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UNIVERSAL BASIC INCOME GUARANTEE FACTSHEET SERIES

NOT JUST A HANDOUT

How a UBIG gives people the power to prosper

Introduction to UBIG

A universal basic income guarantee (UBIG) is a commitment by government to ensure that everyone has a minimum level of income to meet their basic needs. This is done through a regular cash transfer or grant. Research shows that a UBIG can help remove barriers preventing people from building sustainable livelihoods, and can contribute to stronger local economies.

UBIG and sustainable livelihoods

Research from countries as diverse as Kenya, Zambia, Mexico and Namibia shows that basic income initiatives can enable people to overcome barriers to building sustainable livelihoods. This means that individuals can gain the necessary means and capabilities for supporting themselves; recovering from shocks or crises; and improving future earning capabilities.¹

By allowing people who have previously been excluded to participate in economic activity and grow their incomes over time, cash transfers can meaningfully contribute to macroeconomic growth and development through increased income, consumption, productivity, and employment.



THE FOUR ELEMENTS OF A UBIG

- ✓ **UNIVERSAL** – applies to all adults.
- ✓ **BASIC** – covers basic necessities.
- ✓ **INCOME** – a regular cash benefit.
- ✓ **GUARANTEE** – provided as a right.

Investment, productivity and enterprise formation

Recipients of cash transfers are able to build their economic resilience to ultimately escape the poverty trap, in multiple ways. People are able to invest in self-employment and productive activities alongside skills and education, increase their savings and increase their access to credit. In turn, recipients are able to reduce their long-term vulnerability to poverty.

A study on cash transfers in Sub-Saharan Africa showed that cash grants lead to investment in agriculture, improved productivity in existing enterprises, and the creation of new microenterprises.² For example, in both Zambia and Lesotho, the area of agricultural land worked increased as a result of cash transfers, and recipients were able to invest in hired labour. The agricultural produce was mostly sold on the local market.

In Namibia, a Basic Income Grant (BIG) pilot provided the start-up capital required for establishing new enterprises and increasing productivity in existing enterprises. As a result, average incomes increased by 29%, over and above the income from the BIG, and income from self-employment increased by 301%.³ A Kenyan study found similar results—recipients of a cash transfer increased their investments in self-employment and productive assets, which translated into increased revenue from both agricultural and non-agricultural enterprises.⁴

In Mexico, a study found that cash grants relieved some of the liquidity constraints previously faced by recipients, which resulted in increased investment.⁵ Greater investment led to sustained, higher incomes over time and a long-term improvement in consumption. The cash transfer, because of its regular sustained nature, provided recipients greater economic security and they were thus able to take greater risks when it came to investing.

The UBIG can contribute to more sustainable livelihoods by stimulating demand in local economies, as well as allowing recipients to invest in skills, self-employment and productive activities. The grant allows people to employ external labour, create their own microenterprises and expand on existing enterprises. Greater investment results in an increased return on the cash grant, and sustained higher incomes in the longer term. Recipients are thus able to reduce their vulnerability to poverty, escape poverty traps, and build their resilience.

NAMIBIA BIG PILOT

↑ 29%

INCREASE IN
AVERAGE INCOME
OVER AND ABOVE
THE GRANT ITSELF

↑ 301%

INCREASE IN
INCOME FROM
SELF-EMPLOYMENT

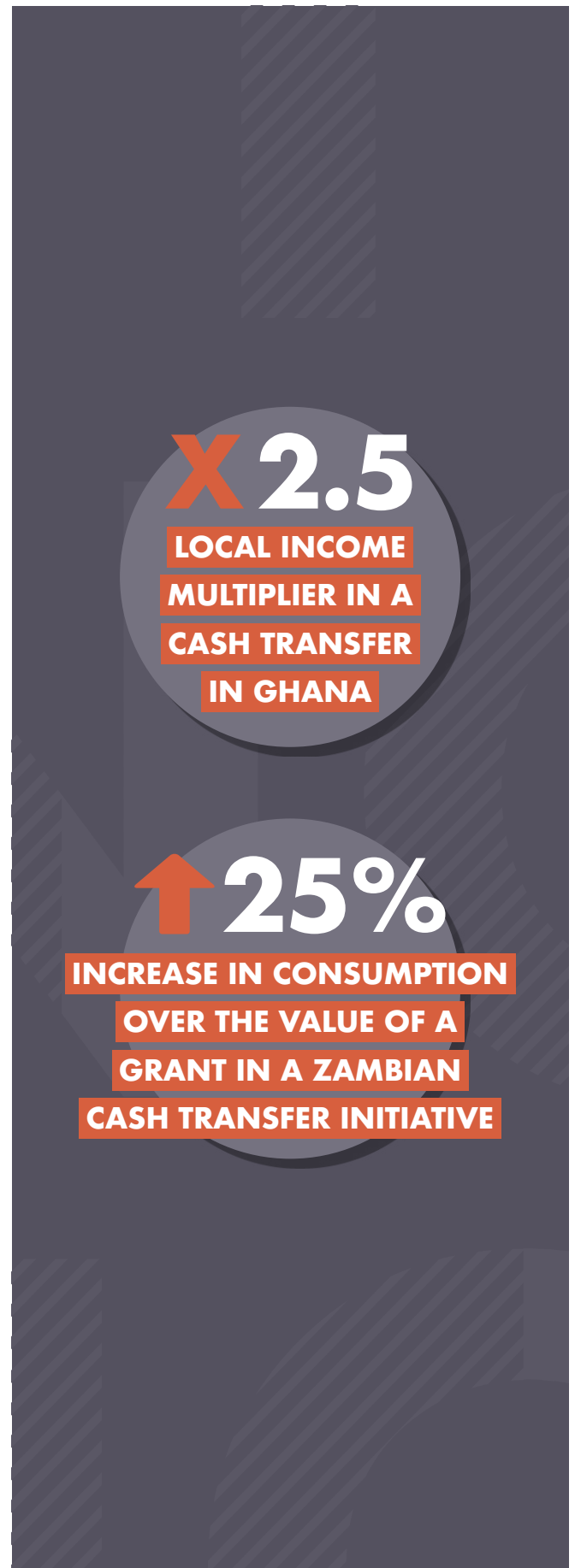
Consumption and the multiplier effect

A cash transfer has ripple effects in the local and national economy beyond the increased income of recipients. This is known as the multiplier effect. Because lower income individuals spend a greater proportion of their income in local economies, cash transfers boost local businesses through increased spending power.⁶ Higher consumption (or “aggregate demand”) boosts local businesses, and grows the local and national economy, creating additional livelihoods.⁷ This in turn increases the tax base and promotes national economic development.

For instance, in a cash transfer initiative in Ghana, the majority of beneficiaries’ income was spent in the local economy, thus increasing local income by a multiplier of 2.5.⁸ In a similar initiative in Zambia, there was an increase in consumption of 25% over the value of the grant—indicating an income multiplier effect.⁹ These experiences show that cash transfers not only benefited the targeted recipient, but also grew the overall local economy so that even those who were not recipients saw an increase in their incomes.

These results hold true across multiple studies. The impact of cash transfers extend beyond immediate income poverty reduction, to produce deeper structural change in the economy, and help people escape poverty traps long-term. Transfers increase consumption, investment, and productivity, which is especially concentrated in areas that have been excluded and deprived.

Much of the evidence we draw from in this factsheet is derived from targeted and conditional—as opposed to universal—basic income schemes. This is because there is very little experience internationally with universal basic income. However, the scale, consistency and guaranteed nature of a UBIG means that the benefits outlined above would likely be much more pronounced. An important underlying factor in driving these positive impacts is that people are enabled to take greater risks when they know they are going to be receiving a regular basic income no matter what. Therefore we can make quite an informed prediction that the impacts we have detailed above would be even greater with a UBIG.





Endnotes

1. Presidential Climate Commission. 2022. [Supporting a Just and Climate-Resilient Transition in South Africa](#).
2. Davis, B. et al. 2016. [From evidence to action: the story of cash transfers and impact evaluation in sub-Saharan Africa](#). New York: Oxford University Press.
3. Haarmann, C. et al. 2019. [Making the difference! The BIG in Namibia](#). Namibia: Basic Income Grant Coalition.
4. Haushofer, J., & Shapiro, J. 2013. [Household response to income changes: Evidence from an unconditional cash transfer program in Kenya](#). Massachusetts Institute of Technology.
5. Gertler, P. et al. 2006. [Investing cash transfers to raise long-term living standards](#). *American Economic Journal Applied Economics*.
6. Orkin, K. 2020. [The evidence behind putting money directly in the pockets of the poor](#). *Oxford News Blog*.
7. Orkin, K. et al. 2022. [International evidence to inform decision making on implementing urgent response social protection measures](#). *Psychology, Health & Medicine*.
8. Davis, B. et al. 2016. [From evidence to action: the story of cash transfers and impact evaluation in sub-Saharan Africa](#). New York: Oxford University Press.
9. Ibid

Visit our special UBIG portal by scanning the QR code



Read more in the IEJ's Working Paper: [Can a Universal Basic Income Contribute to Breaking Structural Poverty in South Africa?](#), and accompanying [Annotated Bibliography](#).

This factsheet is part of our series on the universal basic income guarantee (UBIG) in South Africa.

Factsheets in this series are:

1. Why does South Africa need a Universal Basic Income Guarantee?
2. No one left behind: Why universal basic income makes more sense than targeted grants
3. Jobs versus Grants: Are employment and basic income a policy trade off?
4. How a UBIG can support healthier kids, happier adults, and lifelong learning
5. How a UBIG can advance gender justice and social cohesion
6. Not just a handout: How a UBIG gives people the power to prosper
7. "But how will we pay for it?" Financing a UBIG

Forthcoming factsheets in this series will focus on:

- Modelling pathways to a UBIG
- UBIG and the rising cost of living
- UBIG and the just transition

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