

Social assistance can help prevent the need for other negative and harmful coping strategies such as withdrawing children from school or reducing food intake, which may deteriorate human capital. Children of families enrolled in Mexico's Progresa conditional cash transfer programme were found to be less likely to drop out of school if an adult in the family became unemployed (de Janvry *et al.* 2006, in Alderman & Yemtsov 2013).

At a microeconomic level (individual or household level), social protection measures introduced in response to the East Asian financial crisis were crucial in protecting productive and human capital, thereby preventing decreases in productivity. School enrolment rates dropped during the crisis, especially among the rural poor (Frankenberg *et al.* 1999 cited in Grosh *et al.* 2008) after which various measures were introduced. Studies have shown that demand for social services use fell less among recipients than among non-recipients (Cameron 2002; Saadah *et al.* 2001, in Grosh *et al.* 2008) and that the response was instrumental in stabilising consumption and reducing child labour (IEG 2011).

Social protection leads to better employment opportunities by enabling job seeking and supporting active labour market policies. These impacts have often been shown to be greater for women. Brazil's Bolsa Família, for example, increased labour-market participation of beneficiaries by 2.6% compared with non-beneficiaries, with women's participation being 4.3% higher than that of men (Oliveira *et al.* 2007 cited in Holmes & Jones 2013).

Social cash transfers (CSG and OAG) in South Africa and elsewhere have increased job-seeking efforts and migration and resulted in more recipients than non-recipients finding employment (Samson & Miller 2009).

Social protection can also help reduce income inequality. In the Namibian pilot programme example, the areas that received the grant experienced a significant drop in household poverty. The number of households living below the poverty line fell from 76% to below 16% during the project. In 2002, the Taylor Committee in South Africa found that a universal grant of R100 per person per month has the potential to reduce poverty by approximately 76%, while a combination of this grant with the CSG will further reduce poverty rates.

Rigolini *et al.* (2020) found a significant reduction in the Gini Coefficient as a result of an estimated basic income-reform programme – 7% in the case of South Africa. They suggested the level of purchasing power parity (PPP) income class poverty line should be US\$5.50 in 2011 terms. This is viewed as appropriate for an upper-middle income country according to their classification. They also predicted a reduction in poverty headcounts of 56% as a result of the change in income. Based on a BIG of R1 584 (in 2012 terms) per person per year (a 2.3% of GDP spending increase), the International Monetary Fund (IMF) (2017) predicts a 0.05 drop in the Gini Coefficient.

2.1.2.2. Macroeconomic Impacts

The potential macroeconomic impacts of a BIG include increasing household productivity and employment, thereby stimulating aggregate demand, affecting labour force participation, and influencing savings and taxation.

Consensus is building with regard to the role of social protection in reducing inequality and its positive impact on economic growth, particularly in developing countries (Barro (2008) cited in Mathers, 2014). With respect to the Namibian pilot programme, economic participation (labour participation) in the local economy increased to 55%, from 44% prior to the introduction of the grant. This would increase consumption amongst the community, providing an increase in demand, which would have lowered unemployment and brought about increased economic growth for the area. AKA (2016) examined the economic impact of using a VAT increase to fund a BIG in the Ivory Coast. They found that a universal unconditional monthly grant of R40 (in 2003 terms), representing 4.3% of GDP, reduced poverty levels by 8.7%, (measured as the proportion of individuals who live below the poverty line) and reduced the Gini coefficient from 0.769 to 0.754. This is based on financing achieved by a significant increase in VAT of 5% to 9.5%. The monthly grant of R40 represented 7% of the poverty line.

The BIG may increase household productivity and employment. This can stimulate aggregate demand and impact economic growth through the multiplier effect. As cited in Jacobs *et al.* (2020), Du Toit and Neves (2009) report evidence with regard to the multiplier effect of social grants for recipient households and local communities. Aliber *et al.* (2007) found in a study on the contribution of social grants to local economic development in the rural Zululand District in KwaZulu-Natal that cash grants enhanced the spending power of poor households and that much of the

income from these grants was circulated within the same communities, supporting local small businesses and micro-entrepreneurs. Recipients contributed to more than 90% of local expenditure.

While international evidence suggests employment may increase this may not necessarily be the case for South Africa, given its subdued economic outlook and structural unemployment problem. In order to capitalise on the possible economic benefits of a BIG, strategies such as diversifying local production for local consumption/demand are needed. As cited in Mathers, 2014, Arnold *et al*, 2011 and Barrientos and Scott, 2008, the multiplier effect is greater for social protection targeted to poor households in small, self-contained communities or local economies that tend to spend locally and on locally-produced products.

The ILO (2011) highlights the potential of social protection to stimulate aggregate demand in an economy during economic downturns through counter-cyclical spending. ILO (2011) suggests that countries with effective social protection systems better responded to the 2008/09 global financial crisis and that social protection measures were as effective at saving jobs as other ad-hoc stimulus packages were.

Research indicates that the impact of social protection on aggregate economic growth in low-income context is likely insignificant. This may be the case for two main reasons: the scale of spending on social protection and the marginal share of national income in the hands of the poor. As per ILO (2011), for a country with lower inequality, such as the Ukraine where income from poor household account for 9.93% of GDP, a 5% increase in the income of the poorest households would translate to a 0.5 percentage point increase in aggregate growth. With respect to a highly unequal country, such as Honduras where poor household income accounts for 2.02% of GDP, a 5% increase in income across all poor households would only result in a 0.1 percentage point increase in aggregate growth. Thus, while social protection may impact on productive capacity at household level, it is unlikely to have significant direct effects on aggregate growth and even less so in countries with high inequality and low social spending (Barrientos (2013), and Levy (2006) cited in Mathers (2014)).

Furthermore, research shows that the impact of social protection on aggregate economic growth by type of social protection may differ. Arjona *et al*. (2012) cited in Mathers (2014) shows that an increase of 0.1 percent of GDP in spending on programmes primarily aimed at improving productivity and employment leads to a one percentage point increase in long run real GDP growth, while similar increases on consumption-smoothing programs lead to a 0.2 percentage point decrease in long run real GDP growth.

There are potential negative impacts of increased taxation to fund social protection. However, the results depend on the nature of the assumptions used, the structure of the taxation system and tax buoyancy of the selected country. As Matthews (2017) summarises, *“many, if not most, economic modelers would come to very different conclusions: that a basic income [assistance] discourages work, that raising taxes to pay for it could have profound negative economic impacts, and that not paying for it and exploding the deficit is a recipe for fiscal and economic ruin”*.

That said, there are positive stimulus effects in the short-term, as lower-income households typically spend their money within a shorter time horizon than higher-income households, who may allocate a higher proportion of their income to savings. However, traditional economic theory suggests that, in the long run, any form of redistribution reduces growth because higher-income households have higher rates of savings than the poor, and higher taxation reduces incentives to invest and innovate where it is assumed that savings equals investment. Again, the results from studies that were shown above, as well as in the table below depends on the type of models used and the assumptions made on, for example, whether savings flow out of or remain in the country. Any foreign savings element will change the results of the study.

Critics also suggest that basic income support may not be as effective in relieving poverty or achieving development goals as other transfers have. The reason for this is that allowing for a universal basic income grant requires a transfer to the rich through progressive taxation, who were not benefitting before, which would come at the expense of the poor – this effect could be exacerbated if the potential introduction of universal BIG programmes replaced those targeting children or other vulnerable groups. (Rigolini *et al*.,2020).

2.1.3. Delivery Mechanisms

Delivery mechanisms for a BIG in South Africa include the following:

- Benefit-Based Programs Not Based on Work
- Negative Tax Income (“NIT”)

- Earned Income Tax Credit (“EITC”).

The provision of social grants through SASSA is a “Benefit-Based Programmes Not Based on Work” delivery mechanism. There were 17.8 million social grants paid in 2018/19. This delivery mechanism has advantages of simplicity and transparency, including it being easily communicated to and understood by the public.

The BIG could be delivered through EITC, which targets basic income assistance through tax exemption below a certain income level, or the NIT whereby the level of basic income support provided is inversely proportional to a person’s income. The EITC can be seen as delivering a flat-rate BIG with the NIT, an income dependent BIG, with automatic claw-back of taxes for those earning above the taxable income threshold.

The main limitation of these delivery mechanisms is that the current tax administration, SARS, only reaches formal wage earners. This would leave out informal workers and by definition, the unemployed.

There are currently approximately 14 million registered taxpayers with about half of these taxpayers earning below the tax threshold and hence not paying taxes. The estimated number of individuals employed in the informal economy equates to 2.9 million in the 4th quarter of 2019 as per the Quarterly Labour Force Survey (QLFS) (Quarter 4, 2019). There were 12.7 million individuals defined as not economically active. Further limitations would include the information requirements in respect of the income of those employed in the informal economy to assess the level of basic income and tax (if applicable).

2.2. Fiscal Feasibility Assessment Process Methodology and Assumptions

The fiscal feasibility of the BIG has been assessed by considering the direct costs of BIG provision including clawbacks (money paid out by government which is return through other forms) through taxation under universal and targeted coverage and the resulting impact on individual taxpayers.

The projection period includes fiscal years 2020/21 to 2024/25 with 2019/20 included as a base fiscal year for comparison purposes.

2.2.1. Methodology

2.2.1.1. Direct Cost of the Basic Income Grant

The take-up of the BIG is demand driven, that is, it depends on the size of the targeted population. The cost of the BIG under the various scenarios is therefore equal to demand multiplied by the proposed level of the BIG.

2.2.1.1.1. Nature of the Basic Income Grant

The current proposals for a universal BIG are in line with the recommendations made in 2002 by the Taylor Committee. By making the grant available to all South Africans, the barrier to higher take-up of social grants among poor households would be eliminated. It has been found that there had been contradictory interpretations of the means test and that the administrative requirements associated with the test was the main barrier to higher take-up of social grants among poor households. It has also been argued that the income test discriminated against households with a large number of dependents.

The evidence arising from international experience presented earlier concludes that the administration system that accompanies means testing may result in significant costs and inefficiencies and that means-tested schemes are less effective at reducing poverty and inequality than universal basic income systems, while universal basic income schemes are better at preserving dignity for recipients.

Various scenarios are considered with respect to targeting. However, targeting is associated with the administration burden and cost created by applying this targeting in practice. It is noted that some of the scenarios presented may not be practical to implement in relation to targeting and therefore should be considered for illustrative purposes only.

Furthermore, it is noted that the proposals for a universal BIG in South Africa correspond with an unconditional grant. For purposes of the feasibility assessment, an unconditional grant has been considered.

2.2.1.1.2. Level of the Basic Income Grant

The ILO recommends a level of basic income support equivalent to the national poverty line, however, they acknowledge that there are debates in many countries as to whether national poverty lines correctly represent a minimum acceptable standard of living and allow life in dignity. In 2012, StatsSA released South Africa's official national poverty lines. South Africa's national poverty lines are an absolute measurement of poverty, which include three measures of poverty, namely:

- The food poverty line (FPL);
- The lower-bound poverty line (LBPL); and
- The upper-bound poverty line (UBPL).

The FPL is based on the daily calories a person needs to survive in line with the United Nations' minimum daily consumption requirement in emergency situations. This is equal to 2 100 calories per person per day. Both the LBPL and the UBPL include non-food items in addition to the food poverty line, based on a cost-of-basic-needs approach for non-food items. These resources are defined in terms of reported consumption expenditure. Therefore, where food expenditure is equivalent to the food line, the poverty lines represent the amounts that households require to meet basic foods and basic non-food needs.

The LBPL and the UBPL are based on two different reference groups of households, which are chosen to be representative of national consumption levels and patterns. The reason for having two reference groups is that food preferences differ significantly by income and expenditure levels. Households with high income/expenditure characteristics tend to pay more per calorie for food compared to households with low income/expenditure characteristics. The construction of the two reference groups allows for households whose total expenditure is close to the food poverty line and who therefore sacrifice some basic food needs in order to meet non-food requirements. This implies that the non-food expenditure of such households represents an austere minimum expenditure on non-food basic needs.

With effect from August 2020, the LBPL was equal to R840 per month and the UBPL was R1 268 per month.

Scenarios considered with respect to the level of the BIG include a BIG equivalent to the special COVID-19 Social Relief of Distress Grant, the LBPL, the UBPL and R500 per month (2020/2021 monetary terms) in respect of the Phased-in Coverage scenario discussed below. The level of the BIG under the Phased-in Coverage Scenario is broadly in line with the FPL.

With respect to consideration of a variable BIG, the current grant system in South Africa pays grants on a per individual basis. While this can allow for differences in household size, the Taylor Committee argued that this discriminated against larger households given the dependency on the OAG and CSG by unemployed individuals in South Africa. The introduction of a universal BIG would eliminate this situation, whereby the BIG paid on a per individual basis would allow for variable household sizes.

Inflation forecasts, as per the 2020 Supplementary Budget Review, have been applied to the BIG grant amount for projection purposes.⁴⁰

2.2.1.1.3. Quantifying Target Population

In the South African context, the need for a BIG is largely driven by the challenge of unemployment, poverty and inequality.

South Africa's persistently high unemployment rate has been a long-standing cause for concern. As per the StatsSA Quarterly Labour Force Survey for Quarter 1, 2020, the unemployment rate increased to 20.1% in Quarter 1 of 2020, which was the highest rate experienced in 11 years. Since Quarter 4, 2009, the unemployment rate has increased by 6.0%. These figures are calculated under the narrow definition of unemployment, which means that one must be actively looking for work. The expanded definition of unemployment, which includes not only those

⁴⁰ <http://www.treasury.gov.za/documents/national%20budget/2020S/review/FullSBR.pdf>

who do not want to work but also discouraged job seekers, saw the unemployment rate rise from 38.7% to 39.7%. The difference between the two measures of unemployment underlines the extent of the problem in South Africa, namely, the number of workers who are discouraged and have given up on gaining employment illustrates how dire the situation has truly become.

Of the working age population (ages 15 to 64) of 38.9 million in Quarter 1, 2020, 15.4 million were classified as not economically active, with 23.5 million participating in the labour force. Of the 23.5 million individuals participating in the labour force, 7.1 million were unemployed. Of the not economically active, 2.9 million individuals were discouraged work seekers and 12.5 million individuals were “other not economically active”.

As per the Poverty Trends in South Africa Report published by StatsSA in 2017, which examines absolute poverty in South Africa from 2006 to 2015:

- 30.4 million people were living below the UBPL in 2015, representing 55.5% of the population compared to 31.6 million people living below the UBPL in 2006 (31.6% of the population).
- 21.9 million people were living below the LBPL in 2015, representing 40.0% of the population compared to 24.2 million people living below the LBPL in 2006 (51.0% of the population).
- 13.8 million people were living below the FPL in 2015, representing 25.2% of the population compared to 13.4 million people living below the LBPL in 2006 (13.4% of the population).

South Africa is consistently ranked as one of the most unequal countries in the world. Inequality in South Africa measured by the consumption Gini coefficient was 0.61 in 1996, increasing to 0.63 in 2014⁴¹. This is despite the efforts to reduce inequality that the government has made since 1994.

The Inequality Trends Report by StatsSA found that labour market activity largely influenced the level of inequality within the economy, stating that about 67% of total inequality was driven by inequality in earnings. Income from the labour market had accounted for the largest proportion of income inequality at about 77.2% in 2006, decreasing to 74.2% in 2015. Wage distributions of South African income earners was found to have a “long upper tail” – highlighting that the bulk of the population was comprised of low-income earners, while the top decile of income earners held a substantial majority of the national income. The Gini coefficient based on household income received from the labour market was 0.73.

A number of scenarios have been considered to take into account the challenges of unemployment, poverty and inequality. StatsSA mid-year population projections (2019) have been applied over the projection period to determine the number of recipients under each of the scenarios considered, outlined as follows:

- **Universal Coverage:** recipients of the BIG equates to the population aged 18 to 59.
- **Targeted Coverage:** recipients of the BIG equates to the proportion of the population aged 18 to 59 to be targeted as follows:
 1. **Unemployed:** the number of unemployed individuals aged 18 to 59 has been based on employment estimates as per the StatsSA QLFS for Quarters 2 to 4, 2019 and Quarter 1, 2020 for the base fiscal year. The proportion of the population who are unemployed has been projected based on GDP growth and its impact on the unemployment rate. Unemployment has been defined as those individuals who are not employed, including those in informal employment.
 2. **Lower Bound Poverty Line:** the number of individuals aged 18 to 59 who fall below the LBPL based on the StatsSA General Household Survey (2018). The proportion of the population below the LBPL has been projected based on GDP growth and its impact on employment and hence income distribution of individuals aged 18 to 59.
 3. **Upper Bound Poverty Line:** the number of individuals aged 18 to 59 who fall below the UBPL line based on the StatsSA General Household Survey (2018). The proportion of the population below the UBPL has been projected based on GDP growth and its impact on employment and hence income distribution of individuals aged 18 to 59.
 4. **Youth:** two youth groups have been considered – the number of individuals aged between 18 and 21 as well as aged between 18 and 24.
- **Phased-in approach to achieving universal coverage by 2030 (phased-in coverage):** recipients under the phased-in approach to achieving universal coverage of the BIG are as follows:

⁴¹ https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZA&most_recent_year_desc=true

- 2020/21: individuals who would be eligible to receive the OAG given the extension of the OAG to include individuals aged 58 and 59.
 - 2021/22 to 2024/25: individuals who would be eligible to receive the OAG given the extension of the OAG to include individuals 55 to 59.
5. **2023/24 to 2024/25:** recipients of the BIG defined as the number of unemployed individuals aged 18 to 55 has been based on employment estimates as per the StatsSA Quarterly Labour Force Survey for Quarters 2 to 4, 2019 and Quarter 1, 2020 for the base fiscal year. Unemployment has been defined as those individuals who are unemployed and discouraged work seekers, including those in informal employment.

Targeting is associated with the administration burden and cost created by applying this targeting in practice. It is noted that certain of the targeted scenarios presented above may not be practical to implement in relation to targeting and therefore should be considered for illustrative purposes only.

2.2.1.2. Funding of the Basic Income Grant

The direct cost of the BIG drives the funding requirement for the BIG. The funding required has been assessed through estimating the impact on South Africa's three main sources of general tax revenue, namely, Personal Income Tax (PIT), Value-Added Tax (VAT) and Corporate Income Tax (CIT). These three tax instruments accounted for 80.1% of gross tax revenue in 2019/20 as per the 2020 Budget Review, with PIT contributing 40%, VAT contributing 17% and CIT contributing 26% of gross tax revenue.

The increased requirement in respect of PIT, VAT and CIT has been estimated as follows:

- **PIT:** the resultant increase in PIT has been based on projected PIT receipts over the projection period.
- **VAT:** the resultant increase in VAT required has been estimated based on projected VAT receipts over the projection period.
- **CIT:** the resultant increase in CIT required has been estimated based on projected CIT receipts over the projection period.

2.2.1.3. Redistribution and Economic Impact of Implementing the Basic Income Grant in South Africa

The BIG has the potential to lower inequality through the transfer of income from rich households to poor households. This can be done via the current progressive PIT mechanism. An analysis has been performed allowing for universal coverage of the BIG with a corresponding increase in PIT to fund the BIG to illustrate the redistributive and possible positive economic impacts of the BIG. The transmission mechanism underlying the analysis is as follows:

- The BIG represents a distribution of income across households in the economy when funded through PIT.
- Individuals' aged 18 to 59 in households receive the BIG. Therefore, all households benefit from BIG receipt.
- Taxation is paid by the richer households' income deciles. This results in an offsetting of the BIG contribution, with a progressive tax meaning that richer households have a 'negative' net grant receipt, resulting in a decline in income. This represents a transfer of income from richer to poorer.
- The transfer of income across from rich to poor results in a rise in income levels for the poorer households with a consequent reduction in income levels for richer households.
- The rise in income allows poorer households to increase consumption across their expenditure baskets while the decrease in income in wealthier households results in a relative reduction in their consumption.
- This increase in demand leads to an increase in downstream demand for goods, which leads to an increase in wages and subsequent income across households. Similarly, there is a reduction in income at higher income levels which leads to a decrease in demand for goods which higher income households consume more of. However, multiplier effects illustrate knock-on effects to higher income households, which may raise their overall income and subsequent demand.

Such a redistribution of income will have positive economic impacts if the net impact of the mechanism described above is positive, that is, the impact of the rise in income for poorer households is greater than the impact of the decrease in income for wealthier households.

The multiplier model was constructed using a Social Accounting Matrix (SAM) multiplier model, based on data for 2015 (Van Seventer, *et al.*, 2019). This is designed to simulate a 62 sector, 104 product economy. Firms hire labour (broken down by skill level) to produce products, and labour pays households. Households can also earn income from government (grants), foreign income (remittances or foreign ownership), capital income, and enterprise income. Households then spend their income on products and pay tax.

The model is grounded in input-output frameworks and based on a Leontief matrix construction to determine multipliers, which tracks the interactions across the economy. The Leontief multiplier matrix is multiplied by various shocks to achieve outcomes. To achieve the simulation of a BIG, the simulation takes the estimated contribution of the BIG per household income decile and uses this as a government transfer to shock households. As shown above, richer, tax-paying households receive a negative BIG shock given that these households pay more in tax than what they receive in grant value. The overall BIG impact, including the possible impact on GDP growth and employment, is calculated by using matrix multiplication between the Leontief matrix and the exogenous (income grant) shock of government transfers to households.

The shock used of an increase in government spending has been assumed to be offset by a corresponding increase in tax revenue. It is noted that the cost of the BIG will undoubtedly add to South Africa's current debt levels if a budget-neutral approach is not followed if the resultant increase in taxes or introduction of new taxes to fund the BIG does not yield the required additional tax revenue. This will result in an additional burden to the fiscus either through increased borrowing or a reallocation of other government expenditure, which is not modelled in the SAM multiplier framework. The option of increased borrowing is limited given that South Africa's budget deficit is estimated to be 15.7% of GDP for 2020/21 (2020 Supplementary Budget Review) and fears that South Africa is approaching a fiscal cliff.

2.2.2. Assumptions

The main assumptions are GDP growth, tax revenue growth, employment elasticity and Consumer Price Index (CPI) inflation.

Forecasts with respect to these assumptions have been sourced from the International Monetary Fund (IMF)⁴², with author calculations used to extrapolate forecasts. It is noted that the forecasts obtained from the IMF are in line with the 2020 Supplementary Budget Review and are set out in the table below:

Table 2: Financial Feasibility Assumptions (Base Growth Scenario)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Real GDP Growth	0.2%	-7.2%	2.6%	1.5%	1.5%	2.1%
Unemployment Rate	28.7%	36.4%	36.1%	36.6%	37.1%	37.2%
Tax Revenue (R million)	1 305	1 058	1 242	1 375	1 479	1 600
Tax Revenue as a % of GDP	25.5%	21.8%	23.7%	24.7%	25.1%	25.5%
CPI	4.1%	3.0%	3.9%	4.3%	4.5%	4.5%

A further scenario has been included allowing for GDP growth of 4.0% per annum from 2021/22 to 2024/25 representing a "high road" with respect to GDP growth and employment after 2020/21. The resultant impact on unemployment has been determined applying an employment elasticity to GDP growth. Employment elasticity is a measure of the percentage change in employment associated with a one percentage point change in GDP growth. It indicates the ability of an economy to generate employment opportunities for its population through GDP growth.

⁴² IMF, 2020. "South Africa: Request for Purchase Under the Rapid Financing Instrument-Press Release". Available online: <https://www.imf.org/en/Publications/CR/Issues/2020/07/28/South-Africa-Request-for-Purchase-Under-the-Rapid-Financing-Instrument-Press-Release-Staff-49612>

An employment elasticity of 0.7 was used in the High Road Scenario (Altman (2020)). As per Altman (2020), employment elasticity has been approximately 0.6 to 0.7 in South Africa over the last 30 years.

It is noted that higher employment elasticity is evident during 2020/21 as per the Base Growth Scenario and High Road Scenario, meaning that the decline in output has an unusually significant impact on employment compared to historical trends. This results from the constraints imposed on labour intensive activity, and the especially destructive impact of the lockdown on small and medium sized firms. From 2021/22, it is assumed that employment does not bounce back at the same rate as businesses fail or scale back and rather reverts to its long-term average.

Tax revenue is assumed to increase to 23.75% of nominal GDP in 2021/22 and 25.87% of nominal GDP over the period 2022/23 to 2024/25. This allows for tax buoyancy, which measures the responsiveness of tax revenue to GDP growth, of 1. This is in line with tax buoyancy forecasts by the National Treasury as per the 2020 Budget Review Statement which were deemed suitable for the High Road Scenario. CPI inflation is assumed to equal 4.8% over the period 2021/22 to 2024/25, moving towards the upper limit of the South African Reserve Bank's inflation target band (3% to 6%).

Table 3: Financial Feasibility Assumptions (High Road Scenario)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Real GDP Growth	0.2%	-7.2%	4.0%	4.0%	4.0%	4.0%
Unemployment Rate	28.7%	36.4%	35.2%	32.4%	29.6%	26.9%
Tax Revenue (R million)	1 305	1 058	1 476	1 608	1 752	1 908
Tax Revenue as a % of GDP	25.5%	21.8%	23.7%	25.9%	25.9%	25.9%
CPI	4.1%	3.0%	4.8%	4.8%	4.8%	4.8%

2.3. Analysis of the BIG Beneficiaries Projections

2.3.1. Base Growth Scenario

The following table sets out the projected number of beneficiaries of the BIG over the projection period under the various scenarios considered:

Table 4: BIG Beneficiaries per Scenario (Base Growth Scenario)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	33 774 481	34 252 250	34 730 955	35 205 899	35 692 744	36 227 852
Unemployed	19 506 391	21 604 878	21 852 999	22 295 105	22 764 957	23 148 681
LBPL	19 942 610	21 991 547	22 246 718	22 689 827	23 160 199	23 548 551
UBPL	21 095 253	23 013 261	23 287 059	23 732 821	24 204 566	24 605 147
Youth (age 21)	3 829 675	3 839 724	3 869 654	3 928 580	4 009 279	4 095 800
Youth (age 24)	6 778 186	6 743 371	6 737 806	6 774 937	6 856 402	6 975 957
Phased-in Coverage	-	-	-	-	13 251 553	13 448 508

The following table sets out the number of additional OAG recipients (30% and 50% coverage) arising under the Phased-in Coverage Scenario:

Table 5: Phased-in Coverage – OAG Beneficiaries (Base Growth Scenario)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
OAG recipients (30% coverage)	263 101	267 672	679 494	686 925	693 199	700 459
OAG recipients (50% coverage)	438 502	446 119	1 132 489	1 144 875	1 155 332	1 167 431

The following table sets out the proportion of projected number of beneficiaries of the BIG that are female over the projection period under the various scenarios considered:

Table 6: Proportion of BIG Beneficiaries that are Female per Scenario

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	50.7%	50.6%	50.5%	50.4%	50.3%	50.2%
Unemployed	55.3%	54.2%	54.1%	53.9%	53.7%	53.6%
LBPL	55.8%	54.7%	54.6%	54.3%	54.1%	54.0%
UBPL	55.2%	54.2%	54.1%	53.9%	53.8%	53.6%
Youth (age 21)	49.7%	49.7%	49.7%	49.7%	49.7%	49.7%
Youth (age 24)	49.6%	49.6%	49.6%	49.6%	49.7%	49.7%
Phased-in Coverage	-	-	-	-	53.7%	53.6%

As can be seen from the table above, the proportion of female BIG beneficiaries is higher under the unemployed scenarios and the LBPL and UBPL than under the universal scenario. This is a result of the higher proportion of unemployed females compared to males (32.4% of females were unemployed, while 28.3% of males were unemployed in Quarter 1, 2020), particularly in relation to formal employment and consequently a higher proportion of females falling under the LBPL and UBPL, respectively.

2.3.2. High Road Scenario

The following table sets out the projected number of beneficiaries of the BIG over the projection period under the various scenarios considered:

Table 7: BIG Beneficiaries per Scenario (High Road Scenario)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	33 774 481	34 252 250	34 730 955	35 205 899	35 692 744	36 227 852
Unemployed	19 506 391	21 604 878	21 729 458	21 367 362	20 967 659	20 564 851
LBPL	19 942 610	21 991 547	21 680 906	21 324 626	20 922 185	20 481 091
UBPL	21 095 253	23 013 261	22 768 398	22 481 386	22 153 051	21 793 307
Youth (age 21)	3 829 675	3 839 724	3 869 654	3 928 580	4 009 279	4 095 800
Youth (age 24)	6 778 186	6 743 371	6 737 806	6 774 937	6 856 402	6 975 957
Phased-in Coverage	-	-	-	-	11 584 405	11 171 406

The number of additional OAG recipients (30% and 50% coverage) arising under the Phased-in Coverage Scenario are in line with [Table 5](#) in Section [2.3.1](#) due to the number of additional OAG recipients being independent of economic growth and impact on employment.

2.4. Analysis of the Cost of Implementing the Basic Income Grant in South Africa

2.4.1. Base Growth Scenario

The following tables set out the projected cost of implementing the BIG allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R500 per month with respect to the Phased-in Coverage Scenario.

Table 8: Base Growth Scenario – Nominal Cost of BIG per Scenario (special COVID-19 Social Relief of Distress Grant)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	141 853	143 859	151 559	160 238	169 764	180 063
Unemployed	81 927	90 740	95 362	101 475	108 276	115 056
LBPL	83 759	92 364	97 080	103 271	110 156	117 043
UBPL	88 600	96 656	101 620	108 019	115 123	122 295
Youth (age 21)	16 085	16 127	16 886	17 881	19 069	20 357
Youth (age 24)	28 468	28 322	29 402	30 836	32 611	34 673

Table 9: Base Growth Scenario – Nominal Cost of BIG per Scenario (LBPL)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	328 288	345 263	363 741	384 570	407 433	432 151
Unemployed	189 602	217 777	228 869	243 540	259 862	276 134
LBPL	193 842	221 675	232 993	247 852	264 374	280 904
UBPL	205 046	231 974	243 888	259 245	276 296	293 507
Youth (age 21)	37 224	38 704	40 527	42 914	45 766	48 858
Youth (age 24)	65 884	67 973	70 566	74 006	78 266	83 214

Table 10: Base Growth Scenario – Nominal Cost of BIG per Scenario (UBPL)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	497 295	521 182	553 568	587 792	624 227	663 681
Unemployed	287 212	328 740	339 007	348 724	357 759	366 108
LBPL	293 635	334 623	345 567	356 033	365 906	375 206
UBPL	310 607	350 170	362 900	375 346	387 433	399 245
Youth (age 21)	56 388	58 425	61 677	65 591	70 118	75 034
Youth (age 24)	99 802	102 607	107 392	113 113	119 911	127 797

Table 11: Base Growth Scenario – Nominal Cost of BIG per Scenario (Phased-in Coverage)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Phased-in Coverage	-	-	-	-	90 040	95 490

Table 12: Base Growth Scenario – Nominal Cost of OAG (Phased-in Coverage)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
OAG recipients (30% coverage)	461	488	1 296	1 363	1 469	1 551
OAG recipients (50% coverage)	768	814	2 160	2 271	2 448	2 585

The following table sets out the projected clawback of the cost of implementing the BIG through PIT under the universal scenario, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL and the UBPL.

Table 13: Base Growth Scenario – Claw Back of Nominal Cost of BIG (Universal)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Special COVID-19 Social Relief of Distress Grant	6 878	6 975	7 348	7 769	8 231	8 730
LBPL	15 917	16 740	17 636	18 646	19 755	20 953
UBPL	24 112	25 270	26 622	28 147	29 820	31 629

The projected clawback of the cost of implementing the BIG through PIT under the universal scenario represents approximately 5% of the cost of a universal BIG.

2.4.2. High Road Scenario

The following tables set out the projected cost of implementing the BIG allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R500 per month with respect to the Phased-in Coverage Scenario.

Table 14: High Road Scenario – Nominal Cost of BIG per Scenario (special COVID-19 Social Relief of Distress Grant)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	141 853	143 859	152 799	162 246	172 302	183 193
Unemployed	81 927	90 740	95 599	98 471	101 219	103 990
LBPL	83 759	92 364	95 385	98 274	100 999	103 566
UBPL	88 600	96 656	100 170	103 605	106 941	110 202
Youth (age 21)	16 085	16 127	17 025	18 105	19 354	20 711
Youth (age 24)	28 468	28 322	29 643	31 222	33 098	35 275

Table 15: High Road Scenario – Nominal Cost of BIG per Scenario (LBPL)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	328 288	345 263	366 717	389 389	413 526	439 662
Unemployed	189 602	217 777	229 437	236 330	242 925	249 576
LBPL	193 842	221 675	228 924	235 858	242 398	248 559
UBPL	205 046	231 974	240 407	248 652	256 659	264 484
Youth (age 21)	37 224	38 704	40 859	43 451	46 450	49 707
Youth (age 24)	65 884	67 973	71 143	74 933	79 436	84 660

Table 16: High Road Scenario – Nominal Cost of BIG per Scenario (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	497 295	521 182	553 568	587 792	624 227	663 681
Unemployed	287 212	328 740	346 341	356 746	366 701	376 740
LBPL	293 635	334 623	345 567	356 033	365 906	375 206
UBPL	310 607	350 170	362 900	375 346	387 433	399 245
Youth (age 21)	56 388	58 425	61 677	65 591	70 118	75 034
Youth (age 24)	99 802	102 607	107 392	113 113	119 911	127 797

Table 17: High Road Scenario – Nominal Cost of BIG per Scenario (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Phased-in Coverage	-	-	-	-	79 889	80 700

The cost of the additional OAG recipients (30% and 50% coverage) arising under the Phased-in Coverage Scenario are in line with [Table 12](#) in Section [2.4.1](#).

The cost of implementing a BIG under the High Road Scenario under the universal and youth scenarios is higher than under the Base Growth Scenario given the high assumption in relation to inflation resulting in higher levels of the BIG over the period considered.

The following table sets out the projected claw back of the cost of implementing the BIG through PIT under the universal scenario, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL and the UBPL.

Table 18: High Road Scenario – Claw Back of Nominal Cost of BIG (Universal)

R'million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Special COVID-19 Social Relief of Distress Grant	6 878	6 975	7 409	7 867	8 354	8 882
LBPL	15 917	16 740	17 780	18 880	20 050	21 317
UBPL	24 112	25 270	26 840	28 499	30 266	32 179

The projected claw back of the cost of implementing the BIG through PIT under the universal scenario represents approximately 5% of the cost of a universal BIG.

Under the High Road Scenario, the impact of higher GDP growth and consequent impact on employment and tax receipts, results in a reduction in beneficiaries where the unemployed are targeted and related cost as well as in increase in the resultant claw back of the cost of the BIG under universal coverage.

2.5. Analysis of the Resulting Impact on Tax of Implementing the Basic Income Grant in South Africa

The projected cost of implementing the BIG compared to PIT/CIT and VAT receipts over the projection period are considered in this section. It is noted that decisions regarding the increasing of revenue from these sources cannot be taken independently of an assessment of the possible economic impacts resulting from increasing PIT, CIT and VAT rates. For example, high marginal PIT tax rates may discourage work, saving, investment, and innovation.

2.5.1. Comparison of Cost in relation to PIT

2.5.1.1. Base Growth Scenario

The following tables set out the projected cost of implementing the BIG compared to PIT receipts (nominal) allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R500 per month with respect to the Phased-in Coverage Scenario.

Table 19: Base Growth Scenario – Cost of BIG per Scenario compared to PIT Receipts (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	26.9%	35.4%	31.8%	30.2%	29.4%	28.9%
Unemployed	15.5%	22.4%	20.0%	19.1%	18.8%	18.4%
LBPL	15.9%	22.8%	20.3%	19.4%	19.1%	18.8%
UBPL	16.8%	23.8%	21.3%	20.3%	20.0%	19.6%
Youth (age 21)	3.0%	4.0%	3.5%	3.4%	3.3%	3.3%
Youth (age 24)	5.4%	7.0%	6.2%	5.8%	5.7%	5.6%

Table 20: Base Growth Scenario – Cost of BIG per Scenario compared to PIT Receipts (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	62.2%	85.1%	76.2%	72.4%	70.6%	69.3%
Unemployed	35.9%	53.7%	47.9%	45.9%	45.1%	44.3%
LBPL	36.7%	54.6%	48.8%	46.7%	45.8%	45.0%
UBPL	38.9%	57.2%	51.1%	48.8%	47.9%	47.0%
Youth (age 21)	7.1%	9.5%	8.5%	8.1%	7.9%	7.8%
Youth (age 24)	12.5%	16.7%	14.8%	13.9%	13.6%	13.3%

Table 21: Base Growth Scenario – Cost of BIG per Scenario compared to PIT Receipts (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	94.3%	128.4%	115.0%	109.3%	106.6%	104.5%
Unemployed	54.4%	81.0%	72.4%	69.2%	68.0%	66.8%
LBPL	55.7%	82.5%	73.7%	70.5%	69.2%	68.0%
UBPL	58.9%	86.3%	77.1%	73.7%	72.3%	71.0%
Youth (age 21)	10.7%	14.4%	12.8%	12.2%	12.0%	11.8%
Youth (age 24)	18.9%	25.3%	22.3%	21.0%	20.5%	20.1%

Table 22: Base Growth Scenario – Cost of BIG per Scenario compared to PIT Receipts (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Phased-in Coverage	0.0%	0.0%	0.0%	0.0%	15.6%	15.3%

The following tables set out the increase in effective tax rates per income band for 2023/24 allowing for the projected cost of implementing the BIG allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL and the UBPL.

Table 23: Base Growth Scenario – Increase in Effective Tax Rates per Income Band for 2023/24 (special COVID-19 Social Relief of Distress Grant)

		Increase in Effective Tax Rate					
Taxable Income Band R'000	Effective Tax Rate (2020/21)	Universal	Unemployed	LBPL	UBPL	Youth (age 21)	Youth (age 24)
R0 - R80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	1.1%	0.7%	0.7%	0.8%	0.1%	0.2%
R150 - R250	9.7%	2.9%	1.8%	1.9%	1.9%	0.3%	0.6%
R250 - R350	15.2%	4.5%	2.9%	2.9%	3.0%	0.5%	0.9%
R350 - R500	17.5%	5.2%	3.3%	3.3%	3.5%	0.6%	1.0%
R500 - R750	23.9%	7.0%	4.5%	4.6%	4.8%	0.8%	1.4%
R750 - R1 000	29.1%	8.6%	5.5%	5.6%	5.8%	1.0%	1.6%
R1 000 - R1 500	30.4%	8.9%	5.7%	5.8%	6.1%	1.0%	1.7%
R1 500 +	42.7%	12.6%	8.0%	8.2%	8.5%	1.4%	2.4%

Table 24: Base Growth Scenario – Increase in Effective Tax Rates per Income Band for 2023/24 (LBPL)

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate					
		Universal	Unemployed	LBPL	UBPL	Youth (age 21)	Youth (age 24)
R0 - R80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	2.7%	1.8%	1.8%	1.9%	0.3%	0.5%
R150 - R250	9.7%	6.9%	4.4%	4.5%	4.7%	0.8%	1.3%
R250 - R350	15.2%	10.7%	6.8%	7.0%	7.3%	1.2%	2.1%
R350 - R500	17.5%	12.4%	7.9%	8.0%	8.4%	1.4%	2.4%
R500 - R750	23.9%	16.9%	10.8%	11.0%	11.5%	1.9%	3.2%
R750 - R1 000	29.1%	20.5%	13.1%	13.3%	13.9%	2.3%	3.9%
R1 000 - R1 500	30.4%	21.4%	13.7%	13.9%	14.5%	2.4%	4.1%
R1 500 +	42.7%	30.2%	19.2%	19.6%	20.5%	3.4%	5.8%

Table 25: Base Growth Scenario – Increase in Effective Tax Rates per Income Band for 2023/24 (UBPL)

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate					
		Universal	Unemployed	LBPL	UBPL	Youth (age 21)	Youth (age 24)
R0 - R80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	4.1%	2.6%	2.7%	2.8%	0.5%	0.8%
R150 - R250	9.7%	10.4%	6.6%	6.7%	7.0%	1.2%	2.0%
R250 - R350	15.2%	16.2%	10.3%	10.5%	11.0%	1.8%	3.1%
R350 - R500	17.5%	18.7%	11.9%	12.1%	12.7%	2.1%	3.6%
R500 - R750	23.9%	25.5%	16.3%	16.5%	17.3%	2.9%	4.9%
R750 - R1 000	29.1%	31.0%	19.8%	20.1%	21.0%	3.5%	6.0%
R1 000 - R1 500	30.4%	32.4%	20.6%	21.0%	22.0%	3.6%	6.2%
R1 500 +	42.7%	45.6%	29.1%	29.6%	30.9%	5.1%	8.8%

Table 26: Base Growth Scenario – Increase in Effective Tax Rates per Income Band for 2023/24 (Phased-in Coverage)

Taxable Income Band R'000	Increase in Effective Tax Rate	
	Effective Tax Rate (2020/21)	Phased-in Coverage
R0 - R80	0.0%	0.0%
R80 - R150	3.9%	0.6%
R150 - R250	9.7%	1.5%
R250 - R350	15.2%	2.4%
R350 - R500	17.5%	2.7%

	Increase in Effective Tax Rate	
Taxable Income Band R'000	Effective Tax Rate (2020/21)	Phased-in Coverage
R0 - R80	0.0%	0.0%
R80 - R150	3.9%	0.6%
R150 - R250	9.7%	1.5%
R500 - R750	23.9%	3.7%
R750 - R1 000	29.1%	4.5%
R1 000 - R1 500	30.4%	4.7%
R1 500 +	42.7%	6.7%

If funded through PIT, a universal BIG at the level of the special COVID-19 Social Relief of Distress Grant would result in an approximate average increase in effective tax rates of 8.2% across taxable income bands considered for 2023/24. A universal BIG at the LBPL would result in an approximate average increase in effective tax rates of 19.8% across taxable income bands considered for 2023/24. A universal BIG at the UBPL would result in an approximate average increase in effective tax rates of 30.0% across taxable income bands considered for 2020/21.

2.5.1.2. High Road Scenario

The following tables set out the projected cost of implementing the BIG compared to PIT receipts (nominal) allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R 500 per month with respect to the Phased-in Coverage Scenario.

Table 27: High Road Scenario – Cost of BIG per Scenario compared to PIT Receipts (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	26.9%	35.4%	31.5%	28.2%	27.5%	26.8%
Unemployed	15.5%	22.4%	19.7%	17.1%	16.1%	15.2%
LBPL	15.9%	22.8%	19.7%	17.1%	16.1%	15.2%
UBPL	16.8%	23.8%	20.7%	18.0%	17.1%	16.1%
Youth (age 21)	3.0%	4.0%	3.5%	3.1%	3.1%	3.0%
Youth (age 24)	5.4%	7.0%	6.1%	5.4%	5.3%	5.2%

Table 28: High Road Scenario – Cost of BIG per Scenario compared to PIT Receipts (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	62.2%	85.1%	75.6%	67.7%	66.0%	64.4%
Unemployed	35.9%	53.7%	47.3%	41.1%	38.7%	36.5%
LBPL	36.7%	54.6%	47.2%	41.0%	38.7%	36.4%
UBPL	38.9%	57.2%	49.6%	43.2%	40.9%	38.7%
Youth (age 21)	7.1%	9.5%	8.4%	7.6%	7.4%	7.3%
Youth (age 24)	12.5%	16.7%	14.7%	13.0%	12.7%	12.4%

Table 29: High Road Scenario – Cost of BIG per Scenario compared to PIT Receipts (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	94.3%	128.4%	114.2%	102.1%	99.6%	97.2%
Unemployed	54.4%	81.0%	71.4%	62.0%	58.5%	55.2%
LBPL	55.7%	82.5%	71.3%	61.9%	58.4%	54.9%
UBPL	58.9%	86.3%	74.8%	65.2%	61.8%	58.5%
Youth (age 21)	10.7%	14.4%	12.7%	11.4%	11.2%	11.0%
Youth (age 24)	18.9%	25.3%	22.1%	19.7%	19.1%	18.7%

Table 30: High Road Scenario – Cost of BIG per Scenario compared to PIT Receipts (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Phased-in Coverage	0.0%	0.0%	0.0%	0.0%	12.5%	11.5%

The following tables set out the increase in effective tax rates per income band for 2023/24 allowing for the projected cost of implementing the BIG allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL and the UBPL.

Table 31: High Road Scenario – Increase in Effective Tax Rates per Income Band for 2023/24 (special COVID-19 Social Relief of Distress Grant)

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate					
		Universal	Unemployed	LBPL	UBPL	Youth (age 21)	Youth (age 24)
R0 - R80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	1.1%	0.6%	0.6%	0.7%	0.1%	0.2%
R150 - R250	9.7%	2.7%	1.6%	1.6%	1.7%	0.3%	0.5%
R250 - R350	15.2%	4.2%	2.4%	2.4%	2.6%	0.5%	0.8%
R350 - R500	17.5%	4.8%	2.8%	2.8%	3.0%	0.5%	0.9%
R500 - R750	23.9%	6.6%	3.8%	3.9%	4.1%	0.7%	1.3%
R750 - R1 000	29.1%	8.0%	4.7%	4.7%	5.0%	0.9%	1.5%
R1 000 - R1 500	30.4%	8.3%	4.9%	4.9%	5.2%	0.9%	1.6%
R1 500 +	42.7%	11.7%	6.9%	6.9%	7.3%	1.3%	2.3%

Table 32: High Road Scenario – Increase in Effective Tax Rates per Income Band for 2023/24 (LBPL)

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate					
		Universal	Unemployed	LBPL	UBPL	Youth (age 21)	Youth (age 24)
R0 - R80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	2.6%	1.5%	1.5%	1.6%	0.3%	0.5%
R150 - R250	9.7%	6.4%	3.8%	3.8%	4.0%	0.7%	1.2%
R250 - R350	15.2%	10.0%	5.9%	5.9%	6.2%	1.1%	1.9%
R350 - R500	17.5%	11.6%	6.8%	6.8%	7.2%	1.3%	2.2%
R500 - R750	23.9%	15.8%	9.2%	9.2%	9.8%	1.8%	3.0%
R750 - R1 000	29.1%	19.2%	11.2%	11.2%	11.9%	2.2%	3.7%
R1 000 - R1 500	30.4%	20.0%	11.7%	11.7%	12.4%	2.2%	3.8%
R1 500 +	42.7%	28.2%	16.5%	16.5%	17.5%	3.2%	5.4%

Table 33: High Road Scenario – Increase in Effective Tax Rates per Income Band for 2023/24 (UBPL)

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate					
		Universal	Unemployed	LBPL	UBPL	Youth (age 21)	Youth (age 24)
R0 - R80	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	3.9%	2.3%	2.3%	2.4%	0.4%	0.7%
R150 - R250	9.7%	9.7%	5.7%	5.7%	6.0%	1.1%	1.9%
R250 - R350	15.2%	15.1%	8.9%	8.9%	9.4%	1.7%	2.9%
R350 - R500	17.5%	17.5%	10.2%	10.2%	10.8%	2.0%	3.4%
R500 - R750	23.9%	23.8%	13.9%	13.9%	14.8%	2.7%	4.6%
R750 - R1 000	29.1%	29.0%	17.0%	17.0%	18.0%	3.3%	5.6%
R1 000 - R1 500	30.4%	30.2%	17.7%	17.7%	18.8%	3.4%	5.8%
R1 500 +	42.7%	42.5%	24.9%	24.9%	26.4%	4.8%	8.2%

Table 34: High Road Scenario – Increase in Effective Tax Rates per Income Band for 2023/24 (Phased-in Coverage)

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate
		Phased-in Coverage
R0 - R80	0.0%	0.0%
R80 - R150	3.9%	0.5%
R150 - R250	9.7%	1.2%
R250 - R350	15.2%	1.9%
R350 - R500	17.5%	2.2%
R500 - R750	23.9%	3.0%
R750 - R1 000	29.1%	3.7%
R1 000 - R1 500	30.4%	3.9%
R1 500 +	42.7%	5.4%

2.5.2. Comparison of Cost in relation to CIT

2.5.2.1. Base Growth Scenario

The following tables set out the projected cost of implementing the BIG compared to CIT receipts (nominal) allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R 500 per month with respect to the Phased-in Coverage Scenario.

Table 35: Base Growth Scenario – Cost of BIG per Scenario compared to CIT Receipts

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	65.5%	84.2%	75.7%	72.6%	70.7%	69.3%
Unemployed	37.8%	53.1%	47.6%	46.0%	45.1%	44.3%
LBPL	38.6%	54.1%	48.5%	46.8%	45.9%	45.1%
UBPL	40.9%	56.6%	50.8%	48.9%	47.9%	47.1%
Youth (age 21)	7.4%	9.4%	8.4%	8.1%	7.9%	7.8%
Youth (age 24)	13.1%	16.6%	14.7%	14.0%	13.6%	13.3%

Table 36: Base Growth Scenario – Cost of BIG per Scenario compared to CIT Receipts (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	151.5%	202.0%	181.7%	174.3%	169.7%	166.3%
Unemployed	87.5%	127.4%	114.4%	110.4%	108.2%	106.3%
LBPL	89.4%	129.7%	116.4%	112.3%	110.1%	108.1%
UBPL	94.6%	135.8%	121.9%	117.5%	115.1%	113.0%
Youth (age 21)	17.2%	22.6%	20.2%	19.4%	19.1%	18.8%
Youth (age 24)	30.4%	39.8%	35.3%	33.5%	32.6%	32.0%

Table 37: Base Growth Scenario – Cost of BIG per Scenario compared to CIT Receipts (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	229.5%	305.0%	274.3%	263.0%	256.1%	251.1%
Unemployed	132.5%	192.4%	172.6%	166.6%	163.4%	160.5%
LBPL	135.5%	195.8%	175.7%	169.5%	166.2%	163.2%
UBPL	143.3%	204.9%	183.9%	177.3%	173.7%	170.5%
Youth (age 21)	26.0%	34.2%	30.6%	29.4%	28.8%	28.4%
Youth (age 24)	46.1%	60.0%	53.2%	50.6%	49.2%	48.4%

Table 38: Base Growth Scenario – Cost of BIG per Scenario compared to CIT Receipts (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Phased-in Coverage	0.0%	0.0%	0.0%	0.0%	37.5%	36.8%

2.5.2.2. High Road Scenario

The following tables set out the projected cost of implementing the BIG compared to CIT receipts (nominal) allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R 500 per month with respect to the Phased-in Coverage Scenario.

Table 39: High Road Scenario – Cost of BIG per Scenario compared to CIT Receipts (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	65.5%	84.2%	75.7%	67.7%	66.0%	64.4%
Unemployed	37.8%	53.1%	47.3%	41.1%	38.8%	36.6%
LBPL	38.6%	54.1%	47.2%	41.0%	38.7%	36.4%
UBPL	40.9%	56.6%	49.6%	43.2%	41.0%	38.8%
Youth (age 21)	7.4%	9.4%	8.4%	7.6%	7.4%	7.3%
Youth (age 24)	13.1%	16.6%	14.7%	13.0%	12.7%	12.4%

Table 40: High Road Scenario – Cost of BIG per Scenario compared to CIT Receipts (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	151.5%	202.0%	181.6%	162.5%	158.4%	154.6%
Unemployed	87.5%	127.4%	113.6%	98.6%	93.1%	87.8%
LBPL	89.4%	129.7%	113.4%	98.4%	92.9%	87.4%
UBPL	94.6%	135.8%	119.1%	103.8%	98.3%	93.0%
Youth (age 21)	17.2%	22.6%	20.2%	18.1%	17.8%	17.5%

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	151.5%	202.0%	181.6%	162.5%	158.4%	154.6%
Unemployed	87.5%	127.4%	113.6%	98.6%	93.1%	87.8%
LBPL	89.4%	129.7%	113.4%	98.4%	92.9%	87.4%
UBPL	94.6%	135.8%	119.1%	103.8%	98.3%	93.0%
Youth (age 24)	30.4%	39.8%	35.2%	31.3%	30.4%	29.8%

Table 41: High Road Scenario – Cost of BIG per Scenario compared to CIT Receipts (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	229.5%	305.0%	274.2%	245.3%	239.1%	233.4%
Unemployed	132.5%	192.4%	171.5%	148.9%	140.5%	132.5%
LBPL	135.5%	195.8%	171.2%	148.6%	140.2%	131.9%
UBPL	143.3%	204.9%	179.7%	156.6%	148.4%	140.4%
Youth (age 21)	26.0%	34.2%	30.5%	27.4%	26.9%	26.4%
Youth (age 24)	46.1%	60.0%	53.2%	47.2%	45.9%	44.9%

Table 42: High Road Scenario – Cost of BIG per Scenario compared to CIT Receipts (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Phased-in Coverage	0.0%	0.0%	0.0%	0.0%	30.6%	28.4%

If funded through CIT, a universal BIG at the level of the special COVID-19 Social Relief of Distress Grant would result in an approximate increase of 84.2% to expected CIT receipts in 2020/21 decreasing to 64.4% in 2024/25 as a result of higher tax revenues expected and a proportion of GDP. The increase in expected CIT receipts in 2020/21 under a universal BIG at the level of the LBPL and UBPL increases to 202% and 305% respectively.

2.5.3. Comparison of Cost in relation to VAT

2.5.3.1. Base Growth Scenario

The following tables set out the projected cost of implementing the BIG compared to VAT receipts (nominal) allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R 500 per month with respect to the Phased-in Coverage Scenario.

Table 43: Base Growth Scenario – Cost of BIG per Scenario compared to VAT Receipts (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	41.2%	53.8%	48.3%	46.2%	44.9%	44.1%
Unemployed	23.8%	33.9%	30.4%	29.3%	28.7%	28.2%
LBPL	24.3%	34.5%	31.0%	29.8%	29.2%	28.6%
UBPL	25.7%	36.1%	32.4%	31.2%	30.5%	29.9%
Youth (age 21)	4.7%	6.0%	5.4%	5.2%	5.0%	5.0%
Youth (age 24)	8.3%	10.6%	9.4%	8.9%	8.6%	8.5%

Table 44: Base Growth Scenario – Cost of BIG per Scenario compared to VAT Receipts (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	95.4%	129.0%	116.0%	111.0%	107.8%	105.7%
Unemployed	55.1%	81.4%	73.0%	70.3%	68.8%	67.6%
LBPL	56.3%	82.8%	74.3%	71.5%	70.0%	68.7%
UBPL	59.6%	86.7%	77.8%	74.8%	73.1%	71.8%
Youth (age 21)	10.8%	14.5%	12.9%	12.4%	12.1%	12.0%
Youth (age 24)	19.1%	25.4%	22.5%	21.4%	20.7%	20.4%

Table 45: Base Growth Scenario – Cost of BIG per Scenario compared to VAT Receipts (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	144.5%	194.7%	175.1%	167.6%	162.8%	159.6%
Unemployed	83.4%	122.8%	110.2%	106.1%	103.8%	102.0%
LBPL	85.3%	125.0%	112.1%	108.0%	105.6%	103.7%
UBPL	90.2%	130.8%	117.4%	112.9%	110.4%	108.4%
Youth (age 21)	16.4%	21.8%	19.5%	18.7%	18.3%	18.0%
Youth (age 24)	29.0%	38.3%	34.0%	32.2%	31.3%	30.7%

Table 46: Base Growth Scenario – Cost of BIG per Scenario compared to VAT Receipts (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Phased-in Coverage	0.0%	0.0%	0.0%	0.0%	23.8%	23.4%

If funded through VAT, a universal BIG at the level of the special COVID-19 Social Relief of Distress Grant would result in an approximate increase of 53.8% to expected VAT receipts in 2020/21 decreasing to 44.1% in 2024/25 as a result of higher tax revenues expected and a proportion of GDP. The increase in expected VAT receipts in 2020/21 under a universal BIG at the level of the LBPL and UBPL increases to 129.0% and 194.7% respectively.

2.5.3.2. High Road Scenario

The following tables set out the projected cost of implementing the BIG compared to VAT receipts (nominal) allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R 500 per month with respect to the Phased-in Coverage Scenario.

Table 47: High Road Scenario – Cost of BIG per Scenario compared to VAT Receipts (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	41.2%	53.8%	48.1%	43.0%	42.0%	40.9%
Unemployed	23.8%	33.9%	30.1%	26.1%	24.6%	23.2%
LBPL	24.3%	34.5%	30.0%	26.1%	24.6%	23.1%
UBPL	25.7%	36.1%	31.5%	27.5%	26.0%	24.6%
Youth (age 21)	4.7%	6.0%	5.4%	4.8%	4.7%	4.6%
Youth (age 24)	8.3%	10.6%	9.3%	8.3%	8.1%	7.9%

Table 48: High Road Scenario – Cost of BIG per Scenario compared to VAT Receipts (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	95.4%	129.0%	115.4%	103.3%	100.7%	98.3%
Unemployed	55.1%	81.4%	72.2%	62.7%	59.1%	55.8%
LBPL	56.3%	82.8%	72.1%	62.6%	59.0%	55.6%
UBPL	59.6%	86.7%	75.7%	66.0%	62.5%	59.1%
Youth (age 21)	10.8%	14.5%	12.9%	11.5%	11.3%	11.1%
Youth (age 24)	19.1%	25.4%	22.4%	19.9%	19.3%	18.9%

Table 49: High Road Scenario – Cost of BIG per Scenario compared to VAT Receipts (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	144.5%	194.7%	174.3%	155.9%	152.0%	148.3%
Unemployed	83.4%	122.8%	109.0%	94.6%	89.3%	84.2%
LBPL	85.3%	125.0%	108.8%	94.4%	89.1%	83.9%
UBPL	90.2%	130.8%	114.2%	99.6%	94.3%	89.2%
Youth (age 21)	16.4%	21.8%	19.4%	17.4%	17.1%	16.8%
Youth (age 24)	29.0%	38.3%	33.8%	30.0%	29.2%	28.6%

Table 50: High Road Scenario – Cost of BIG per Scenario compared to VAT Receipts (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Phased-in Coverage	0.0%	0.0%	0.0%	0.0%	19.5%	18.0%

If funded through VAT, a universal BIG at the level of the special COVID-19 Social Relief of Distress Grant would result in an approximate increase of 53.8% to expected VAT receipts in 2020/21 decreasing to 40.9% in 2024/25 as a result of higher tax revenues expected and a proportion of GDP. The increase in expected VAT receipts in 2020/21 under a universal BIG at the level of the LBPL and UBPL increases to 129.0% and 194.7%, respectively.

2.5.4. Funding of a Universal BIG through a Combination of PIT, CIT and VAT

A scenario illustrating the impact on PIT, CIT and VAT if all three tax sources of tax revenue bare the cost of a universal BIG in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL and the UBPL. The relative proportion of the cost of implementing a universal BIG that PIT, CIT and VAT should meet has been calculated in proportion to the relative importance of the particular type of tax-to-tax revenue over 2023/24 and 2024/25. The increase in PIT/CIT and VAT is therefore equally shared.

2.5.4.1. Base Growth Scenario

The following table sets out the projected cost of implementing the BIG compared to PIT/CIT/VAT receipts in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL and the UBPL.

Table 51: Base Growth Scenario – Cost of BIG per Scenario compared to PIT/CIT/VAT Receipts

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Special COVID-19 Social Relief of Distress Grant	13.0%	17.0%	15.3%	14.6%	14.2%	13.9%
LBPL	30.2%	40.9%	36.7%	35.0%	34.1%	33.4%
UBPL	45.7%	61.7%	55.4%	52.9%	51.5%	50.5%

The following table sets out the increase in effective tax rates per income band for 2023/24 allowing for the projected cost of implementing the BIG allowing for the sharing of the cost of a universal BIG as described above.

Table 52: Base Growth Scenario – Increase in Effective Tax Rates per Income Band for 2023/24

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate		
		Special COVID-19 Social Relief of Distress Grant	LBPL	UBPL
R0 - R80	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	0.6%	1.3%	2.0%
R150 - R250	9.7%	1.4%	3.3%	5.0%
R250 - R350	15.2%	2.2%	5.2%	7.8%
R350 - R500	17.5%	2.5%	6.0%	9.0%
R500 - R750	23.9%	3.4%	8.2%	12.3%

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate		
		Special COVID-19 Social Relief of Distress Grant	LBPL	UBPL
R0 - R80	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	0.6%	1.3%	2.0%
R150 - R250	9.7%	1.4%	3.3%	5.0%
R750 - R1 000	29.1%	4.1%	9.9%	15.0%
R1 000 - R1 500	30.4%	4.3%	10.4%	15.6%
R1 500 +	42.7%	6.1%	14.6%	22.0%

2.5.4.2. High Road Scenario

The following table sets out the projected cost of implementing the BIG compared to PIT/CIT/VAT receipts in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL and the UBPL.

Table 53: High Road Scenario – Cost of BIG per Scenario compared to PIT/CIT/VAT Receipts

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Special COVID-19 Social Relief of Distress Grant	13.0%	17.0%	15.2%	13.6%	13.3%	12.9%
LBPL	30.2%	40.9%	36.5%	32.7%	31.8%	31.1%
UBPL	45.7%	61.7%	55.1%	49.3%	48.1%	46.9%

The following table sets out the increase in effective tax rates per income band for 2023/24 allowing for the projected cost of implementing the BIG allowing for the sharing of the cost of a universal BIG as described above.

Table 54: High Road Scenario – Increase in Effective Tax Rates per Income Band for 2023/24

Taxable Income Band R'000	Effective Tax Rate (2020/21)	Increase in Effective Tax Rate		
		Special COVID-19 Social Relief of Distress Grant	LBPL	UBPL
R0 - R80	0.0%	0.0%	0.0%	0.0%
R80 - R150	3.9%	0.5%	1.2%	1.9%
R150 - R250	9.7%	1.3%	3.1%	4.7%
R250 - R350	15.2%	2.0%	4.8%	7.3%
R350 - R500	17.5%	2.3%	5.6%	8.4%
R500 - R750	23.9%	3.2%	7.6%	11.5%
R750 - R1 000	29.1%	3.9%	9.3%	14.0%
R1 000 - R1 500	30.4%	4.0%	9.7%	14.6%
R1 500 +	42.7%	5.7%	13.6%	20.5%

2.6. Analysis of the Fiscal Feasibility of Implementing the Basic Income Grant in South Africa

2.6.1. Comparison of Cost in relation to Nominal GDP

2.6.1.1. Base Growth Scenario

The following tables set out the projected cost of implementing the BIG compared to nominal GDP allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R 500 per month in respect of the Phased-in Coverage Scenario.

Table 55: Base Growth Scenario – Cost of BIG per Scenario compared to GDP (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	2.8%	3.0%	2.9%	2.9%	2.9%	2.9%
Unemployed	1.6%	1.9%	1.8%	1.8%	1.8%	1.8%
LBPL	1.6%	1.9%	1.9%	1.9%	1.9%	1.9%
UBPL	1.7%	2.0%	1.9%	1.9%	2.0%	1.9%
Youth (age 21)	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Youth (age 24)	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%

Table 56: Base Growth Scenario – Cost of BIG per Scenario compared to GDP (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	6.4%	7.1%	6.9%	6.9%	6.9%	6.9%
Unemployed	3.7%	4.5%	4.4%	4.4%	4.4%	4.4%
LBPL	3.8%	4.6%	4.4%	4.5%	4.5%	4.5%
UBPL	4.0%	4.8%	4.7%	4.7%	4.7%	4.7%
Youth (age 21)	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%
Youth (age 24)	1.3%	1.4%	1.3%	1.3%	1.3%	1.3%

Table 57: Base Growth Scenario – Cost of BIG per Scenario compared to GDP (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	9.7%	10.7%	10.5%	10.5%	10.5%	10.4%
Unemployed	5.6%	6.8%	6.6%	6.6%	6.7%	6.6%
LBPL	5.7%	6.9%	6.7%	6.7%	6.8%	6.8%
UBPL	6.1%	7.2%	7.0%	7.1%	7.1%	7.1%
Youth (age 21)	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
Youth (age 24)	1.9%	2.1%	2.0%	2.0%	2.0%	2.0%

Table 58: Base Growth Scenario – Cost of BIG per Scenario compared to GDP (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Unemployed	0.0%	0.0%	0.0%	0.0%	1.5%	1.5%

Under the Base Growth Scenario, the cost of universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant ranges from 2.8% to 2.9% of nominal GDP over the projection period. This increases to 9.7% to 10.4% of nominal GDP over the projection period if a universal BIG is introduced at the UBPL level.

2.6.1.2. High Road Scenario

The following tables set out the projected cost of implementing the BIG compared to nominal GDP allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R500 per month with respect to the Phased-in Coverage Scenario.

Table 59: High Road Scenario – Cost of BIG per Scenario compared to GDP (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	2.8%	3.0%	2.9%	2.8%	2.8%	2.7%
Unemployed	1.6%	1.9%	1.8%	1.7%	1.6%	1.5%
LBPL	1.6%	1.9%	1.8%	1.7%	1.6%	1.5%
UBPL	1.7%	2.0%	1.9%	1.8%	1.7%	1.6%
Youth (age 21)	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Youth (age 24)	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%

Table 60: High Road Scenario – Cost of BIG per Scenario compared to GDP (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	6.4%	7.1%	7.0%	6.8%	6.7%	6.5%
Unemployed	3.7%	4.5%	4.4%	4.1%	3.9%	3.7%
LBPL	3.8%	4.6%	4.4%	4.1%	3.9%	3.7%
UBPL	4.0%	4.8%	4.6%	4.4%	4.1%	3.9%
Youth (age 21)	0.7%	0.8%	0.8%	0.8%	0.7%	0.7%
Youth (age 24)	1.3%	1.4%	1.4%	1.3%	1.3%	1.3%

Table 61: High Road Scenario – Cost of BIG per Scenario compared to GDP (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	9.7%	10.7%	10.6%	10.3%	10.0%	9.8%
Unemployed	5.6%	6.8%	6.6%	6.3%	5.9%	5.6%
LBPL	5.7%	6.9%	6.6%	6.2%	5.9%	5.5%
UBPL	6.1%	7.2%	6.9%	6.6%	6.2%	5.9%
Youth (age 21)	1.1%	1.2%	1.2%	1.1%	1.1%	1.1%
Youth (age 24)	1.9%	2.1%	2.1%	2.0%	1.9%	1.9%

Table 62: High Road Scenario – Cost of BIG per Scenario compared to GDP (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Unemployed	0.0%	0.0%	0.0%	0.0%	1.3%	1.2%

Under the High Road Scenario in respect of GDP growth from 2021/22, the cost of universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant ranges from 2.8% to 2.7% of nominal GDP over the projection period. This increases to 9.7% to 9.8% of nominal GDP over the projection period if a universal BIG is introduced at the UBPL level.

Comparison of the cost of universal BIG coverage under the Base Growth Scenario and the High Road Scenario demonstrates the fiscal significance of the BIG and its resulting funding requirements can be reduced through higher economic growth. This is particularly significant under the unemployed, LBPL and UBPL coverage scenarios given that impact of higher economic growth on the employment rate and subsequent income distribution of the population aged 18 to 59.

2.6.2. Comparison of Cost in relation to Total Tax Revenue

2.6.2.1. Base Growth Scenario

The following tables set out the projected cost of implementing the BIG compared to total tax revenue (nominal) allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R500 per month with respect to the Phased-in Coverage Scenario.

Table 63: Base Growth Scenario – Cost of BIG per Scenario compared to Total Tax Revenue (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	10.9%	13.6%	12.2%	11.7%	11.5%	11.3%
Unemployed	6.3%	8.6%	7.7%	7.4%	7.3%	7.2%
LBPL	6.4%	8.7%	7.8%	7.5%	7.4%	7.3%
UBPL	6.8%	9.1%	8.2%	7.9%	7.8%	7.6%
Youth (age 21)	1.2%	1.5%	1.4%	1.3%	1.3%	1.3%
Youth (age 24)	2.2%	2.7%	2.4%	2.2%	2.2%	2.2%

Table 64: Base Growth Scenario – Cost of BIG per Scenario compared to Total Tax Revenue (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	25.2%	32.6%	29.3%	28.0%	27.5%	27.0%
Unemployed	14.5%	20.6%	18.4%	17.7%	17.6%	17.3%
LBPL	14.9%	21.0%	18.8%	18.0%	17.9%	17.6%
UBPL	15.7%	21.9%	19.6%	18.9%	18.7%	18.3%
Youth (age 21)	2.9%	3.7%	3.3%	3.1%	3.1%	3.1%
Youth (age 24)	5.0%	6.4%	5.7%	5.4%	5.3%	5.2%

Table 65: Base Growth Scenario – Cost of BIG per Scenario compared to Total Tax Revenue (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	38.1%	49.3%	44.2%	42.2%	41.6%	40.8%
Unemployed	22.0%	31.1%	27.8%	26.7%	26.5%	26.0%
LBPL	22.5%	31.6%	28.3%	27.2%	27.0%	26.5%
UBPL	23.8%	33.1%	29.6%	28.5%	28.2%	27.7%
Youth (age 21)	4.3%	5.5%	4.9%	4.7%	4.7%	4.6%
Youth (age 24)	7.6%	9.7%	8.6%	8.1%	8.0%	7.8%

Table 66: Base Growth Scenario – Cost of BIG per Scenario compared to Total Tax Revenue (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Unemployed	0.0%	0.0%	0.0%	0.0%	6.1%	6.0%

Under the Base Growth Scenario in respect of GDP growth from 2021/22, the cost of universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant ranges from 10.9% to 11.3% of nominal tax revenue over the projection period. This increases to 38.1% to 40.8% of nominal tax revenue over the projection period if a universal BIG is introduced at the UBPL level.

2.6.2.2. High Road Scenario

The following tables set out the projected cost of implementing the BIG compared to total tax revenue (nominal) allowing for the various scenarios set out in Section 2.3 above, in relation to a BIG amount in line with the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL, the UBPL and R500 per month with respect to the Phased-in Coverage Scenario.

Table 67: High Road Scenario – Cost of BIG per Scenario compared to Total Tax Revenue (special COVID-19 Social Relief of Distress Grant)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	10.9%	13.6%	12.3%	11.0%	10.7%	10.5%
Unemployed	6.3%	8.6%	7.7%	6.7%	6.3%	5.9%
LBPL	6.4%	8.7%	7.7%	6.7%	6.3%	5.9%
UBPL	6.8%	9.1%	8.1%	7.0%	6.7%	6.3%
Youth (age 21)	1.2%	1.5%	1.4%	1.2%	1.2%	1.2%
Youth (age 24)	2.2%	2.7%	2.4%	2.1%	2.1%	2.0%

Table 68: High Road Scenario – Cost of BIG per Scenario compared to Total Tax Revenue (LBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	25.2%	32.6%	29.5%	26.4%	25.7%	25.1%
Unemployed	14.5%	20.6%	18.4%	16.0%	15.1%	14.2%
LBPL	14.9%	21.0%	18.4%	16.0%	15.1%	14.2%
UBPL	15.7%	21.9%	19.3%	16.8%	16.0%	15.1%
Youth (age 21)	2.9%	3.7%	3.3%	2.9%	2.9%	2.8%
Youth (age 24)	5.0%	6.4%	5.7%	5.1%	4.9%	4.8%

Table 69: High Road Scenario – Cost of BIG per Scenario compared to Total Tax Revenue (UBPL)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Universal	38.1%	49.3%	44.5%	39.8%	38.8%	37.9%
Unemployed	22.0%	31.1%	27.8%	24.2%	22.8%	21.5%
LBPL	22.5%	31.6%	27.8%	24.1%	22.8%	21.4%
UBPL	23.8%	33.1%	29.2%	25.4%	24.1%	22.8%
Youth (age 21)	4.3%	5.5%	5.0%	4.4%	4.4%	4.3%
Youth (age 24)	7.6%	9.7%	8.6%	7.7%	7.5%	7.3%

Table 70: High Road Scenario – Cost of BIG per Scenario compared to Total Tax Revenue (Phased-in Coverage)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Unemployed	0.0%	0.0%	0.0%	0.0%	5.0%	4.6%

Under the High Road Scenario in respect of GDP growth from 2021/22, the cost of universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant ranges from 10.9% to 10.5% of nominal tax revenue over the projection period. This increases to 38.1% to 37.9% of nominal tax revenue over the projection period if a universal BIG is introduced at the UBPL level.

Similarly, the results demonstrate that the fiscal significance of the BIG and its resulting funding requirements can be reduced through higher economic growth. The corresponding ratios to total tax revenue are 10.9% to 10.5% of total tax revenue for universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant and 38.1% to 37.9% of total tax revenue for universal BIG coverage at the UBPL.

2.7. Analysis of the Impact on Income Distribution resulting from Implementation of the Basic Income Grant in South Africa

Implementation of the BIG will alter income distribution. The following graphs set out the impact of universal coverage of a BIG at the level of the special COVID-19 Social Relief of Distress Grant of R350 per month, the LBPL and the UBPL per gender compared to the income prior to the introduction of a universal BIG.

Figure 1: Universal Coverage – Impact on Income Distribution (Female)

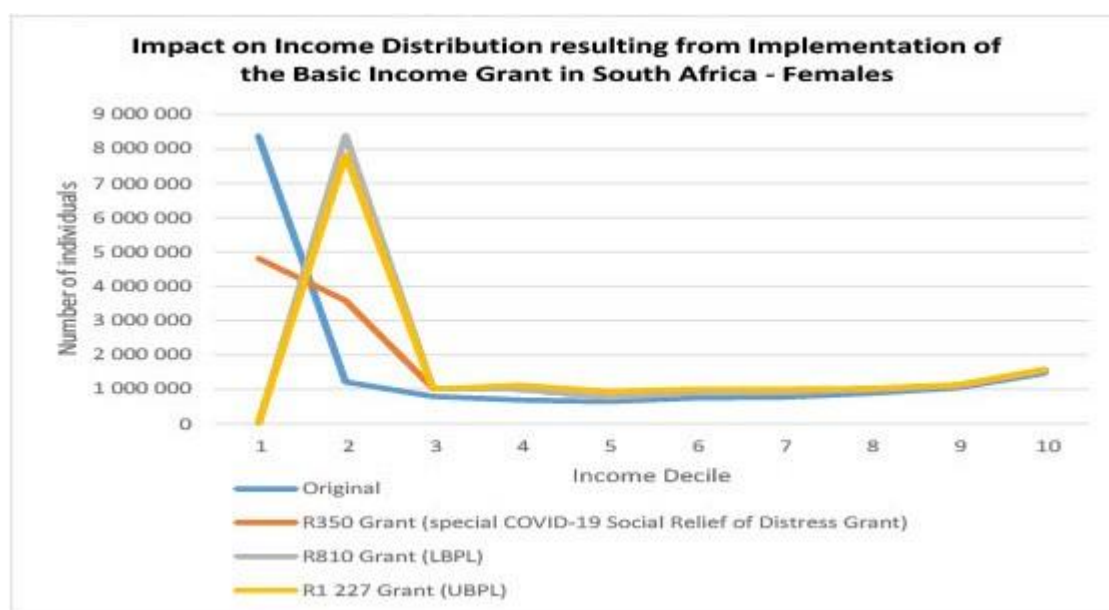


Figure 2: Universal Coverage – Impact on Income Distribution (Male)

The impact of implementing the BIG has a significant impact on income distribution, particularly at the lower income levels, where a significant proportion of the population are concentrated given South Africa's unemployment, poverty and inequality challenges. The impact on income distribution is dependent on the level of the BIG, with a BIG at the UBPL having the most significant impact. The BIG at the LBPL and the UBPL pushes all individuals in income decile 1 (determined before the introduction of a universal BIG), representing 57% of individuals aged 18 to 59 or 19.1 million individuals to income decile 2 (determined before the introduction of a universal BIG) and income decile 3 (determined before the introduction of a universal BIG). It is noted that while individuals aged 18 to 50 have been pushed to higher income deciles allowing for introduction of the BIG at the LBPL and the UBPL, the actual income levels within the income deciles will change.

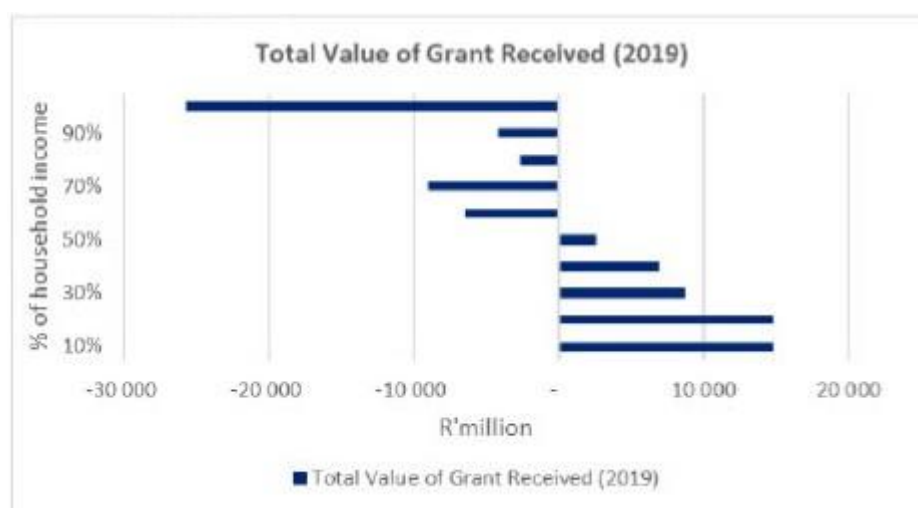
The provision of a BIG at LBPL and UBPL is in line with one of the NDP's goals which is to reduce the proportion of persons living below the LBPL to zero by 2030.

The impact on females is higher given the higher unemployment rate in relation to females and the consequently higher proportion of females falling under the LBPL and UBPL. As per the StatsSA Quarterly Labour Force Survey for Quarter 1, 2020, the unemployment rate was 32.4% for females and 28.3% for males. The unemployment rate for females has been consistently higher than the unemployment rate for males by an average of 3% to 4%.

2.8. Analysis of the Redistribution and Economic Impact of Implementing the Basic Income Grant in South Africa

In line with the methodology outlined in Section 2.2.1, the net impact of the universal BIG (special COVID-19 Social Relief of Distress Grant) is calculated across income deciles by allowing for the value of the BIG less PIT receipts to fund the BIG. As can be seen in the graph below, the net “negative” grant contribution illustrates that the value of the BIG is less than the increase tax paid by the higher income deciles. The graph illustrates that from the 6th income decile, the net grant amount is negative.

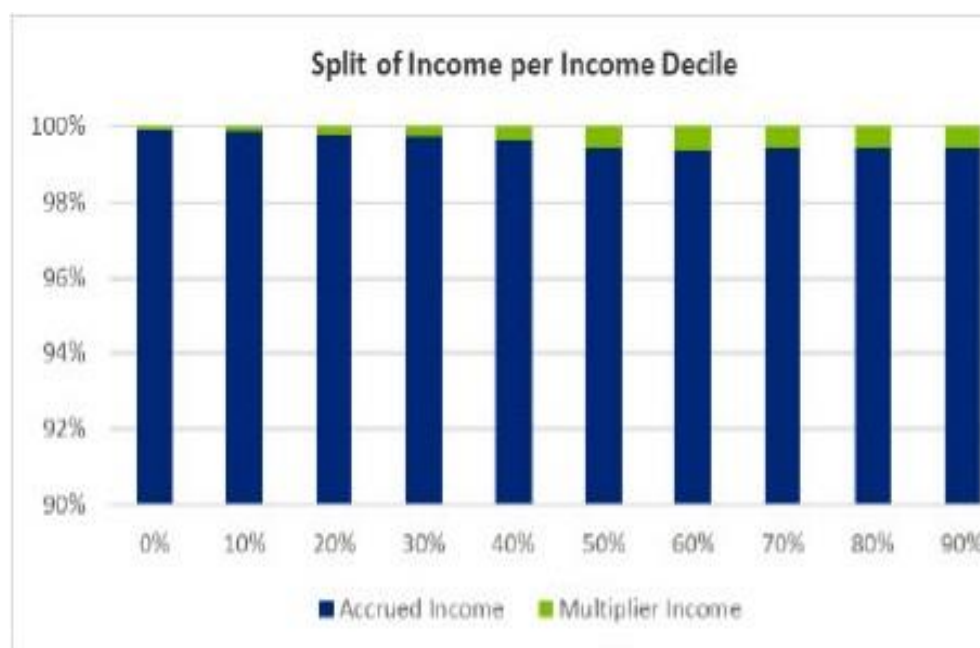
Figure 3: Net Aggregate Impact of BIG Across Households



Such a redistribution of income will have positive economic impacts if the net impact of the distribution mechanism is positive, that is, the impact of the rise in income for poorer households is greater than the impact of the decrease in income for wealthier households.

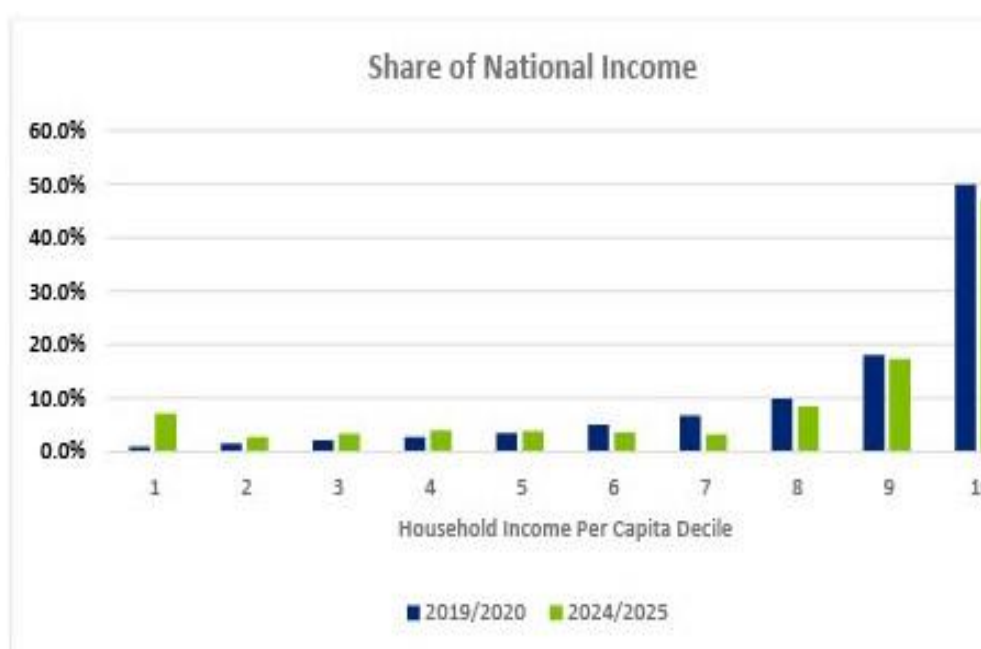
The additional income per household decile through a universal BIG results in an additional knock-on effect that is generated through consumption activities in the economy. This is as consumption spurs demand for goods and services, which produces additional income in the form of wages earned. The additional income generated through the multiplier effect is illustrated below. By 2024/25, additional income accounts for an aggregate of 7% in household income as a result of the knock-on effect of the BIG. By 2024/25, additional wealth accounts for an aggregate of 7% in household income as a result of the knock-on of the BIG to households through the indirect stimulation of other sources of household income. As seen below, higher income households typically earn higher percentages of the multiplier income, as higher income households earn income from more diverse sources within the economy that receive stimulation through the BIG.

Figure 4: Split of Income per Income Decile resulting from the BIG through Multiplier Effect



From a redistributive perspective, the lowest 50% of households become relatively richer as a result of the BIG, while the top 50% become relatively poorer as set out in the graph below. The share of income held by the poorest 50% of households rises significantly between 2019/20 (baseline) and 2024/2025, at the expense of the richest 50%.

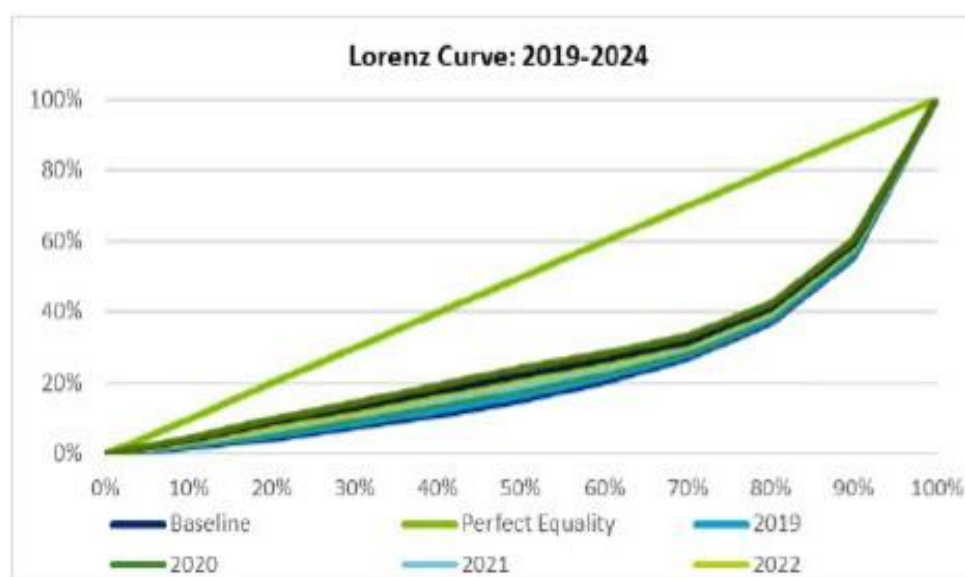
Figure 5: Change in % Share of Income per Income Decile



The above chart shows the percentage share of national income per household income per capita decile, as reported through the national accounts. The introduction of the BIG reduces the share of household income per capita as a percentage of the total in the highest income decile from 49.9% in 2019/2020 on an income per capita basis to just below 47.1% by 2024/2025. The share of household income per capita as a percentage of the total in the lowest income decile increases from 0.8% in 2019/2020 on an income per capita basis to 7.0% by 2024/2025. The corresponding income per capita gini co-efficient decreases from 0.61 to 0.49, representing a 20% decrease.

This corresponds to a shift in inequality measurements. The graph below illustrates the Lorenz curve for South Africa. The curve shows the distribution of income through the cumulative share of income. This shows that in South Africa, 90% of households own around 56% of total income, and therefore the richest 10% of households own around 45% of all income. The introduction of the BIG has the effect of reducing inequality. With each subsequent year over the projection period, the curve moves closer to 45 degrees (which represents perfect income equality), illustrating a reduction in inequality. By 2024/25, the concentration of income of the top 10% has fallen to below 40%.

Figure 6: Lorenz Curve – Redistributive Impact of the BIG



The results show that the introduction of the BIG should have redistributive effects and positive economic gains that increase the wealth levels of the poorest households.

The COVID-19 pandemic has brought about significant hardships to almost all sectors of the economy. The double knock of aggregate demand and aggregate supply shocks that were driven by a combination of the locking down of economies globally, disruption supply chains and cessation of economic activity in many sectors, for which the resulting loss of income severely depressed demand. As of September 2020, the GDP figures for the second quarter of 2020 demonstrated a contraction of a nearly 51% over the first quarter (on a seasonally-adjusted, annualised basis).

The implementation of a BIG has the ability to offset the pain caused by the sharp economic contraction. Income support allows for consumption to be sustained, with household consumption then in turn having positive knock-on effects throughout the economy. Based on analysis of the multiplier effects of the BIG, the grant has the potential to positively contribute around 0.5% to GDP growth over the forecast period through improved household demand as well increase the employment rate. The table below sets out the estimated impact on GDP growth and employment arising from the multiplier effects of the BIG.

Table 71: Universal BIG – Estimated impact on GDP and Employment Scenario (Base Growth

	2020/21	2021/22	2022/23	2023/24	2024/25
GDP Growth	-7.20%	2.60%	1.50%	1.50%	2.10%
GDP Growth allowing for implementation of BIG	-6.70%	3.10%	2.00%	2.00%	2.70%
Increase in employment	1.6%	2.1%	2.7%	3.4%	4.0%

It is noted that this analysis above is based on the outputs of the SAM multiplier model, calibrated with data for 2015 and hence represents the structural economic interactions in this year. The output may therefore not necessarily be representative in the redistributive and economic impacts post COVID-19 given the uncertain economic outcomes. The results should thus be considered as a representation of the potential outputs based on the structural interactions and linkages present in the economy, and not the anticipated behavioural impacts that may occur.

3. CONCLUSION

From a fiscal perspective, the costs of implementing a BIG are significant, particularly in relation to providing universal coverage and considering higher levels of a BIG. Under the Base Growth Scenario, which represents National Treasury forecasts over the projection period, the cost of universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant ranges from 2.8% to 2.9% of nominal GDP over the projection period. This increases to 9.7% to 10.4% of nominal GDP over the projection period if a universal BIG is introduced at the UBPL level. The corresponding ratios to total tax revenue are 10.9% to 11.4% of total tax revenue for universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant and 38.1% to 40.8% of total tax revenue for universal BIG coverage at the UBPL.

Allowing for a High Road Scenario with respect to GDP growth from 2021/22, the cost of universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant ranges from 2.8% to 2.7% of nominal GDP over the projection period. This increases to 9.7% to 9.8% of nominal GDP over the projection period if a universal BIG is introduced at the UBPL level. The corresponding ratios to total tax revenue are 10.9% to 10.5% of total tax revenue for universal BIG coverage at the level of the special COVID-19 Social Relief of Distress Grant and 38.1% to 37.9% of total tax revenue for universal BIG coverage at the UBPL.

Comparison of the cost of universal BIG coverage under the Base Growth Scenario and the High Road Scenario demonstrates the fiscal significance of the BIG, although the resulting funding requirements can be reduced through higher economic growth.

Despite, the fiscal significance of implementing the BIG, the BIG should be viewed as a means to restructuring income in South Africa which suffers from the triple challenges of poverty, unemployment and inequality.

It is widely recognised that social assistance, particularly through the OAG and CSG, has contributed significantly towards the reduction of poverty levels in South Africa. Implementing a BIG has the potential to make significant inroads into improved income equality in South Africa and possible economic gains through the multiplier effect. Based on author analysis, the implementation of a universal BIG at the level of the current special COVID-19 Social Relief of Distress Grant has the potential to reduce the concentration of income of the top 10% to 49.9% in 2019/2020 on an income per capita basis to just below 47.1% by 2024/2025. The share of household income per capita as a percentage of the total in the lowest income decile is projected to increase from 0.8% in 2019/2020 on an income per capita basis to 7.0% by 2024/2025. The corresponding income per capita gini co-efficient decreases from 0.61 to 0.49, representing a 20% decrease.

A BIG could impact macro-level economic growth directly, through increasing household productivity and employment, stimulating aggregate demand, affecting labour force participation, and influencing savings and taxation. Based on analysis of the multiplier effects of the BIG at the level of the current special COVID-19 Social Relief of Distress Grant, the grant has the potential to positively contribute around 0.5% to GDP growth over the forecast period through improved household demand as well increase employment by 4.0% by the end of the projection period.

Further, basic income assistance supports investment into human capital development, for example: improved nutrition, health care, housing and transportation. The importance of human capital, in particular with respect to health education, in social and economic development is widely accepted. There is a strong correlation between GDP per capita and education levels and life expectancy as a proxy for the level of health in a population.

If funded through PIT, a universal BIG at the level of the special COVID-19 Social Relief of Distress Grant would result in an approximate average increase in effective tax rates of 8.2% across taxable income bands considered for 2023/24. A universal BIG at the LBPL would result in an approximate average increase in effective tax rates of 19.8% across taxable income bands considered for 2023/24. A universal BIG at the UBPL would result in an approximate average increase in effective tax rates of 30.0% across taxable income bands considered for 2020/21. Similar results arise under the High Road Scenario.

The projected clawback of the cost of implementing the BIG through PIT under the universal scenario represents approximately 5% of the cost of a universal BIG (at all levels of BIG considered). This relatively small clawback is a result of the large number of recipients that fall in the lowest taxable income band (including those that who do not earn any taxable income) and hence are not subject to PIT, reinforcing South Africa's relatively small tax base. This small tax base is a symptom of South Africa's high and persistent inequality. Inequality in South Africa, as measured by the consumption Gini coefficient, was 0.61 in 1996, increasing to 0.63 in 2014⁴³. This is despite the efforts to reduce inequality that the government has made since 1994.

The Inequality Trends Report by StatsSA found that labour market activity largely influenced the level of inequality within the economy, stating that about 67% of total inequality was driven by inequality in earnings. Income from the labour market had accounted for the largest proportion of income inequality at about 77.2% in 2006, decreasing to 74.2% in 2015. Wage distributions of South African income earners was found to have a "long upper tail" – highlighting that the bulk of the population was comprised of low-income earners, while the top decile of income earners held a substantial majority of the national income.

In the 2020 Budget Statement, Government announced tax relief on personal income to the value of R2 billion for the 2020/21 tax year in the hope that this will boost not only economic activity, but also increase tax revenue income. Furthermore, government signalled intent in the 2020 budget to cut corporate income tax in future budgets. Tax revenue has continuously deviated to the downside from its expected level, which strongly suggests that South African consumers are close to or at the maximum referred to in the Laffer curve theory of tax revenue, though no modelling with regards to the Laffer curve in respect of South Africa.⁴⁴

While there have been warnings regarding raising taxes to reduce South Africa's budget deficit, it is important to note the difference between raising taxes to fund a BIG and raising taxes to fund a budget deficit. There are strong moral arguments given South Africa's history and high-income inequality for expanding PIT to fund a BIG, be it partially or fully. Economic arguments for expanding PIT on high-income earners, particularly in relation to the current economic crisis, include the provision of funding for the necessary state expenditure on low-income households.

It is noted that the economic effect of COVID-19 will include reduced revenue collection. PIT, CIT and VAT collections are expected to fall substantially over 2020/21. Given the economic impact of COVID-19, the capacity to raise PIT, CIT and VAT tax rates is limited. National Treasury has signalled the possibility of an inheritance tax and a "solidarity tax", which is regarded as a wealth tax, in a bid to raise additional finances for the fiscus.⁴⁵ The DAC investigated the feasibility of a wealth tax. It was concluded that with the highly unequal levels of wealth in South Africa, a taxation system that ignores such inequalities in wealth, lacks legitimacy in the tax system.⁴⁶ It further concluded, however, that the introduction of a wealth tax cannot be implemented in the short-term. The DAC recommended that the decision regarding a wealth tax could not be made until the following actions were undertaken:

1. Determination of an appropriate tax base, that is, which forms of wealth to include within the scope of a wealth tax;
2. Provision of comprehensive data on the pattern of wealth ownership in South Africa; and

⁴³ https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZA&most_recent_year_desc=true

⁴⁴ <https://static.pmg.org.za/170301wCsubmission.pdf>

⁴⁵ <https://www.taxcom.org.za/docs/20180329%20Final%20DTC%20Wealth%20Tax%20Report%20-%20To%20Minister.pdf>

⁴⁶ <https://businesstech.co.za/news/finance/411919/the-taxes-which-are-likely-to-increase-in-south-africa-and-those-that-wont/>

3. Undertaking a cost-benefit analysis as to whether the tax revenue generated would exceed the administrative and economic burden on taxpayers and SARS.

Given the significance of the cost of a universal BIG, alternative sources of taxation such as those mentioned above, should be assessed for viability in financing (partially or wholly) the implementation of a BIG. However, such alternative sources of taxation may only be practically implemented over the medium term, therefore PIT, CIT and VAT remain the alternatives over the short-term if implementation of a BIG takes place within the short-term.

In line with the recommendation of the DAC in relation to financing NHI, the implementation of a universal BIG lends itself to a financing base that is as broad as possible, in the interests of social solidarity. The cumulative effect of the combination of tax instruments should be progressive. The importance of social solidarity is in line with ILO recommendation No. 202, which refers specifically to the principle of solidarity of financing.

Implementing a targeted BIG will reduce the resulting cost and hence consequent funding requirements that will likely need to be met through taxation. Various scenarios are considered in this respect. However, targeting is associated with the administration burden and cost created by applying this targeting in practice. It is noted that certain of the scenarios presented may not be practical to implement in relation to targeting and therefore should be considered for illustrative purposes only.

Alternatively, the cost of implementing the BIG can be funded through the reallocation of public expenditure. However, reallocating public expenditure comes with trade-offs. Spending of health, education and social development currently accounts for 56% of government expenditure, as per the 2020 Budget Statement. Furthermore, the implementation of NHI is a policy priority, which will result in additional demands on the fiscus. Ultimately, the introduction of a BIG will require trade-offs with other development programmes, including other social security reforms and tertiary education.

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Annexure 4: Theoretical Aspects Regarding Basic Income

1. Nature of a Basic Income Grant

The nature of a Basic Income Grant is defined by whether the support is universal or targeted and whether the support is conditional or unconditional. Gentilini *et al.* (2020) provide three metrics with which to analyse the structure and characteristics of a grant, namely targeting, conditionality and transfer modality. Grant targeting refers to the population that is targeted to receive the grant. This is largely needs-based, whereby a conditional cash transfers or public works programme will fit the goals of infrastructure development, or the provision of employment. The second dimension is conditionality, which refers to behavioural changes that the introduction of a grant is intended to bring about with regard to recipients. An unconditional grant is the purest form of the conditionality measure, which attaches no rules or contingencies to the pay-out of the grant. The transfer modality metric refers to the form in which basic income is provided, for example: cash; a voucher system; or in-kind payments. It is noted that for purposes of this analysis, outcomes have not been categorised as per transfer modality.

1.1. Universal versus Targeted

A universal basic income grant is a basic income grant that is available to all, i.e. there are no eligibility requirements in relation to receiving the support. The arguments for making the basic income grant universal:

- Universality avoids exclusion and inclusion errors that are inherent in needs-based targeting besides perhaps citizenship or established residency and age.
- Universality may eliminate any stigma affecting beneficiaries.
- Transaction costs incurred by beneficiaries with accessing benefits such as time spent in applying for assistance are reduced or removed.
- Administration of such assistance is simpler, resulting in lower per beneficiary costs.
- A stable source of income over time results in a number of economic and psychological benefits.
- A universal transfer removes the price effect of transfers on the labour market such as the reduction in labour supply to avoid a reduction in the level of social assistance.
- Universality may strengthen the programme's political sustainability as beneficiaries cover the full income distribution.

In line with the argument for universality, the arguments against targeted basic income include the low coverage rate associated with such schemes, the impact on the labour market, the welfare trap⁴⁷ and the administration burden and cost created by applying targeting. Furthermore, such schemes are more vulnerable to abuse and corruption.

Means-tested basic income is a form of targeting whereby beneficiaries are only eligible for benefits if their income and assets are below a certain pre-determined level. Besides means testing, there are a number of other methodologies that can target eligible individuals in relation to basic income, namely:

- **Proxy means testing:** Demographic characteristics are used as a proxy for income and assets to determine eligibility.
- **Community-based targeting:** Community leaders identify beneficiaries in need of basic income.
- **Geographical targeting:** Individuals residing in certain geographical regions are eligible for basic income.
- **Demographic targeting:** Demographic characteristics such as age and whether individual is from a previously disadvantaged background are used for targeting purposes.
- **Self-targeting:** No eligibility criteria are set but the resulting level of basic income is low resulting in those who do not need this basic income, not taking up the basic income.

The main drawback of universal basic income is that the costs of such assistance may be significantly larger given the increased number of recipients.

⁴⁷ The welfare trap asserts that means-tested social assistance systems can encourage individuals to remain on social assistance because the withdrawal of means-tested benefits that comes with entering low-paid work results in no significant increase to total income. An individual views the opportunity cost of returning to work is too high for little or no financial return. This can create a perverse incentive to not work.

1.2. *Conditional versus Unconditional*

Recipients of conditional basic income grants only receive assistance if they can demonstrate that their behaviour meets certain stated requirements. Conversely, unconditional basic income grants do not depend on individual behaviour.

The first argument for providing conditional basic income support is that the provider of the assistance is of the opinion that the state knows how the money should be spent – while the beneficiary is not expected to spend the money necessarily the same way. This information asymmetry, which occurs when one party to an economic transaction possesses greater material knowledge than the other party, may exist as a result of adverse selection. The state possesses information on desired outcomes, while beneficiaries make decisions with incomplete knowledge of relevant facts affecting their livelihood. Even where beneficiaries are informed, they may display irrational behaviour based on factors such as desire of leisure over work, and socio-economic characteristics such as community relative living standards. Asymmetric information may hinder the achievement of the objectives of social assistance.

Furthermore, even if beneficiaries act in their own and in their dependents' interest in a fully rational way, they may not take into account the interests of other people and their dependents. That is, they may exert negative externalities on them. Negative externalities refer to the cost that is suffered by a third party as a consequence of an economic transaction.

Therefore, to meet the objectives of basic income assistance, which is often broadly defined as economic development and social transformation, conditions are attached to basic income in order to aid beneficiaries to escape long-term poverty. These conditions are largely linked to promoting investment into human capital development, for example, school attendance and regular clinic visits. The importance of human capital, particular with respect of health and education, in economic and social development is widely accepted. There is a strong correlation between GDP per capita and education levels and life expectancy as a proxy for the level of health in a population.

The advantages of conditional social assistance include the cost savings of these schemes as those who do not comply do not receive assistance. Furthermore, conditional schemes may meet their aim of promoting investment into human capital faster than unconditional social assistance.

The disadvantage of using conditional basic income grants comes with the administrative complexity of monitoring the recipients of the grant to ensure that they comply with the conditions attached to the basic income grant. This raises the per-beneficiary cost of providing basic income assistance.

2. *Value of Basic Income*

2.1. *Level of Basic income*

The level of basic income is critical to the objective of such schemes, which are often to provide income security, a decent standard of living, to reduce inequality poverty or provide a decent standard of living. In order to reduce inequality and poverty it needs to be set at a level sufficient to meet at least people's basic needs. Proposals often suggest a level of basic income equivalent to the national poverty line, a percentage of median disposable income or average income of lower income. It is further noted that the adequacy of basic income depends not only on its level, but also on the ability to deliver on the various components identified as making up a social protection floor. A social protection floor is a basic set of social rights such as education, healthcare housing, water and sanitation.

To ensure adequate support over time, adjustments are needed to allow for changes in purchasing power. Further adjustment could be made to increase overall standards of living. Adjustments should therefore be linked to inflation to maintain purchasing power or wages to maintain an overall standard of living, or a combination of both.

2.2. *Flat Rate or Variable Rate Basic Income*

Basic income assistance can be provided as a flat rate to all, that is, the same level of assistance is provided to all beneficiaries. Variable rate assistance can be provided where the level of support depends on certain criteria, for example: the level of income; number of dependents; or unemployment.

Classic proposals argue equal support to all while arguments concerning equality-related outcomes acknowledge that the most disadvantaged would be further behind and would therefore need more, not equal, support to ensure a certain standard of living.

Therefore, with respect to children and older persons, assumptions with regard to benefit levels are important. This has major implications for the capacity of flat rate basic income grants to cover the needs of the population. Further, flat rate basic income grants cannot adequately respond to special needs and circumstances, such as higher needs due to health conditions or disabilities. Therefore, separate schemes aimed at compensating for special needs are often provided in practice.

A flat rate amount is simple and easier to administer, therefore will cost less to administer compared to variable support. Examples of countries and states who provide a universal BIG are Iran, Alaska and Mongolia. Variable support will increase administrative costs as households will need to be vetted to ensure that they comply with the eligibility criteria. However, variable basic income support will help increase the intended impact on alleviating poverty in each household as those households further away from the determined poverty line would be given more than those who are closer to the determined poverty line.

3. Delivery Mechanisms

Delivery mechanisms for basic income grants can be classified based on whether they are channelled through the benefit or tax system, and whether they are based on employment or not.

3.1. Benefit-Based Programs Not Based on Employment

This delivery mechanism provides basic income assistance to beneficiaries who may be targeted. Further, the basic income grant may be conditional or unconditional. This delivery mechanism has advantages of simplicity and transparency, including it being easily communicated to, and understood by, the public.

3.2. Tax-Based Programs Not Based on Employment

This delivery mechanism is known as Negative Tax Income ("NTI") which targets basic income assistance through tax exemption below a certain income level. Those that earn more than this level will be taxed on the proportion of their income that exceeds that level. Those who earn less than that level will receive subsidies proportional to the amount that is in deficit of that income amount.

This mechanism therefore reduces basic income assistance as income rises-and hence allows directly for means testing indirectly through progressive income taxation. The progressivity of the basic income grant is seen as higher income households become net contributors to the grant pool through taxation, while lower income households are net receivers through subsidies proportional to the amount that their income is in deficit to the minimum income level. Increasing the size of the grant would require a greater tax pool, and the distance between net contributors. It is therefore essential that the minimum income level, the effective marginal tax rate on benefits, and the break-even point where members of society become a net contributor to government funds needs to be appropriately assessed. Further, the information demands resulting from this mechanism are high as it relies on actual income of individuals.

The main limitation of this delivery mechanism is that it only reaches taxpayers, who tend to be formally employed. This would largely leave out informal workers, the self-employed and those not filing taxes, which would represent a large proportion of the poor population in developing countries. This delivery mechanism requires credible and efficient tax administration, tax tribunals and a functioning dispute resolution system.

3.3. Benefit-Based Programs Based on Employment

Wage subsidies are a benefit-based programme based on an employment delivery mechanism. Wage subsidies are direct transfers to employers or firms or individual workers to cover wages in full or in part. Wage subsidies present a range of possible benefits, including:

- Obtaining work experience and acquiring skills will lead to increased productivity and subsequent improvement in employment prospects over the longer term. This is particularly relevant for first-time job seekers or those who have gone through long-periods of unemployment or inactivity.

- Wage subsidies reduce labour costs hence increasing the demand of labour by employers or the supply of labour by individuals.
- Awareness of eligibility might change the eligible workers' market perception of success rates and increase job-search efforts, which may also increase employment probability.
- Wage subsidies may improve equity between high-skilled and low-skilled workers over the longer term.

3.4. Tax-Based Programs Based on Employment

This delivery mechanism is known as the Earned Income Tax Credit ("EITC") whereby the level of basic income assistance provided is inversely proportional to a person's income.

The main advantages of an EITC is that it is politically attractive as it rewards employment and working through the tax authority makes it easier to administer.

The main limitation of this delivery mechanism is that it only reaches taxpayers, who tend to be formal wage earners. This would largely leave out informal workers, the self-employed and those not filing taxes, which would represent a large proportion of the poor population in developing countries. This delivery mechanism requires credible and efficient tax administration, tax tribunals and a functioning dispute resolution system.

3.5. Funding of Basic Income Grants

There are a number of options for funding basic income grants. One of the main methods for achieving this goal is through fiscal methods. This can be done in three ways:

The first is to re-allocate public expenditure (tax expenditure), by shifting allocations of public expenditure away from high-cost, low-impact investments, and towards high-impact social investments, such as a grants system. Re-allocating public expenditure comes with a basket of trade-offs. For example, spending on the introduction of basic income assistance may come at the expense of other social programmes such as the introduction of National Health Insurance, or the option of expanding current spending on social security programmes, such as childcare or housing. Otherwise, inefficient spending can be identified and reduced.

The second fiscal method is through increasing tax revenue. This can be achieved through a combination of increasing the rate for direct and indirect taxes or strengthening the efficiency of tax collection methods and overall compliance.

A third method of funding is through incomes derived from commodity revenues. Countries high in resource endowments such as oil or mining commodities can use the windfalls during price booms to fund social development programmes for their respective populations.

Unconventional methods for funding basic income assistance can also be found in accessing international donor funding; eliminating illicit financial flows; tapping into fiscal and foreign exchange reserves such as a sovereign wealth fund; or restructuring debt in the case of countries stuck in a debt trap. It must be noted that options that use foreign exchange reserves or international donor funding may result in an unsustainable system if the country or global economy were to enter a recession. Here, the levels of funding will drop despite an increase in the number of needy beneficiaries.

4. Links to the Labour Market

Basic income assistance may positively affect both the supply and demand sides of the labour market.

4.1. Labour Supply

Arguments based on economic theory state that basic income grants to the unemployed tends to undermine their willingness to supply labour to the market, as additional income reduces the "opportunity cost" of not working. Utility theory suggests that workers will allocate their time between work and leisure. At low levels of income, the marginal utility from giving up a unit of leisure is greater than the marginal utility of working, and as such, households choose to remain unemployed. This is particularly the case where means testing applies, whereby there may be a disincentive to increasing the supply of labour if labour earnings reduce the level of basic income assistance.

However, it is also argued that basic income assistance will help with seeking employment and training hence the converse may be the case.

4.2. Labour Demand

Basic income grants support the accumulation of human capital by a worker and it further supports productivity-bolstering consumption. Households see a rise in income, which allows them to increase consumption of domestically-produced goods. This, in turn, increases demand for labour to produce these goods, which has positive impacts on employment and wages. From a socio-economic impact perspective, increased income allows households to afford improved nutrition, health care, housing and transportation, which all supports increased productivity. In effect, basic income assistance can be seen as a wage subsidy. There are two elements to this, first is that demand for intermediate and final goods is stimulated as a result. The second is that workers receive a relatively higher wage for the same level of employment. Providing higher wages than the norm incentivises employees to increase productivity as per the “Efficiency Wage Theory”.

As per the Efficiency Wage Theory, employees consistently provide higher effort levels in response to higher wages. This is the opposite effect compared to the welfare trap theory. Workers feel that higher wages in employment should be matched with higher levels of productive activity. There are four different ways in which firms can benefit from paying efficiency wages: higher employee effort; lower employee turnover; attracting higher quality employees; and more healthy employees. Furthermore, basic income reduces the impact on workers of demands for remittances. This allows workers to channel more of their wages to productivity-enhancing consumption and human capital investment, increasing firm competitiveness and thus raising production and the demand for labour.

5. Economic and Socio-Economic Impacts of Basic Income Assistance

Economic growth is the increase in the value of goods and services in an economy over time and is widely viewed as the main driver of prosperity in a country. The change in Gross Domestic Product (“GDP”) over time is the most common measure of economic growth. GDP is often expressed on a per capita basis to test the relative wealth of a country’s citizens, and hence development. There are a number of criticisms regarding GDP when taken as a single measure of a country’s development, particularly in relation to poverty reduction – the main criticism being that GDP ignores the distribution of income among the population. If reducing poverty is important, then the impact of economic growth among households of different income groups should be illustrated.

Recently, interest in pro-poor growth has shifted towards the idea of “inclusive growth”. Inclusive growth is concerned with the final distribution of income between groups representing the extent to which the poor can participate in growth processes through increased and better employment. Therefore, alongside concerns with increasing aggregate economic growth, the nature of that growth (the extent to which it is sustainable and includes the poor) is important because it can lead to long-term movement out of poverty for poor households.

One of the ways of measuring the effects of basic income assistance is the circular flow model of the economy. As Krugman (2019) describes, “*The circular flow model is an economic model that shows the flow of money through the economy. Households purchase goods and services; which businesses provide through the product market. Businesses, meanwhile, need resources in order to produce goods and services. Members of households provide labour to businesses through the resource market. In turn, businesses convert those resources into goods and services*”. The premise is that the economy is defined by a series of flows between actors in the economy, namely, households, firms, governments and the rest of the world. Broadly, these actors are involved in transactions that involve the flow of goods and services in exchange for money in the economy. For example, the household provides labour to the firm in exchange for wages, which are spent in the goods and services market in exchange for the products for consumption. This is the most simplistic way of viewing the economy and the dynamics resulting from basic income assistance that flows through the economy. In short, basic income assistance will provide positive shocks to income and employment, that then flows back into the economy in the form of higher household and firm demand for intermediate and final products (demand for goods that are used in the production of other goods), and therefore providing further stimulus through the multiplier effect. This allows for an economy-wide view of the economy and the relevant impact.

5.1. Microeconomic Impacts

The effects of basic income assistance on productivity and growth at the micro level are important for two reasons. First, basic income assistance could contribute to overall economic growth. Second, basic income assistance plays a role in contributing to inclusive growth, which is important if development objectives are to reduce poverty and ensure a more sustainable growth path.

As discussed earlier, social protection through basic income grants supports investment into human capital development via several avenues, including: improved nutrition; health care; housing; and transportation. The importance of human capital, in particular with respect to health education, in social and economic development is widely accepted. There is a strong correlation between GDP per capita and education levels and life expectancy as a proxy for the level of health in a population.

Poverty is defined as the state or condition in which a person or community lacks the financial resources and essentials for a set minimum standard of living. The social determinants of poverty are health, education, and housing. Therefore, human capital development is critical in the reduction of poverty and inclusive growth. As such, basic income assistance has the potential to enable excluded groups such as women to participate in the economic growth processes.

Over the long-term, basic income assistance can help break the cycle of inter-generational poverty by overcoming the savings and credit constraints preventing human capital investments. Inter-generational poverty is the phenomenon whereby a household whose socio-economic circumstances are poor (poor health, nutritional and education levels) are more likely to pass these levels of poverty onto their children unless for periods of rapid economic growth, or significant state support.

Basic income assistance can also enable poor households to accumulate productive assets such as livestock, leading to sustained higher incomes through these livelihood investments.

Basic income assistance also plays an insurance role in that it helps prevent the loss of productive capital, which generally includes productive assets and human capital, following shocks. Basic income assistance can reduce or prevent the need for distress selling of productive assets such as livestock. Further, basic income assistance can help prevent the need for other negative and harmful coping strategies aftershocks such as reducing food intake, which may deteriorate human capital.

Based on the insurance role that basic income assistance plays, households are able to invest in livelihood strategies that yield higher returns. We define higher return livelihood strategies as the ability of households to defer consumption, or in other words, save for later. Examples of this in the South African context are “*stokvels*” and collective or community investment schemes. Poorer households tend to lack the ability to save as the majority of the income is often used for current consumption, or to repay debts. These higher return livelihoods strategies often come with levels of risk that are often too high for poor households to carry without the assurance of basic income assistance.

Further microeconomic effects include the impact on labour market participation, which is discussed above.

5.2. Macroeconomic Impacts

Social protection could impact macro-level economic growth directly, through increasing household productivity and employment, stimulating aggregate demand, affecting labour force participation, and influencing savings and taxation.

As discussed above, there is a strong correlation between GDP per capita and education levels and life expectancy as a proxy for the level of health in a population. Therefore, higher economic growth is considered likely by increasing household productivity and employment.

Basic income assistance stimulates aggregate spending and hence aggregate demand through the multiplier effect. This leads to increased economic activity, which promotes economic growth. There is also potential leakage of the income out of the country. For example, as households move up the income spectrum, their consumption moves away from traditional non-durable and semi-durable goods, such as food items and cosmetics; towards durable goods such as appliances and vehicles. For many countries, much of the inputs into appliances are produced overseas, and as such, a portion of the basic income assistance received goes to overseas labour and firms and

is therefore lost to the local economy. The level of value-add of the good determines the knock-on impact on the economy. For example, goods produced in South Africa with a high primary component (raw mining goods such as coal and iron ore) will receive a smaller impact on the economy than goods with higher value adds such as rolled steel.

Furthermore, lower income groups tend to concentrate spending on labour-absorbing sectors of the economy. These are domestically produced goods such as food items and other semi-durable goods. Income transfers to the poor shift aggregate demand towards labour intensive job-creating industries, because it increases the consumption of the poor, the composition of which is relatively labour-intensive.

Financing increased social protection through higher taxation, will counter the multiplier effect by redistributing the funds to lower income groups. The net effect will depend on the relative size of the multipliers across income groups as well as the size of the redistribution of funds across the income groups. Furthermore, traditional economic theory suggests that any form of redistribution reduces growth as the rich have higher rates of savings than the poor and higher taxation reduces incentives to innovate. These models assume that social protection is simply income redistribution from productive to unproductive people.