



## **SADC Basic Income Grant Analysis, by Taku Fundira<sup>1</sup>**

The overall objective of this analysis is to demonstrate, based on economic analysis, the costs involved in introducing and institutionalising a SADC-wide Basic Income Grant (SADC BIG) that is wholly or predominately funded through the extractive industries to promote economic justice, reduce poverty and inequality, and stimulate human and economic integration and development in the region.

The analysis aims to identify the size of a BIG grant that would be feasible or acceptable in terms of cost and affordability. Through the different scenarios analysed, we aim to show that the SADC BIG idea is affordable and can, over time, be scaled up.

### **Methodology**

Five scenarios are analysed to establish both the individual countries' affordability for a BIG as well as that of the region (SADC). These scenarios were pegged from 33% to 200% of the ILO US\$1/day extreme poverty line. The range is equivalent to between about US\$10 to US\$60 per individual per month. The rationale for this range was to demonstrate cost levels as a proportion of GDP that governments would be more likely to agree to, if the total resources required for such an undertaking are taken into consideration.

### **Key finding**

A monthly basic income of US\$15<sup>2</sup> paid to all residing in SADC (total population estimate of 297 million) will have a net cost of US\$54.12 billion annually. This translates to about 5.2% of SADC GDP (PPP). Anything above this has the potential to render BIG unaffordable considering that governments have other programmes and priorities that require a portion of the social budget.

### **Scenario analysis**

As already highlighted, five scenarios were analysed for the purpose of this paper for all 15 SADC countries to demonstrate cost or affordability levels. The proposed amount of US\$15 (Scenario 2) was regarded as the maximum that the majority of the individual countries

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<sup>1</sup> Mr. Taku Fundira is currently a senior Economist at the Studies in Poverty and Inequality Institute. He is the team leader – SADC BIG and Basic Needs Basket Project;

<sup>2</sup> This value should be adjusted for inflation based on the 2013 value at the time of roll-out.

could afford if the cost of a BIG is limited to the 3%-5% of GDP threshold.<sup>3</sup> This amount was calculated as about a half of the ILO extreme poverty line of US\$1 per day.

A look at scenario 1 (based on about US\$10 per individual per month) would on average cost the SADC states approximately 3.4% of total SADC GDP. At the current exchange rate of the US dollar to the South African rand (ZAR), this would translate to about R100 – an amount that was proposed by the South African BIG Coalition in 2001. At this amount, analysis undertaken for the Taylor Commission<sup>4</sup> revealed that BIG was affordable and that South Africa's tax structure had the potential to finance the entire cost of the programme without recourse to deficit spending<sup>5</sup>. While this amount could be considered to be too small to make any significant impact, the empirical evidence arising from the Namibian BIG Pilot at Otjivero attests to the rapid impact of such a scheme on a community.<sup>6</sup>

Scenario 2 is proposed as a relatively sufficient amount for the introduction of a universal SADC BIG amounting to, on an individual basis, 50% of the US\$1/day extreme poverty line. However, when considered from a household perspective and assuming that BIG is used as combined income, a household of four will have a total income of US\$2/day. Using this assumption and looking at data from the World Bank Development Indicators, approximately 32.4 million households (129.6 million people) from 9 of the 15 member states could be taken out of destitution by a SADC BIG

Scenarios 3-5 based on the assumption that anything above 10% of GDP dedicated to a social cash transfer scheme was deemed less likely to receive positive response from governments considering the substantial resources required to fund such a grand scheme. At US\$30 per month (Scenario 3), SADC would have to mobilise about US\$108 billion (10% SADC GDP (PPP)), while this increases to up to US\$216.5 billion (20% SADC GDP (PPP)) under Scenario 5. While the sizes of the grants under these three scenarios will significantly impact the lives of the majority of SADC people living in poverty, economic reality dictates that a campaign for a SADC BIG at such high levels may not necessary achieve the expected goal. However, we do not rule out the possibility of scaling up the proposed US\$15 per individual per month, once the benefits of such a scheme are fully realised.

**Full report will be made available on our website on 10 March 2014**

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<sup>3</sup> It should be noted that at any size of government, countries have some choice as to what portion of public resources to invest in social security; however, according to the ILO, 'nowhere does total social assistance benefit expenditure exceed 5 percent of GDP, hence the decision to put a 3 -5 percent threshold'. See World Social Security Report. 2010/11. *Providing coverage in times of crisis and beyond*. ISBN 978-92-2-123268-1. P. 3.

<sup>4</sup> One of the key proposals of the committee was to introduce a basic income grant (BIG), as a means of providing social security to all and alleviating poverty. The BIG would thus function as a mechanism to include the unemployed and those working in the informal economy in the social security system.

<sup>5</sup> Samson, M. et al. 2001. *The fiscal impact of a basic income grant in South Africa*. Submitted to the Committee of Inquiry for Comprehensive Social Security. Cape Town: EPRI.

<sup>6</sup> See <http://www.bignam.org/>.