A REGIONAL TAX ON THE EXTRACTION INDUSTRY TO CREATE A SOVEREIGN FUND TO FINANCE A REGIONAL BASIC INCOME GRANT.

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The argument of this policy brief develops from the facts that:

- **The case is now established internationally that forms of *international taxation* may be needed to help fund social development in low income countries,**
- **The case is also established that *migration pressures* are making national states increasingly reluctant to meet the social needs of migrants**
- **The case is accepted at the UN level that a global *social protection floor* should be provided everywhere to meet the basis needs of all residents**
- **Precedents exist to use *sovereign wealth funds* financed out of mineral resources to meet social needs**

Building on this consensus the policy brief puts the case for a *regional taxation* (on the extraction industry) to fund a *regional basic income grant* as a form of a social protection floor that meets the needs of citizens and migrants.

Trans-national taxes for social needs become mainstream global politics.

Global taxes such as a Financial Transaction Tax, preferred by the Committee of experts advising the Leading Group of Countries, or a Financial Activities Tax (FAT tax), preferred by the IMF are a) feasible[1], b) would generate needed funds for social development in low income countries and for addressing the social consequences of climate change such as increased migration flows and c) are on the political agenda at highest level[2]. The French Presidency of the G20 in 2011 has committed itself to a discussion of such ideas. What's left is political will: putting the item on all the agendas that matter, building coalitions of the willing to implement such ideas. This policy brief builds on this increasing consensus to articulate a similar case at a regional level within Southern Africa but with a different kind of tax, in this case on the extraction industry, with a very specific purpose, in this case funding a social protection floor possibly in the form of a basic income grant within the region.

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[1] IMF (2010) A fair and substantial contribution by the financial sector; final report for the G20. www.imf.org/external/np/g20/pdf/062710b.pdf.

[2] Global Social Policy Forum: Perspectives on Global Taxes and Social Policy'.(2011), *GSP Volume 11*. No 1 Pages 5-21.

Migration pressures challenge the limits of national commitments to welfare

Flows of peoples across borders have increased for a variety of reasons. Nowhere is this more the case than in Southern Africa. One reason for such flows among many is to access a more secure income. Migration across borders is an alternative to social protection at home. A leading world expert on migration recently argued;

“At the moment, social contracts remain State-centric and ill-adapted to a transnational world. Education, health care, pensions and taxation systems remain rigidly fixed to particular States and territories. Over time, there will be a need to conceive of ways in which the provision of social services – such as those relating to taxation, government expenditure, pensions and qualifications – can be adapted to be mobile across international borders in a transnational world” (Betts, 2010)

In a recent study of the problems that migrants had in accessing adequate social protection one of us concluded “that …the basic rights to social assistance of all free movers need still be addressed…some form of both global and regional funding is needed to provide it so that…the needs of established refugees, asylum seekers, irregular migrants and even legal free movers who fall upon hard times can be met” (Deacon, 2011).

Even within South Africa where “the 1998 Refugee Act, which is recognized as one of the most progressive pieces of refugee legislation in the world….(which provides that)...asylum seekers enjoy wide-ranging rights including the right to basic health services, basic education for children, work and study” (Makhema (2009)) , the right to social assistance is restricted. The social welfare grants provided through the Social Assistance Act are explicitly restricted to citizens and permanent residents (including the old age pension, the child support grant, and the war veterans grant) (Makhema (2009)).

The case therefore exists for finding a way of providing social protection for all that does not fall into the trap of the exclusionary provisions of national taxation which governments are reluctant to use to fund mobile populations. At the same time the case exists for proving a social protection floor across the region to discourage migration in search of better welfare system across borders.

A Social Protection Floor for all is UN Policy and is increasingly reflected in social policies in Southern Africa

Various meetings held in the wake of the global financial crisis of 2008 have promoted the idea of a more progressive approach to global social policy. A public presentation of the campaign for a Global Social Floor by representatives of the ILO, UN Department for Economic and Social Affairs (UNDESA), UNICEF and HelpAge International at a public side event of the Doha Financing for Development Conference in December 2008 asserted that: "The current global financial crisis is an opportunity to create a Global New Deal to deliver social protection in all countries through basic old age and disability pensions, child benefits, employment programs, and provision of social services……. Social security is a human right (Articles 22 and 25 of the Universal Declaration of Human Rights) and it is affordable, a basic package is estimated to cost from 2 to 5 percent of GDP as an average. It is feasible if the international system commits to providing financial support for a Global New Deal to jump start an emergency response to the urgent social needs of our times". Subsequently such a policy became official UN policy. In June 2009 the UN Chief Executive Board clarified the policy as a "floor (that) could consist of two main elements: (a) public services: geographical and financial access to essential public services (water, sanitation, health, education); and (b) Transfers: a basic set of essential social transfers…..to provide a minimum income security" (UNCEB 2009)[3].

At the same time, many countries in Southern Africa have expanded social protection dramatically – whether it is social pensions in Lesotho or the child support grant in South Africa. To take stock of these recent developments the Centre for Social Development in Africa (CSDA) hosted an International Symposium themed *Social Protection in Southern Africa: New Opportunities for Social Development* at the University of Johannesburg from 23-25 May 2011[4]. The symposium brought together specialists from the ILO and other UN and donor agencies, Northern scholars and experts as well as African researchers and practitioners from countries such as South Africa, Uganda, Lesotho, Malawi, Mozambique, Ethiopia, Botswana and Zimbabwe. One important conclusion of the meeting was "concerns were raised about the long term financial sustainability of large-scale transfer programmes. While the symposium participants were pro-social protection, they cautioned against designing programs without a clear financing strategy for long term affordability"[5]. It is to counter this caution about funding that this policy brief advances the case for long term sustainable funding from mineral wealth to underpin such policy commitments in the region.

SADC. Poverty alongside mineral wealth.

The SADC sub-region is characterized by high levels of formal unemployment, food insecurity and basic survivalist livelihoods, subject to high levels of vulnerability to external shocks, and relatively low investment in human capabilities compared to other regions globally. And yet the sub-region at the same time has no lack of valuable energy and mineral resources. Sometimes dubbed 'the curse of Africa', these resources include precious metals, oil, diamonds and other mineral deposits. Many have decried the fact that the benefits of these natural resources do not appear to successfully be enjoyed by

[3] http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=1321
[4] http://www.socialsecurityextension.org/gimi/gess/ShowNews.do?nid=9927
[5] http://www.socialsecurityextension.org/gimi/gess/RessShowRessource.do?ressourceId=23680

the poor in many of these countries. It is telling that the three countries of highest income inequality – Namibia, South Africa and Botswana – are located in this sub-region. Analysts lament the failure of these nations to develop beyond the extractive phases and develop industries that can in turn produce decent formal jobs that would in turn allow for the eradication of poverty.

According to a 2008 report by the Southern African Resource Watch[6]:

"*From east to west and north to south, Africa is blessed with abundant natural resources. In most cases, however, these resources have been badly exploited, and instead of contributing to growth, development and poverty eradication they have done the opposite*". (page 6).

Instead what the report documents is the prevalence of the use of the proceeds of these activities to be looted, resulting in rent-seeking and political instability, and in many instances, an 'unhealthy symbiotic relationship' between the extractive companies and the political elites[7]. This was found to hold true even in some countries that had adopted relatively progressive mining codes and legislation for instance; the gap between the regulations and practice was found to vary in a number of case studies[8]. According to an UNECA report[9], mining, as an example, contributes a mere 5% of employment in the SADC region.

It is clear that the sub-region needs to refine and develop a comprehensive and SADC focused industrial and manufacturing policy. This is necessary to shift the growth and accumulation paths of countries and the collective SADC area. Even more crucial for long term structural change would be the development and adoption of common minimum standards across the region in respect of the 'management, exploitation and management'[10] of the natural resources to prevent the ability of multi-national companies to maximize opportunities for extractive exploitation by manipulating terms between countries. Such a process could at best however see medium to long term benefits, and not address the immediate needs of people who are hungry and vulnerable today. In this brief we therefore advance the case for a policy that would see an immediate improvement in the lot of the poor with the region by accessing some of this wealth. Given the increase in the interest around social protection programmes to address vulnerability in developing countries, we believe that it is an extremely opportune time to undertake a feasibility study on the development of a SADC–wide Basic Income payment to all residents, a form of social protection floor which has already been experimented with in a few localities in the region, funded from ring-

[6] *The Search for Responses to Resource Curse,* SARW Resource Insight Issue 6, May 2008.
[7] Ibid, 7.
[8] SARW, 2008. 8.
[9] Mineral Exploitation, Environmental Sustainability and Sustainable Development in EAC, SADC and ECOWAS Regions, Work in Progress, no. 79. D.K. Twerefou, 2009.
[10] SARW, 2008, 16.

fenced proceeds from extractive commodity operations within each country, with transparent operations and portable accessibility.

International Precedents for Sovereign funds to meet social needs.

As described below, sovereign wealth funds (SWFs) have been established in many countries, funded by both commodity and non-commodity sources. At least 32 countries have developed 'sovereign wealth funds' all originally financed from commodities, ranging from oil to minerals, gas and phosphate commodity sales. Sovereign wealth funds from commodity exports, totaled $42,7 trillion globally at the end of 2010, compared to non- commodity funded SWF's which globally totaled $1,5 trillion[11]. The proceeds of these funds are used for a combination of objectives, from promoting currency stabilization, to developmental programmes and public spending. Recently in 2008 Chile has used mineral rents to fund the extension of social pension coverage[12]. UNRISD is currently researching the viability of using such funds for social purposes in Chile, Norway, Nigeria and Botswana.(Hujo, K. Forthcoming). In principle there is no reason why regionally based "sovereign" funds could not be established.

One issue is whether to simply channel the funds through the normal state fiscal policy This is a question well illustrated by the Alaskan Permanent Fund and the annual dividend that pays out to its residents. The Permanent Fund was established after oil was located in Alaska, in 1976. At least 25% of all royalties received from the sale of any state owned natural resources has to be paid into this fund. There were two concerns that drove the establishment of the fund. Firstly, the Fund exists for future Alaskans in recognition that mining is depleting a non-renewable resource. The second reason was a fear that revenues in the hands of politicians might never be enjoyed by ordinary people, but would be used instead for rent-seeking and self-promoting spending.

Each year an annual payment is made to each resident based on a formula that takes into account the previous year's income and the total number of eligible people. The average annual payment is $1 500, which translates roughly into R12 000, with the payment in 2010 being $1, 281.00 to each resident.

CONCLUSION AND PROPOSITION.

Given:

- the high levels of vulnerability of people living in the sub-region
- the high values of extractive activities that co-exist, and
- the desire of governments within SADC to provide forms of social protection, and

[11] Sovereign Wealth Fund, Wikipedia

[12] Hujo, K (2011), Financing Social Policy in Mineral-rich Contexts: Challenges and Opportunities, Paper given at ODI Seminar on Financing Social Protection, London, 26-27 May. (www.odi.org.uk) .

- recognizing the concern held by national governments of the potential pull factor of citizens from neighbouring states should they in fact roll out alone a national social protection scheme,

it would appear, however bold an idea, that such a scheme as a regional tax on the extraction industry to fund a regional basic income grant should at least be considered from a feasibility side, tracking existing levels of resources, ownership and interests involved at a sub-regional level, as well as identifying potential allies politically who might be called on to support greater engagement with the concept.

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