POLICY BRIEF

FINANCIAL AND FISCAL COMMISSION (2023)

The Basic Income Grant in South Africa - An Incidence Study

EXECUTIVE SUMMARY

South Africa has made efforts to deal with the challenges of poverty, inequality, and unemployment with a range of initiatives, which include the use of social assistance programmes. Child support and old age grants have contributed substantially towards reducing poverty levels.

Recently, various policy proposals, including a Basic Income Grant (BIG), have been suggested to extend income support to people who have no income, particularly those between the ages of 18 and 59. On that note, the Financial and Fiscal Commission (FFC) conducted a study to determine the fiscal feasibility of a basic income grant in South Africa – further assessing the programme's costs and the country's expected fiscal capacity to absorb the costs over the medium term expenditure forecast period.

The results indicate that the permanence of a basic income is questionable given the current fiscal space and policy uncertainty – as competing spending budget pressures over time have limited the growth of social assistance spending. The Commission has thus advised the government to order a recalculation of the COVID-19 social relief of distress (SRD) grant amount using a well-informed determination formula. Moreover, there is need for a policy tool that links access to complementary social and economic opportunities with opportunities such as the expanded public works programme (EPWP).

FINANCIAL AND FISCAL COMMISSION

THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a body that makes recommendations and gives advice to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts. It may perform its functions on its own initiative or at the request of an organ of state.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of Commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

BACKGROUND

Given the prevalence of poverty and inequality in South Africa, researchers and policymakers are driven to understand the macroeconomic impacts of extending social security interventions to alleviate poverty and reduce inequality. The universal basic income grant (UBIG) is one of several ways to ensure the universality of social protection floors. The cost of such a social protection floor includes four basic guarantees, namely, (i) allowances for all children and orphans; (ii) maternity benefits for all women with new-borns; (iii) benefits for all persons with severe disabilities; (iv) universal old-age pensions.

In 2000, South Africa had its first recommendation for a universal income grant through the Taylor Committee of Inquiry into Comprehensive Social Security. Universal social protection floors have since been shown to reduce poverty and increase employability and growth (Ardington, et al., 2007)[1]. However, the cost and affordability of extending social assistance are the focus of this paper.

RESEARCH FINDINGS

In investigating the fiscal feasibility of extending social assistance coverage by leveraging tax and streamlining the existing grant network as a restructuring mechanism, there were four key findings that emerged from the FFC's analysis. They are outlined below:

1. From the analysis, the Commission finds that the state needs greater sub-national intervention to cure limits of economic integration at regional and provincial levels. Each region and province of South Africa is unique in terms of infrastructure and economic leverage. Therefore, each part of society needs a tailored intervention to alleviate the peculiarities of its poverty and inequality picture. The Commission's findings suggest concerted poverty alleviating effort is particularly needed in the Limpopo, Eastern Cape, and Northern Cape provinces where grant recipients live well below the poverty line. This does not necessarily imply an increase in social grants, but rather an economic fortification such as public works programmes that lead to jobs and sustainability in Limpopo, Eastern Cape, and Northern Cape. In line with the analysis of the distribution of social grants sub-nationally, the Commission further finds that social grant share per province needs to be viewed from a per capita perspective.

2. The immense reliance on social grants for citizens below and above the working-age emphasises that working-aged individuals in the households are most likely unemployed, underemployed, and significantly poor. A replacement of the COVID-19 SRD grant is needed as a safety net for households to support themselves in the current economic and unemployment crises. The system of grant dispensation is fraught with challenges. Eligibility requirements and the means of testing are inconsistent, that leads to discouragement and varying monthly numbers of successful grant applicants and recipients. Therefore, a true picture of citizens and non-citizens needing financial assistance is distorted. The administration of the social grant network needs to be reviewed. The Commission shares its misgivings over purported reductions in the number of applicants needing the SRD grant over time and further questions the need for the grant if the custodian of the grant, namely the Department of Social Development records savings and continual reductions in applicants when South Africa is in economic decline and residents are facing a cost-of-living crisis.

3. The permanence of a basic income is questionable given the current fiscal space and policy uncertainty. Fiscal austerity measures and increased tax revenue collection have boosted consolidated revenue over time. Social assistance spending, however, has been constant over the same period. The Commission finds that the competing spending and budget pressures have limited the growth of social assistance spending in previous years and over the medium term. The budget prioritises interventions such as infrastructure investment and debt stabilisation, which are priorities that ensure structural stability for the economy and its citizens. Without further research, the Commission cannot suggest which budget pressures deserve lessened prioritisation over social assistance. However, the Commission notes that the continuation of the SRD grant in terms of cost is unsustainable over the medium term. The integration of all working-age citizens and non-citizens into the current social grant network is costly and warrants an exploration of alternative intervention. Ultimately, the Commission finds that the dire status of employment prospects is the driving force and motivation for the introduction of a BIG. Thus,

[1] Ardington, C., Case, A. & Hosegood, V. (2007). Labour supply responses to large social transfers; longitudinal evidence from South Africa. American Economic Journal: Applied Economics, 1(1).

alternative intervention calls for investment in employment initiatives rather than the extension of social coverage. The fiscus needs an external boost to expand and include a BIG where policy is specific about the envisaged spending on social assistance. From the analysis, the Commission notes a relatively high share of households that regard social grants as a main source of income. On a more positive note, social grants in South Africa possess redistributive power and redistribution is demonstrated in Limpopo, Mpumalanga and the Eastern Cape by the larger share of persons and households receiving social grants. From a targeting perspective, the social grant system successfully applies and disperses financial relief. Thus, if the challenge is not targeting nor poverty alleviation, only the source of the extension of the social grant system remains a problem for the government.

4. Social assistance is progressive if the wealthier sub-group is taxed at higher rates than the poorer population, and the additional funds raised through taxation are spent on the poor through social grants or other government initiatives. The results of the tax system analysis show that tax may be regressive at the top end of the income distribution at the household level. Furthermore, the personal income tax system has not been progressive nor evenly distributed across tax subgroups over the years. The Commission cautions against reliance on growth on tax revenue to finance a BIG. The sustainability of an ever-increasing tax revenue trend depends on employment, infrastructure development and growth among other aspects. Thus, if government prioritises social assistance pressures over the sustainability underpinnings, the budget risks overcompensation due to a lack of economic progress. The issue of overcompensation implies that the focus needs to turn to economic growth and development rather than social assistance pressures. Moreover, gross tax revenue growth over the medium term does not show extraordinary growth despite revenue collection ambitions, and anticipated growth calls for conservative expectations in terms of taxes being leveraged as a source of implementing a BIG.

RECOMMENDATIONS

The Commission makes the following recommendations:

1. *The Minister of Social Development and the Minister of Finance should reconsider recalculating the COVID-19 social relief of distress grant amount with a well-informed determination formula.*

2. *The Minister of Social Development and the South African Social Security Agency should account to the public for underspending recorded in the adjustments appropriation bill and the second adjustments appropriation bill amounting to R1.8 billion and R3.7 billion, respectively.*

3. *The Minister of Social Development should develop a policy tool that interlinks with access to complementary social and economic opportunities with opportunities such as the expanded public works programme (EPWP).*

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