Work/Jobs

Social grants

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Social grants

It is likely that most African governments will have to rely on social grants rather than an expanding job market to assist the poor and alleviate extreme inequality while also allowing the informal sector to flourish. This is demonstrated by the impact of grant programmes in countries as diverse as Brazil, South Africa and India.

In its original conceptions, income grants were conditional. Poor people were provided with food stamps or other means to subsidise food, education and transport if they fell below a certain income threshold. The latter was monitored through cumbersome and costly regular means testing to determine whether the beneficiary is still alive, still qualifies for the grant, etc. Some literature also suggests that in developing countries, with weak and inefficient bureaucracies, targeted subsidies tend to result in more inequality than universal ones. This acknowledges the significant information asymmetry between the bureaucracy and the population, and that promotion of good (or effective) governance is a necessary factor for targeted subsidies to work.

Universal, non-means tested grants have steadily become more common, including in South Africa where the ruling party has placed particular emphasis on redistributive policies rather than on growth. In contrast to the four million South Africans receiving social grants in 1994, more than 18 million people (close to a third of the population) benefit from these today, and the number is set to increase further. However, in the long term, high levels of transfers are likely to constrain economic growth.

Even with this hugely expensive and expansive grant system, more than half of South Africans still live in extreme poverty (using the upper middle-income extreme poverty level of US$5.50 as benchmark). With only 6.9 million taxpayers out of a total population of 60 million, the South African system has made a huge contribution to alleviating poverty but is eventually unsustainable at its current levels of GDP per capita without much more rapid economic growth. Only significantly higher economic growth can reduce extreme poverty, reduce unemployment and chip away at inequality in South Africa. In the meanwhile, spending on consumption steadily squeezes out productive government investment on growth.

Social grants are also used as part of a poverty reduction strategy in India, where the government committed to a campaign to ensure that every Indian has a bank account, is linked to the Internet and can be biometrically identified.

The Aadhaar project, meaning 'foundation', started off as a voluntary programme to help tackle corruption and fraud. Today Aadhaar offers the first national database of the Indian population. It has enrolled more than 1.1 billion Indians on its biometric, digital and physical identity system. Linking bank accounts to biometric identification and cellphones creates a system that can overcome the pervasive corruption that is often part of social grant systems, where large amounts of cash are doled out to sometimes illiterate beneficiaries by poorly paid officials who are themselves often destitute.

Aadhaar requires that each person goes through an enrolment process, during which a facial photograph, ten fingerprints and scans of both irises are recorded along with the citizen's demographic information (name, address, gender and date of birth). Once the enrolment is completed and the biometric data verified, the person is issued with a 12-digit unique identification number.

Service providers can verify someone's identity with the Unique Identification Authority of India and registration on the system is required to open a bank account, file a tax return or get a SIM card. Using mobile phone systems, funds (including social grants) can now be transferred directly to individuals, doing away with physical cash payments. There are, of course, risks with such systems, particularly in autocratic countries such as China where the government can readily use this as a means for political and social control.

Many African countries are doing the same, but in some, such as in Kenya where corruption is truly endemic, repeated efforts to collect the biometric data of its population and establish a national identification system are treated with deep suspicion as yet another means by which politicians and officials cream illicit profit off to their advantage. [1]

A second, more radical concept than social grants is the idea of a universal basic share, which is an equal payment to all citizens, without any conditions or a means test. Its attraction lies in its simplicity: instead of having to determine whether an individual falls below a certain income level and hence meets the means test, the payment is simply made to everyone above a certain minimum age.

The problem with this approach may be linked not to the availability of money as such but rather to the tax policies of African governments. Tax rates in Africa are notoriously low, largely because African governments 'forgo revenues worth almost a third of those they actually collect' through a bewildering array of tax breaks to donors, special economic zones and by offering tax holidays to big investors, often mining houses. Thus 'tax collection in Africa resembles an exasperating fishing expedition, in which the big fish wriggle into tax havens and the tiddlers hide in the informal sector.'

Endnotes

1. Sounds BBC, Kenya's controversial biometric project, sound recording (World Service), 2019.

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Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the ISS. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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