OSISA

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SPII

STUDIES IN POVERTY AND INEQUALITY INSTITUTE

Building up knowledge to break down Poverty

Contents

Executive Summary

Africa accounts for a significant share of the mineral resources in the world. On the basis of known estimates it accounts for 30% of global reserves, 90% of the world's platinum, 40% of the world's gold and 46% of natural diamonds. In spite of this, Africa remains the world's poorest continent with almost 50% of the population living in extreme poverty.

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.

This paper is part of a five-year project that the Studies in Poverty and Inequality Institute (SPII)[1] is working on that seeks to investigate the feasibility of a regional universal BIG as a vehicle for advancing socio-economic justice as part of its commitment to find innovative solutions to our region's challenges. To date, SPII has already completed an initial scoping of the subregion in terms of the types of resources that exist, the existence of current social protection policies, international universal cash transfer schemes and the existence of sovereign wealth funds that are used to contribute to social policies. This analysis suggested that there exists the need to enhance social protection systems with local, rather than development donor, financing and indeed that there are sufficient revenues raised, but often lost to governments, to sustain a universal cash grant.

Using an economic analysis of various scenarios, the analysis provided in this paper aims to identify the size of a BIG grant that would suffice 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.

The assumptions upon which our models are built are set out as follows:

Universal cash transfer for all residents of SADC.

Ideal value of benefit to be between 33%-60% of the International Labour Organisation (ILO) extreme poverty line of US$1 per day.

Benefit to be paid on a monthly basis.

Benefit to form part of any other social benefits received (i.e. a person receiving a social grant will receive the maximum or either the universal cash transfer or the social grant, whichever is highest).

All eligible members of a household are entitled to an equal amount.

Administration costs to be between 8%-15% and no means testing required.

Qualification criteria based on citizenship and residency within a SADC country.

1 SPII belongs to a civil society-based SADC BIG Campaign based in the subregion. This research forms part of a growing field of work that provides compelling data in favour of such an innovative system. This affiliation, however, has in no way detracted from the rigour and transparency of the research and analysis contained in this research report.

A sovereign wealth fund, independent and located at the SADC Secretariat, is proposed as a possible funding vehicle.

Mobility of funds across borders and distribution of the cash transfer to be executed by public banks such as post-banks and by means of mobile technology.

Uptake rates of between 70%-95% at inception.

Findings from the analysis reveal that:

A monthly basic income of US$15 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.

The Democratic Republic of Congo (DRC) and Zimbabwe have the highest cost share of GDP(PPP) with the former having a 46% share and the latter 31%. The current size of their GDP mainly attributes to this, however, it should be noted that these countries are in the IMF top 20 African countries, rich in mineral resources and that they beset the highest illicit flows.

Countries that have the lowest cost share of GDP (PPP) include Seychelles (0.7%), Botswana (1%) and Mauritius (1%). The net cost for South Africa is at 1.6% of GDP;

Recipients of DRC (26%), South African (17%) and Tanzanian (16%) origin make up a 59% share of the total cost of a SADC BIG. These figures are based on the size of the populations.

The proposed US$15 may at first glance appear to be an insufficient amount for the introduction of a universal SADC BIG which on an individual basis amounts to 50% of the US$1/day extreme poverty line. However, when observed 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.

In conclusion, given the limited revenue for national coffers deriving from extraction in the subregion due to generous tax incentives and poorly negotiated concessions, we strongly believe that the extractive industries in SADC can provide the main revenue source to finance a SADC BIG. The fact that in the past two decades more revenue from extractives has left the continent through illicit flows, smuggling and corruption than revenue coming in to the region from external aid makes a compelling case that Africa, and more specifically SADC, can finance its own development. The continent and the SADC region are rich in natural resources and, given the appropriate infrastructure including human capacity potential, the opportunity exists to provide social protection in the form of a SADC BIG. For such a system to work, however, there is the need for political will, a transparent accounting system of concessions and agreements concluded in the extractives sector.

Going forward, SPII recognises the need for a more comprehensive econometric analysis of the impact of a SADC BIG. The groundwork of the costing model has been laid and in the forthcoming phase we will take a closer look at the redistributive effects of a SADC BIG. This will be done by developing a combined micro-simulation and economic model. Existing models only examine the direct impact of transfers and not the secondary effects on human development and economic restructuring in the medium- to long-term. We note that the further comprehensive econometric modelling must be analysed on a national as well as a regional basis, leading to the production of accessible and appropriate campaign advocacy material for campaign members. We shall ensure that the models are set out and explained in campaign policy briefs that are accessible, and distributed to each member electronically for printing; we will also see to it that the briefs are used for advocacy purposes by each campaign member.

Background

Africa accounts for a significant share of the mineral resources in the world. On the basis of known estimates the continent accounts for 30% of global reserves, 90% of the world's platinum, 40% of the world's gold and 46% of natural diamonds.[2]

2 Walker, R. 2013. Why are mining companies losing money? African Business, 19 September. http://african-businessmagazine.com/features/mining/why-are-mining-companies-losing-money

Furthermore, economic growth in Sub-Saharan Africa (SSA) remains strong with growth forecast to be 4.9% in 2013.[3] According to the World Bank's Africa's Pulse 2013 report, almost a third of countries in the region are growing at 6% per annum and more, and African countries are now routinely among the fastest-growing countries in the world in terms of economic growth.[4] Yet Africa remains the world's poorest continent, with almost 50% of the population living in extreme poverty.[5]

Sometimes dubbed 'the curse of Africa', many have decried the fact that the benefits of these natural resources do not appear to be successfully enjoyed by the poor in many of these countries. In the Southern African Development Community (SADC) the impact of the pervasive levels of poverty and inequality cannot be overemphasised. It is telling that the three countries of highest income inequality – Namibia, South Africa and Botswana – are located in this subregion which is characterised by:

- high levels of formal unemployment
- lucrative extractive industries of natural resources, but with very little local beneficiation
- food insecurity and basic survivalist livelihoods
- high levels of vulnerability to external shocks
- relatively low investment in human capabilities compared to other regions globally

Simultaneously, the subregion has no lack of valuable energy and mineral resources. Analysts lament the failure of these nations to develop beyond the extractive phases and to construct industries that could, in turn, produce formal jobs that would contribute to the eradication of poverty and a reduction in income inequalities.

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

'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.'[6]

Rather, what the report documents is the prevalence for 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. In fact, the size of the gap between the regulations and practice was found to vary in a number of the case studies.[8] According to a United Nations Economic Commission for Africa (UNECA) report mining, as an example, contributes a mere 5% of employment in the SADC region.[9]

Objectives of this paper

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.

This paper is part of a five-year project that SPII is working on that seeks to investigate the feasibility of a regional universal BIG as a vehicle for advancing socioeconomic justice as part of its commitment to find innovative solutions to our region's challenges. To date, SPII has already completed an initial scoping of the subregion in terms of the types of resources that exist, the existence of current social protection policies, international universal cash transfer schemes and the existence of sovereign wealth funds that are used to contribute to social

3 World Bank. 2013. Africa continues to grow strongly but poverty and inequality remain persistently high. http://www.worldbank.org/en/news/press-release/2013/10/07/africa-continues-grow-strongly-poverty-inequality-persistently-high

4 Ibid.

5 ibid

6 Kabemba, C. 2008. The search for responses to resource curse. SARW Resource Insight, Issue 6, May.

7 Ibid.

8 Ibid.

9 Twerefou, D.K. 2009. Mineral exploitation, environmental sustainability and sustainable development in EAC, SADC and ECOWAS regions. Work in Progress No. 79. African Trade Policy Centre (ATPC). Addis Ababa: Economic Commission for Africa.

policies. That analysis suggested that there were both the need to enhance social protection systems with local, rather than development donor financing, and indeed that there was a sufficiency in terms of revenues raised but often lost to governments, that would be able to sustain a universal cash grant.

We are, however, cognisant of concerns raised in our stakeholder meetings and discussions about the long-term sustainability of an extractive-funded BIG and also caution that such a mechanism, whilst advancing people's wellbeing, will not necessarily solve weak governmental institutions. It is against this background that we note that this project is not limited to the use of extractive-funded BIG but that it also calls and supports alternative funding mechanisms of which proceeds from extractives form part. Furthermore, we acknowledge that there is need to strengthen the weak government institutions in order to ensure that delivery, implementation and monitoring of policies are adhered to.

Making use of an economic analysis of various scenarios, this paper 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.

The assumptions upon which our models are built are set out below. The rest of this paper is split into four main sections. The next section, Section 3, looks at the growing importance of social protection especially in the form of social cash transfers that serve as a tool with the immediate effect of alleviating poverty. The idea of financing a SADC BIG from extractives is also discussed. This is then followed by Section 4 which focuses on the economic analysis of the cost and affordability of a SADC BIG, followed by a look at taxation and alternative revenue flows to finance or complement finance from extractives in Section 5. Our concluding remarks and recommendations for future research and engagements constitute the sixth and final section of this paper. Case studies and data are used to illustrate the main findings of this paper throughout.[10]

SADC BIG Model Design Assumptions

The following assumptions are in place:

Universal cash transfer for all residents of SADC.

Ideal value of benefit to be between 33%-60% of the International Labour Organisation (ILO) extreme poverty line of US$1 per day.

Benefit to be paid on a monthly basis.

Benefit to form part of any other social benefits received (i.e. a person receiving a social grant will receive the maximum or either the universal cash transfer or the social grant, whichever is highest).

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A sovereign wealth fund, independent and located at the SADC Secretariat, is proposed as a possible funding vehicle.

Mobility of funds across borders and distribution of the cash transfer to be executed by public banks such as post-banks and by means of mobile technology.

Uptake rates of between 70%-95% at inception.

Social protection, social cash transfers and poverty alleviation

The worldwide debate regarding the manner in which poverty and inequality must be addressed is overwhelming and has generated many divergent views and positions. However, a commonly held view in these discussions is the philosophy that 'nobody should be poor in a society that has resources for everyone'. [11] As former South Africa President Nelson Mandela noted:

"Overcoming poverty is not a gesture of charity.

10 Also see Annex 1 with full scenario analysis.

11 Sergio, P. 2008. Basic Income and Stakeholder Grants: Jointly Breaking the Long History of Endemic Poverty and Economic Inequality in Brazil (Giving the fish, but teaching to fish). http://basicincome.org/bien/pdf/dublin08/2biisergiopintobibrazil.doc

It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom. The steps that are needed from the developed nations are clear."

It is clear that the subregion needs to develop, refine and implement comprehensive SADC-focused trade, industrial and manufacturing policies, many of which have already informed a number of the recent treaties emerging from the regional body. 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 is the development and adoption of common minimum standards across the region in respect of the 'management and exploitation' of the natural resources to prevent multinational companies from maximising opportunities for extractive exploitation by manipulating terms between countries at the cost of those same countries.[12]

However, such a process could at best see medium- to long-term benefits and might not be capable of addressing the immediate needs of people who are hungry and vulnerable at present. It is against this background that we advance the case for a policy that would enable an immediate improvement in the lot of the poor within the region by accessing some of this wealth. Given the increased interest around social protection programmes to address vulnerability in developing countries, we believe that it is an extremely opportune time to campaign for the introduction of a SADC–wide universal cash transfer (BIG) to be funded mainly by a tax on extractive industries.

By universal basic income we mean:

'An income paid by a government, at a uniform level and at regular intervals, to each member of society. The grant is paid, and its level is fixed, irrespective of whether the person is rich or poor, lives alone or with others, is willing to work or not'.[13]

In the case of the SADC BIG, we argue that to advance the free movement of people within SADC, the grant should extend not only to citizens but to all permanent residents, migrants and refugees. The advantage of BIG is that it is tangible and reliable, thus enabling poor people to begin to take small risks. It must, however, be noted that BIG within our current designs should not be viewed as approximating a sufficient income substitution or decent social wage. What should be considered is the ability of this small, regular income to provide a shield against destitution and to serve as a potential catalyst for multiplier changes.

An Unconditional Universal Basic Income Grant is Viable

Over the past century debates regarding the desirability and feasibility of universal basic income have taken place in many different countries – from Alaska to Iran. The timing of the call for such a campaign in SADC could never be better than now. This is to a large extent due to the empirical evidence from various countries that the concept of basic income is no longer perceived by a number of academics, social activists and public advocacy groups as a utopian 'shot in the dark' idea.

The merits of a BIG are numerous based on evidence from pilots and programmes that have been implemented worldwide. Evidence from countries such as India, Brazil, and closer to home pilots in Malawi, Namibia and Zambia, has shown that social cash transfers have the ability to help alleviate the worst destitution currently faced by millions of poor people and has the potential to reduce the critical and unsustainable levels of inequality in a very short period of time.

The Social Cash Transfer programmeis a pilot implemented in Malawi, Southern Africa that provides direct payments of cash, on average $13 a month, to families identified as ultra-poor and labour-constrained.[14] An evaluation of the Malawi Social Cash Transfer pilot programmeconducted

12 Kabemba, C. 2008. *The search for responses to resource curse. SARW Resource Insight*, Issue 6, May. p. 16.

13 Van Parijs, P. 2002. A basic income for all. In Van Parijs, P. (ed.), *What's wrong with a free lunch?* Boston: Beacon Press.

14 For the Namibian pilot please visit: http://www.big-nam.org/ and details of the Zambia pilots: http://www.cpc.unc.edu/projects/transfer/countries/zambia

by the Centre for Global Health and Development (CGHD) in 2008 in which 23,561 households in seven of Malawi's 28 districts received monthly cash transfers to alleviate poverty and vulnerability revealed that cash transfer recipient families had: [15]

- fewer missed meals
- lower rates of underweight children
- fewer reported sicknesses
- higher school enrolment and fewer absences
- better access to medicines and health care and
- reduced instances of young children working to help support their families

It also revealed that recipients are using the money to buy food and medicine, to send children to school, to purchase livestock and farming supplies and to travel to hospitals to obtain antiretroviral drugs (ARVs) to treat HIV and AIDS.

This evidence has been used by the Government of Malawi (GoM) to improve the program's operations and recipient identification policies as well as informing plans to scale up cash transfer initiatives throughout the country. Since August 2013 the GoM has expanded the programme to reach approximately 30,000 households and 100,000 individuals. Over the next five years the programmeis scheduled to expand to include five more districts with the average size of transfer being $14 per month per beneficiary family.[16] According to a presentation by Salima District Council Director of Planning, Blessings Nkhoma, the programme has targeted 300,000 ultra-poor households by 2016 in Malawi.[17]

The case for a SADC BIG is even more compelling if it is to be predominantly financed by a tax on extractives considering that US$62 billion leaves the continent annually through illicit flows and price manipulation by multinationals.[18] Furthermore, the revenue stream created would counter the usual rhetoric that African countries cannot afford a social cash transfer scheme due to poor revenue reserves and a lack of capacity, and would enable governments in the region to move towards meeting their declared commitment to the first Millennium Development Goal (MDG) of halving income poverty.

The case for a SADC BIG is also based on the principle of economic justice. Broadening access to the proceeds of mining can be extended through harnessing some of the proceeds to a regional sovereign wealth fund, far beyond the current narrow circle of national and international beneficiaries and shareholders of the mining companies and aligned elites, to each and every resident of the SADC subregion. The following elements are characteristics of a SADC-wide BIG that forms the basis of the campaign's research.

The Underpinning Principles of a SADC BIG

A BIG that is unconditional

Providing a BIG to individuals with no conditions is based on the premise that poor people are able to make rational decisions and do so not only in their own best interests, but also for the sake of their children and their families.

'Many cash transfer schemes around the world involve elaborate conditions imposed on recipients. Often those are well meant, such as requiring families to send their children to school, or for mothers to give birth in registered institutions. But conditions are hard to apply fairly and involve high administrative costs.'[19]

More often than not, the imposition of conditions or means testing generally requires beneficiaries

15 Centre for Global Health and Development, 2009. Evaluation of the Malawi Social Cash Transfer Program. [online] http://www.bu.edu/cghd/our-work/projects/evaluation-of-the-malawi-social-cash-transfer-program/

16 CPC, 2013. The Government of Malawi's Social Cash Transfer Scheme. The Transfer Project, Carolina Population Centre. [online] http://www.cpc.unc.edu/projects/transfer/countries/malawi

17 Dzuwa, J. 2013. Malawi: Zomba Rolls Out Social Cash Transfer Programme. Malawi News Agency. [online]: http://allafrica.com/stories/201306120531.html

18 UNODC. 2011. Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes. Research Report. Vienna: United Nations Office of Drugs and Crime. http://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf

19 Standing, G. 2013. Unconditional basic income: Two pilots in Madhya Pradesh. A Background Note prepared for the Delhi Conference, May 30-31.

to 'prove' they meet these conditions, which can allow for a source of corruption. These conditions constitute an administrative burden to both government and the individual and ultimately lead to high costs and the risk that it is the most destitute who most frequently are unable to charter their course through the demands of the administrative requirements.

A BIG that is universal

Many studies have shown how targeting has failed to work in practice mainly because of administrative difficulties in the process of identifying the poor and the fact that it is costly and prone to errors of omission. By making BIG universal, these dangers are circumvented. Better-off individuals may also choose not to receive the grant, and there are many mechanisms that can be introduced to claw back the value of the grant from wealthier people.

A universal scheme would ensure transparency and a greater even-handedness in the distribution of resources, reducing the risk of capture by politicians to win political support for their own gain. Such a scheme would promote solidarity, contribute to the regional integration and movement of people and back social and economic policies provided for in SADC treaties and protocols. We also advocate progressive taxation to ensure that BIG is reclaimed through the national fiscus for wealthier individuals.

A BIG that is for individuals

Most economic models assume that people are on average rational beings and that they can generally be approximated to act according to their preferences. Empowering people to choose their destiny creates a level of ownership and reduces the ideology of a 'sense of entitlement'. At a household level, providing grants to individuals affords more bargaining power especially to women and the elderly within a household and encourages financial inclusion where grants are transferred through banking accounts.[20] Furthermore, women are empowered in household decision making as grants paid to children would go to the women.

Concerns Raised About a Basic Income Grant

While we have outlined the benefits of a BIG, it is equally important to highlight concerns raised regarding the BIG. Below are some concerns raised: [21]

- **Inflation:** a sudden injection of cash into an area may cause inflation. In a number of studies conducted evidence suggests no significant increase in prices of goods after the immediate introduction of cash transfers. [22]
- **Cash transfers could discourage wage-earning work by adults:** The argument is that if adults can control the distribution of their work and leisure time, cash transfers may lead them to substitute some leisure for work, leading to a decrease in wages earned (but most likely not a decrease in overall income). A World Bank review of the evidence on cash transfers examines this question and concludes that transfers "appear to have had, at most, modest disincentives for adult work". The review discusses 5 studies, of which 4 found no impact along this dimension.[23]
- **Anti-social use:** cash can be used to buy anything including, for example, alcohol.
- **Security risks:** moving cash around may be risky for the implementing staff and for the recipients.
- **More difficult to target:** where targeting is concerned, even the wealthy will want to be included, whereas they may not in the case of food transfers.
- **More prone to diversion:** cash may be more easily diverted where corruption is high and is prone to seizure by armed groups in conflicts.
- **Disadvantages women:** women may be less able to remain in control of cash than of food.

20 It is important to note that in pilots where a BIG has been implemented, grants for children under the age of 18 went to the mother or, if there was no mother, a designated guardian.

21 The concerns highlighted here are not exhaustive. Unless otherwise specified, summary is taken from Harvey, P. Slater, R. Farrington, J. 2005. Cash Transfers – Mere 'Gadaffi Syndrome', Or Serious Potential For Rural Rehabilitation And Development? Natural Resource perspectives, Number 97, March 2005,. [online]: http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/1662.pdf

22 GiveWell, 2013. Cash transfers in the developing world. [online]: http://www.givewell.org/international/technical/programs/cash-transfers

23 ibid

- **Less available from donors:** donors may be more willing to provide commodities than to provide cash.
- **Consumption / nutrition:** if a transfer has particular food consumption or nutrition objectives then food may be more effective.

While some of the concerns raise serious issues that need to be taken into consideration, it is equally important to mitigate in support of the proposed universal basic income grant in which individuals are empowered to make their own decisions on how best to utilise their income. Furthermore, issues of patronage and corruption are eliminated if all citizenry is involved and interested in accountability of state funds.

Funding through Taxes on Extractives is Feasible

The global commodity boom experienced over the past decade has provided credence to the importance of the extractives industries in the development of Africa's economies. Extractive industries have emerged as a powerful engine of economic growth as demand for natural resources in China and other emerging markets has pushed export prices to new heights. This trend is set to continue and there seems to be no end in sight for the commodity boom, even with the possibility of minor future fluctuations.

'Africa's petroleum, gas and mineral resources have become a powerful magnet for foreign investment. With new exploration revealing much larger reserves than were previously known, Africa stands to reap a natural resource windfall'.[24]

A panel session on the recently launched 2013 Africa Progress Report notes that African policy makers have critical choices to make. They could either invest their natural resource revenue in people for job creation and sustainable opportunities for millions in both the present and future generations or policy makers could squander this opportunity, allowing jobless growth and inequality to take root. As Kofi Annan noted,

'Africa is standing on the edge of enormous opportunity. Will we invest our natural resource revenue in people, generating jobs and opportunities for millions in present and future generations? Or will we squander this opportunity, allowing jobless growth and inequality to take root?' [25]

Table 1 below provides an insight into the natural resource wealth of SADC.

24 See Africa Progress Report. 2013. Equity in extractives: stewarding Africa's natural resources for all. http://www.africaprogresspanel.org/publications/policy-papers/africa-progress-report-2013/

25 Africa Progress Report 2013. Equity in Extractives: Stewarding Africa's natural resources for all. [online]: http://africaprogresspanel.org/wp-content/uploads/2013/08/2013_REPORT_SUMMARY_Equity_in_Extractives_ENG_HR.pdf
Stewarding Africa's natural resources for all

Table 1: Summary of SADC's Natural Resource Wealth by Country

Angola	petroleum, diamonds, iron ore, phosphates, copper, feldspar, gold, bauxite and uranium
Botswana	diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver
DRC	cobalt, copper, niobium, tantalum, petroleum, industrial and gem diamonds, gold, silver, zinc, manganese, tin, uranium, coal, timber, hydropower
Lesotho	water, agricultural and grazing land, diamonds, sand, clay, building stone

Madagascar	graphite, chromite, coal, bauxite, rare earth elements, salt, quartz, tar sands, semiprecious stones, mica, fish, hydropower
Malawi	limestone, arable land, hydropower, coal, bauxite, unexploited deposits of uranium
Mauritius	§ land, fish
Mozambique	coal, titanium, natural gas, hydropower, tantalum, graphite.
Namibia	diamonds, copper, uranium, gold, silver, lead, tin, lithium, cadmium, tungsten, zinc, salt, hydropower and fish. There are also suspected deposits of oil, coal and iron ore.
South Africa	gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, uranium, gem diamonds, platinum, copper, vanadium, salt, natural gas
Swaziland	asbestos, coal, clay, cassiterite, hydropower, forests, small gold and diamond deposits, quarry stone, talc
Seychelles	fish, copra, cinnamon trees
Tanzania	hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, nickel
Zambia	copper, cobalt, zinc, lead, coal, emeralds, gold, silver, uranium
Zimbabwe	coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin, platinum group metals

In Southern Africa various poverty-alleviating programmes such as social protection programmes are guaranteed and provision is made in some constitutions, regional Social Protection Protocols (such as the 2003 SADC Social Charter)[26] and international obligations. The right to social security is also guaranteed in the International Covenant on Economic, Social and Cultural Rights (ICESCR) which has so far been signed by 13 SADC member states and ratified by 12 SADC member states.[27]

26 Article 10 of the Charter provides for all in the region, both workers and non- workers, the rights to social security and social assistance.

27 Article 9 of the ICESCR of 1966 guarantees the

States are accordingly bound to realise the rights to social security and an adequate standard of living and states that have ratified the ICESCR are obliged to take steps, to the 'maximum' of their resources, to achieve this.

It is against this background that we are confident that by investing Africa's resources in its populace, Africa's natural resources could dramatically improve the lives of millions. However, for this to materialise there is need for African countries to better manage their vast natural resource wealth to improve the lives of the region's people by setting out bold national and subregional agendas for strengthening transparency and accountability.

The lack of transparency and accountability, especially in mining, has been highlighted as major impediments to harnessing the revenue potential of mineral resources in the majority of African countries. This and the revenue loss through reduced terms of mining concessions demanded by African governments, as well as revenue loss through corruption, have led to a 'resource rich versus poor human condition' paradox which is characteristic of Africa.

International tax avoidance and evasion, corruption, and weak governance represent major challenges. Illicit outflows have meant that Africa is bleeding potential revenue to the rest of the world annually. While losses from illicit and unwarranted outflows of wealth through tax avoidance, shell companies, tax havens, transfer pricing inter alia, that reduce a fair share of tax flows are not unique to Africa but has come at a great cost to Africa. The Africa Progress Report 2013 reveals that such outflows exceed the total amount of official development assistance (ODA) which the African continent receives annually.

A collaborative effort by global and regional leaders to take a stand against such practices is required to ensure that all avenues or tax loopholes in the extractive sector are closed. Doing so will ensure that the revenues generated by Africa's natural resource wealth are invested wisely and shared fairly, which could lead to the prospect that the region would be able to take itself out of poverty, especially if the increased resources are used to fund social protection for all. In the case of SADC we advocate social cash transfers in the form of BIG.[28] Through this direct mechanism we believe that Africa as a whole can ensure that natural resources provide the revenues needed for investment in smallholder agriculture, food security, employment, health and education.[29]

The cost and affordability of a SADC basic income grant

This section discusses the analytical work undertaken in determining the cost of a universal SADC BIG based on the assumptions highlighted earlier in this report. Cognisant of the limitations to data in Africa, the analysis uses data sourced from the International Monetary Fund (IMF) Economic Outlook Database.

The challenge with data is that much of the data comes from the statistical systems of member countries, and the quality of global data depends on how well these national systems perform. Without better and more comprehensive national data it is challenging to provide an accurate analysis, develop effective policies, monitor the implementation of poverty reduction strategies or monitor progress towards global goals. Our analysis is therefore, at best, indicative of the actual situation on the ground.[30]

right to social security, and Article 11 guarantees the right to an adequate standard of living. Article 2 introduces the concept of 'progressive realisation' which states that states should 'take steps… to the maximum of its available resources, with a view to achieving progressively the full realisation of the rights recognised in the present Covenant by all appropriate means, including particularly the adoption of legislative measures'.

28 Note that 8 of the 20 African countries identified by the IMF as resource rich are in SADC.

29 Ibid.

30 Addressing data shortcomings was one of the first objectives of the SADC Regional Poverty Observatory which was established in terms of Article 3(i) of the 2008 Declaration on Poverty Eradication and Sustainable Development by the SADC Heads of State and Government Conference on Poverty Eradication and Sustainable Development of April 2008.

Methodology

A descriptive economic analysis is utilised, based on the following indicators (where data was available):

population

total government revenue (percentage of Gross Domestic Product [GDP])

total government expenditure (percentage of GDP);

unemployment levels

GDP purchasing power parity (PPP) of evaluation of a country's GDP (PPP).[31]

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.

It is important to note that our research at this stage does not seek to explore the redistributive impacts of a SADC BIG that is demonstrated for example in Adato and Basset (2012) or Samson (2004), nor with income reduction for the rich which would occur in the case of a progressive tax system for inequality reduction. In this analysis the rich and the poor receive the same income supplement. These subsequent explorations will form the basis for further analysis which SPII will undertake in the next phase of our modelling.

Key Findings

A monthly basic income of US$15 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.

The Democratic Republic of Congo (DRC) and Zimbabwe have the highest cost share of GDP (PPP) with the former having a 46% share and the latter 31%. The current size of their GDP mainly attributes to this, however, it should be noted that these countries are in the IMF top 20 African countries, rich in mineral resources and that they beset the highest illicit flows.

Countries that have the lowest cost share of GDP (PPP) include Seychelles (0.7%), Botswana (1%) and Mauritius (1%). The net cost for South Africa is at 1.6% of GDP;

Recipients of DRC (26%), South African (17%) and Tanzanian (16%) origin make up a 59% share of the total cost of a SADC BIG. These figures are based on the size of the populations.

Figure 1: Cost of a SADC BIG

Source: Calculations based on IMF Economic Outlook database

Scenario analysis

As already highlighted, five scenarios were analysed for the purpose of this paper for all 15 SADC countries to demonstrate cost and/or affordability levels. Full details of the estimates are contained in Annex 1. The proposed amount of US$15 (Scenario 2) was regarded as the maximum that the majority of the individual countries could afford if the cost of a BIG is limited to the 3%-5% of GDP threshold.[32] 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

31 Deviations from parity imply differences in purchasing power of a 'basket of goods' across countries, which means that for the purposes of many international comparisons, countries' GDP or other national income statistics need to be 'PPP-adjusted' and converted into common units.

32 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.

was proposed by the South African BIG Coalition in 2001). At this amount, analysis undertaken for the Taylor Commission[33] 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.[34]

33 In 2001 the government set up a Committee of Inquiry into a Comprehensive System of Social Security for South Africa, chaired by Professor Vivienne Taylor. The Committee was mandated to conduct research and to advise government on a social security policy reform process. This involved, among other things, examining the poverty problem in South Africa; looking at the current social security system, including existing social grants; and making recommendations for reform. In May 2002 the Committee released its consolidated report (Taylor Report), in which the critical role of the right of access to social security and assistance for reducing poverty was highlighted.
34 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.

While this amount could be considered to be too small to have any significant effect, the empirical evidence arising from the Namibian BIG Pilot at Otjivero attests to the rapid impact of such a scheme on a community.[35]
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 observed 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 (see Table 2).

35 See http://www.bignam.org/.

Table 2: Comparative Analysis of Effect of a US$15 SADC BIG on Households

Country	Population (millions) 2012[1]	Population living below $1.25 PPP per day (%) 2011[2]	Number of households taken out of destitution
Angola	20.82	54.30	2 826 315
Botswana	1.90	--	--
Democratic Republic of Congo	76.99	59.20	11 394 668
Lesotho	1.91	47.59	226 766
Madagascar	22.97	67.80	3 893 415
Malawi	17.11	--	--

Country	Population (millions) 2012[1]	Population living below $1.25 PPP per day (%) 2011[2]	Number of households taken out of destitution
Mauritius	1.30	--	--
Mozambique	22.91	60.00	3 436 050
Namibia	2.17	--	--
Seychelles	0.09	0.30	70
South Africa	51.81	17.40	2 253 779
Swaziland	1.09	78.59	214 747
Tanzania	48.09	67.90	8 162 599
Zambia	14.26	--	--
Zimbabwe	13.12	--	--

Source: Author's calculations based on World Bank Development Indicators and IMF Economic Outlook Database data

Note: -- missing data

Scenarios 3-5 are 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.

Taxation from extractives and revenue considerations

Fundamentally, fiscal policy shapes the environment in which trade and investment take place. Central to the current economic development agenda, taxation should provide the stable flow of revenue to finance numerous development priorities both physical and socioeconomic, such as strengthening physical infrastructure or social protection measures, among others.

In Africa, a significant share of the tax revenue increase stems from natural resource taxes while non-resource-related revenue has increased by less than 1% of GDP over 25 years.[36] During 2008-2011, there was an increase in share of resources tax to total tax collection from 35% (2000-2004) to 40% and in 2011 resource taxes accounted for half the increase in tax collection.[37] This is also affected by the low levels of formal employment in these countries, partly due to the relatively low levels of industrialisation that restrict the creation of decent jobs.

Despite the revenue increases, a major challenge for African countries is finding the optimal balance between a tax regime that is sufficiently business and investment friendly that can still leverage enough revenue for public service delivery to address the legal and developmental obligations to the people.

A review of reforms undertaken in Africa since 1990 reveals that competition among developing countries for foreign investment in the mining sector saw the governments of many resource-endowed African countries scaling down corporate income tax liabilities and royalty rates and providing more specific fiscal allowances aimed at reducing the general tax liabilities of mining sector operators. Other duties such as mineral duties, import duties and foreign exchange tax that prevailed and contributed significantly to government revenue were either reduced or completely scrapped.[38] In effect, these reforms were undertaken as a measure to create a favourable investment climate but in effect they have meant that a state's capacity to raise revenue is curtailed and this has hampered national development.

With increasing recognition and pressure for the need for Africa to reduce its dependence on external financial aid and mobilise its own revenue streams to finance its own development, the perception exists that government revenue from mining in many African countries is not fully optimised. This is as a result of overgenerous fiscal incentives, corruption, and lack of transparency that has gone unchecked.

This perception has led to calls for more tax policy reforms. To achieve an optimal tax mix, African policymakers are challenged by the need to balance the following imperatives:[39]

- mobilising domestic resources and broadening the tax base to secure steady revenue streams for development financing and diversifying the revenue source
- fighting tax evasion, spurred by tax havens, regulatory weaknesses, and some corporate practices
- improving the investment climate for enterprise development, largely shaped by the tax regime
- promoting good governance, underpinned by effective taxation that promotes the accountability of governments to citizens and the investment community

Box 1 provides a case study of the distribution of the resources of the proceeds of natural gas in Mozambique, as articulated by the Centre for

36 Pfister, M. 2009. Taxation for investment and development: an overview of policy challenges in Africa. Background paper for the Ministerial Meeting and Expert Roundtable of the NEPAD-OECD Africa Investment Initiative, 11-12 November 2009. http://www.oecd.org/investment/investmentfordevelopment/43966821.pdf

37 Figures provided by Chiminya J (Tax Justice Network Nairobi) during a presentation at the SADC BIG Key Experts meeting organised by SPII, 29 August 2013.

38 Twerefou, D.K. 2009. Mineral exploitation, environmental sustainability and sustainable development in EAC, SADC and ECOWAS regions. Work in Progress No. 79. African Trade Policy Centre (ATPC). Addis Ababa: Economic Commission for Africa.

39 Ibid.

Public Integrity.[40]

Box 1. LET'S MAKE THE RESOURCES WORK FOR US: Time to call multinational corporations (MNCs) into order

'Natural gas is said to be Mozambique's future, but the first gas project, Pande Temane, has generated virtually no government revenue. By removing production sharing from the petroleum agreement and agreeing to an abusive pricing formula, the government gave away most of its share at the start. Aware of these unfair terms, MIREM, the IMF and the World Bank still forecast substantial government revenues that have never arrived. The annual sale value of Mozambique gas in South Africa is now more than $800 million per year while total government revenue over the first eight years of the project is less than $50m.' (Centre for Public Integrity)

It is now the time to call governments to act. SADC member states should:[41]

- plug illicit flows of income from extractives (US$64 billion leaving Africa annually)
- reform extractives concessions and abolish harmful tax incentives

scale up transparency in managing foreign direct investment

end tax evasion

end secretive mining deals

demonstrate political will to promote nationalisation processes where applicable

Sources: Centre for Public Integrity and Communique of the 9th People's Summit

Caution about the Exploitation of Mineral Resources

As already highlighted, Africa's vast mineral resources could transform social and economic development. However, caution needs to be taken in the manner in which this is achieved. Cognisant of this, African Heads of State at the February 2009 African Union (AU) summit following the October 2008 meeting of African ministers responsible for Mineral Resources Development adopted the Africa Mining Vision (AMV) which sets out a compelling agenda for change.

The AMV advocates thinking outside the 'mining box' to ensure the improvement of mining regimes by making sure that tax revenues from mining are optimised and that the income is well spent; this also ensures that mining is integrated more effectively into development policies at local, national and regional levels.

Accordingly, this suggests a commitment to consider how mining can contribute more actively to local development by ensuring that workers and communities see real benefits from large-scale industrial mining and that their environment is protected. This also means ensuring that nations are able to negotiate contracts with mining multinationals that generate fair resource rents and stipulate local inputs for operations. At the regional level it means integrating mining into industrial and trade policy.[42]

While such efforts are noble, it is important to note that as countries put their efforts into poverty reduction and the performance of and framework for the mining sector, consideration and caution should be exercised on both the opportunities and risks for the poor that will evolve in the context of mining operations. The goal is to design appropriate interventions and frameworks that maximise the positive impact on poverty reduction from mining.[43] Box 2 below puts into perspective points to consider when it comes to mining and poverty reduction. These include potential positive impacts affecting the poor or other vulnerable groups.[44]

Box 2. MINING AND POVERTY REDUCTION: issues for consideration[45]

Potential positive impacts affecting the poor or

40 The Centre for Public Integrity is a not-for-profit organisation dealing with extractives justice based in Mozambique. It is part of the SADC BIG Coalition.

41 Except taken from the Communiqué from the 9th People's Summit, 17 August 2013. http://www.safpi.org/news/article/2013/reclaiming-sadc-people-s-development-9th-people-s-summit-communique.

42 Africa Mining Vision. http://www.africaminingvision.org/about.html

43 World Bank: Oil, Gas Mining Unit. http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20246101~menuPK:509392~pagePK:148956~piPK:216618~theSitePK:336930~isCURL:Y,00.html

44 Ibid.

45 Summary taken from World Bank: Oil, Gas Mining Unit (Ibid).

other vulnerable groups

Mining can contribute to poverty reduction in a variety of ways, mostly through generating income and through creating opportunities for growth for lateral or downstream businesses.

- **Fiscal impact and foreign exchange income:** Commercial-scale mining can be an important source of foreign exchange and fiscal receipts for governments. When managed well, the net foreign exchange and taxes generated by mining can be used by governments as an engine for overall economic growth and as a source of financing to support national budgets for social-sector and poverty-reduction programmes. Substantial fiscal impact from mining can be found in countries such as Chile, Mexico, Peru, Botswana, Ghana, South Africa, and Papua New Guinea.
- **Income generation:** Small-scale mining provides employment for about 13 million workers and their families worldwide, in particular in countries such as Bolivia, Brazil, Colombia, Tanzania, Burkina Faso, Ghana, Congo Republic, India, Indonesia, and China. Commercial-scale mining provides employment and skills transfer to workers and can also be an important source of social services to remote communities. All forms of mining can be accompanied by the growth of small and microenterprise activity, providing supplies and related services to mining companies, miners, and their families and generating substantial further incomes.
- **Local economic development:** Large mining operations can be established to invest substantially in local economic development through providing training, public services such as education and health and public goods, such as clean water, transport, energy and infrastructure.
- **Source of energy:** In countries with large coal resources such as South Africa, India, and China, coal is an important source of energy contributing to economic growth. In countries with severe winters such as Russia, Ukraine, Mongolia, and Kazakhstan, coal provides a lifeline for heating. (See section on energy.)
- Potential negative impacts affecting the poor or other vulnerable groups
- Mining as well as the cessation of mining where it has become uneconomic can also be a cause of poverty or adversely affect the living conditions of the poor and other vulnerable groups.
- **Environment:** Environmental damage can be caused by both small-scale and large-scale mining. Water pollution, water quantity, tailing management, noise, dust, and land disturbance are issues that can adversely affect the health and livelihood of the poor and vulnerable groups with little mobility or means of alleviating negative impacts.
- **Health and human development:** The often harsh living conditions for miners in small-scale as well as in large-scale mining, along with the lack of information and education about prevention, can contribute to a high prevalence of human immunodeficiency virus (HIV) and other communicable diseases among miners and their families. Also, work-related injuries and health risks, lung cancer for example, reduce the miners' life expectancy and often put families in particularly precarious situations.
- **Governance, macroeconomic management, and corruption:** Mineral-dependent economies are often more prone to governance and corruption issues than non-mineral-dependent economies. Also, negative consequences of macroeconomic mismanagement may be harsher in the context of mining than in a non-mining economy: the presence of mining will inflate wages and keep the exchange rate strong, which can prevent other sectors, for example agriculture, from being internationally competitive and thus from realising the opportunity for export-driven growth. The costs of macroeconomic mismanagement are high, given the often substantial fiscal revenue from mining, particularly when considering that these natural resources are non-renewable.
- **Sociocultural impact:** Mining activities can have a negative impact on the livelihood of indigenous people with sociocultural conflicts surrounding the establishment of mining activities in otherwise rural areas or in the 'wilderness'.
- **Economic development:** The higher incomes of mine workers can lead to rising local prices – with the poor left behind. Simultaneously, the poor and non-mining population may have only limited

access to services provided by the mine.

- **Barriers to economic restructuring and mine closure:** Large losses by state-owned mining industries, especially coal mining, have been a significant barrier to economic restructuring and recovery, especially in Eastern Europe and the former Soviet Union. Closure of noneconomic mines has contributed to poverty, especially in mono-industry communities and mineral-dependent regions. In addition to the loss of jobs among the local population essential public goods and services originally provided by the mining company, for example transport and water, cease to be delivered, with particularly harmful effects on the poor and other vulnerable groups. Mine closures have also affected other countries such as Zambia, Bolivia, Namibia, and the Philippines.

Thoughts on Alternative and Complementary Financing

While there is reasonable justification to fund a SADC BIG solely through proceeds from taxes on extractives, it is also necessary to acknowledge that reliance on just one revenue source (i.e. only from extractives) may spell the doom of SADC BIG finances and it is therefore imperative to consider alternative and complementary financing sources. This section is in no way able to provide a comprehensive analysis of all possible resources but provides some insights into other potential sources that governments can explore in their quest to provide adequate financial resources for a SADC BIG. Amongst the sources of potential revenue we discuss the following:

Capital Gains Tax

A capital gains tax (CGT) is a tax on capital gains which arises when a person disposes of an asset for proceeds that exceed its base cost.[46] The most common capital gains are realised from the sale of stocks, bonds, precious metals and property. It is important to note that not all countries implement a capital gains tax and most have different rates of taxation for individuals and corporations. For SADC, this is a potential revenue source that is worth considering, especially where CGT is absent. The absence of a capital gains tax creates incentives for wealthy individuals to create schemes that convert other forms of income into artificial capital gains. This is both economically inefficient and costly in terms of foregone income tax revenue.[47] In the South African context, preliminary analysis prior to the introduction of a CGT in 2001 indicated that a CGT had the potential to increase total revenue by between R5 billion to R10 billion including both direct CGT plus indirect revenue effects resulting from eliminating inefficient tax arbitrage.

Carbon tax

SADC currently provides a safe haven for carbon-intensive companies with historically low electricity prices based on large-scale, cheap coal and hydroelectricity. In many ways not taxing something is equivalent to subsidising it. In the absence of a price on greenhouse gas emissions (and conversely carbon in its non-combusted form), carbon-intensive production and exports receive a de facto subsidy. A tax on carbon would be a way to tax a form of 'rent' (or excess profit) that currently goes to carbon-intensive users.

A carbon tax would also represent an additional source of revenue, not previously budgeted for. The extent of carbon tax revenues could be significant. If a tax covers 400Mt CO_2 of the country's overall annual emissions at a rate of US$7.5/tonne of CO_2, annual revenues would amount to US$3 billion.[48]

Carbon Banking

Another way for SADC countries to raise revenue is by trading on the carbon market. Carbon finance is a new branch of environmental finance that explores the financial implications of living in a carbon-constrained world in which emissions of carbon

46 SARS 2013. [online]: http://www.sars.gov.za/Tax-Types/CGT/Pages/default.aspx

47 Samson, M. Babson, O. Haarmann, C. Haarmann, D. Khathi, G. Mac Quene, K. van Niekerk, I. 2001. The Fiscal Impact of a Basic Income Grant in South Africa, paper submitted to the Committee of Inquiry for Comprehensive Social Security, EPRI

48 Infrastructure Dialogues, 2012. [online]: http://www.infrastructuredialogues.co.za/wp-content/uploads/2012/10/Sovereign-Wealth-Fund-discussion-paper.pdf

dioxide and other greenhouse gases (GHGs) carry a price.

The World Bank Carbon Finance Unit (CFU) is an example that uses money contributed by governments and companies in Organisation for Economic and Cooperation Development (OECD) countries to purchase project-based greenhouse gas emission reductions in developing countries and countries with economies in transition. The emission reductions are purchased through one of the CFU's carbon funds or facilities on behalf of the contributor and within the framework of the Kyoto Protocol Clean Development Mechanism (CDM) or Joint Implementation (JI).[49] CDM allows the offset of emissions in developed countries by the investment in emission reduction projects in developing countries. JI is another mechanism that allows investments in developed countries to generate emission credit for the same or another developed country.

Increase in Sin Taxes

In an effort to promote a healthy lifestyle, to reduce smoking and alcohol abuse, among others, countries globally have been increasing excise taxes on tobacco and alcoholic products, more commonly referred to as 'sin taxes'. Cognisant of the fact that the trend of increasing taxes on such products will be with us for a while, channelling this additional revenue to a pool of funds specifically aimed at social protection can go a long way in complementing other revenue sources.

Funding vehicle and administration mechanisms: The sovereign wealth fund

While the discussion at this point has been about a SADC BIG as a way of reducing poverty and promoting sustained human capital development, the question that remains to be answered is how such a scheme could be managed. In the event that mining rents will be imperative to financing such a scheme, sovereign wealth funds (SWFs) offer themselves as a possible funding vehicle option.

By definition a sovereign wealth fund is a state-owned investment fund that invests globally in order to achieve objectives generally relating to intergenerational wealth, industrial policy, the management of state assets and/or monetary policy. Depending on the extent to which it also invests in infrastructure bonds in developing nations, it can also be called a 'sovereign development fund'.[50]

SWFs have emerged as ways to actively manage foreign reserves accumulated from commodity sales or strong exports especially in oil exporting countries including Libya, Nigeria, and Chad. African SWFs were first pioneered in 1993 by Botswana (Pula Fund) and Ghana (Minerals Development Fund).[51] To date, close to about 20 SWFs exist in the continent with Zimbabwe being the most recent country to consider the establishment of a SWF.[52] Among the five largest African SWFs, four are resourced from oil and gas revenues while the last is resourced from proceeds from diamonds, minerals and other natural resources. These funds were by and large established on the initiatives of national governments, with the notable exception of Chad's Future Generation Fund. The establishment of this particular fund was a requirement of the World Bank to establish a petroleum revenue management law in Chad as a condition to disburse a loan aimed at funding the Duba oil fields and the Chad-Cameroon pipeline.[53]

49 World Bank Climate Change Brief [online]: http://www.worldbank.org/en/topic/climatechange/brief/world-bank-carbon-funds-facilities

50 Balin, 2008. Sovereign Wealth Fund: A critical path. The Johns Hopkins University School of Advanced International Studies (SAIS), Washington DC 20036, USA. [online]: https://jscholarship.library.jhu.edu/bitstream/handle/1774.2/32826/Sovereign%20Wealth%20Funds%20A%20Critical%20Analysis%20032008.pdf

51 Triki, T. Faye, I. 2011. Africa's Quest for Development: Can Sovereign Wealth Funds help? Working Paper No. 142, African Development Bank (AfDB). Tunis. [online]: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/WPS%20No%20142%20Africas%20Quest%20for%20Development%20%20Can%20Sovereign%20Wealth%20Funds%20help%20AS.pdf

52 Personal calculations

53 Triki, T. Faye, I. 2011, ibid

While SWFs have gained popularity over the years, they are not without their own problems. One of the reasons for the controversy surrounding SWFs is the potential for opaque governance of significant amounts of public money. Funds differ markedly in the extent to which investment mandates, investments and returns are open to public scrutiny. Another reason is the degree to which SWFs that are funded by excess reserves diverge from traditionally conservative central bank management through higher-risk approaches.[54] Furthermore, there are concerns about the possibility that SWFs may threaten national security in recipient countries if investments are made for strategic or political rather than for economic purposes. Such a scenario would trigger a protectionist backlash that could have disastrous effects on the world economy.[55]

The African Development Bank (AfDB) proposes that to fully benefit from their SWFs, there is a need for African economies to:

- clarify SWFs' roles, objectives and responsibilities as suggested by the fiscal transparency and reserve management guidelines established by the IMF
- carefully synchronise deposits and drawdowns from commodity-based SWFs with the country's income accruing from the sale of non-renewable natural resources in order to ensure that revenues are set aside to stabilise the country's fundamentals should resources be exhausted
- implement strong corporate governance structures to make sure that resources are well managed and that SWFs' investment strategies are supporting the country's macroeconomic policies and development plans [56]

Conclusion and way forward

Given the limited revenue for national coffers deriving from extraction in the subregion due to generous tax incentives and poorly negotiated concessions, we strongly believe that the extractives industries in SADC can provide the main revenue source to finance a SADC BIG. The fact that in the past two decades more revenue from extractives has left the continent through illicit flows, smuggling and corruption than revenue coming in to the region from external aid makes a compelling case that Africa and more specifically SADC can finance its own development. The continent and the SADC region are rich in natural resources and, given the appropriate infrastructure including human capacity potential, the opportunity exists to provide social protection in the form of a SADC BIG. For such a system to work, however, there is need for political will, a transparent accounting system of concessions, and agreements concluded in the extractives sector.

Substantial commitment of fiscal resources is required to finance a SADC BIG estimated to have a net cost of US$54 billion annually which is about 5.2% of the SADC GDP. Given these financial resource requirements we strongly believe that through a well-managed programme the SADC BIG is affordable and that SADC's mineral wealth has the potential to finance the entire cost of the programme without recourse to deficit spending.

To finance such a scheme there is need for Africa to improve taxation that goes beyond reaching competitive tax rates. It requires governments to strike a balance between providing solid taxation governance structures and improving domestic resource mobilisation. In this way governments can attract investors while being able to offer public provisions financed through tax revenues and promote Africa on the development ladder.

Civil Society Engagement:

The viability of a universal basic income grant has been demonstrated and further research is required to boost existing work and to resume the lobbying and advocacy work calling for a SADC BIG. International lobbying with networks such as the Basic Income Earth Network would assist in strengthening access to international research.

It is however crucial that demands for social security reform is rooted in grass roots organisations, rather than being predominantly the calls from more specialised NGOs. This requires true collaboration across civil society, the production of accessible

54 Balin, 2008. Ibid
55 Ibid.
56 Ibid.

educational and mobilisation materials and the hosting of training workshops as well as brave and committed campaigners who are unflinching in their demands.

An advocacy strategy that has not yet been used in respect of the call for a Basic Income Grant is the use of constitutional litigation around the failure of the state to advance adults of a reasonable working age's rights to social assistance. A reasonable policy remedy that could be advanced is certainly the idea of a BIG.

Way Forward

The work contained in this paper forms part of Phase 2 of the SADC Basic Income Grant Project. Throughout 2013 SPII worked on developing a campaign strategy for a SADC BIG based on empirically researched statistics. The need for econometric modelling was identified after SADC BIG Coalition members expressed a need for information and data to arm them in advocacy and lobbying interventions with their national and regional leaders. The analysis undertaken here forms the first modelling work that SPII is undertaking to strengthen the advocacy initiatives of the Coalition in order to set out in a clear and accessible manner the answers to the SADC BIG 'cost and affordability' questions at a national as well as a regional level.

Through a combination of new research, networking and support for campaign members' advocacy initiatives at a national and a regional level, SPII will continue to support a sustainable and effective campaign embedded in an active Coalition that vigorously pursues the call for the roll-out of a universal SADC BIG to all SADC residents.

Therefore, in going forward, SPII recognises the need for a more comprehensive econometric analysis of the impact of a SADC BIG. The groundwork of the costing modelling having been laid, in the forthcoming phase the modelling will look more closely at the redistributive effects of a SADC BIG. This will be done through the development of a combined micro-simulation and economic model. Existing models only examine the direct impacts of transfers but not the secondary effects on human development and economic restructuring in the medium- to long-term impact.

We note that the further comprehensive econometric modelling must be analysed on a national as well as a regional basis, leading to the production of accessible and appropriate campaign advocacy material for campaign members. We shall ensure that the models are set out and explained in campaign policy briefs that are accessible, and distributed to each member electronically for printing. We will also see to it that the briefs are used for advocacy purposes by each campaign member.

Let us all support the call for a SADC BIG – Our Right, Our Share, Our Wealth.

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Annex: Cost of a SADC BIG

Indicator		Ang	Bots	DRC	Les	Mad	Mal
2013	population (millions)	20.82	1.90	76.99	1.91	22.97	17.11
	GDP (PPP) USD (bn)	138.5	33.4	30.4	4.3	22.3	15.3
Scenario 1 USD 0.33/day	Cost/yr USD (bn)	2.51	0.23	9.27	0.23	2.77	2.06
	Cost as % GDP (PPP)	1.8%	0.7%	30.6%	5.4%	12.4%	13.5%
Scenario 2 USD 0.5/day	Cost/yr (USD bn)	3.80	0.35	14.05	0.35	4.19	3.12
	Cost as % GDP (PPP)	2.7%	1.0%	46.3%	8.1%	18.8%	20.4%
Scenario 3 USD 1/day	Cost/yr USD (bn)	7.60	0.69	28.10	0.70	8.38	6.25
	Cost as % GDP (PPP)	5%	2%	93%	16%	38%	41%
Scenario 4 USD 1.25/day	Cost/yr USD (bn)	9.50	0.87	35.13	0.87	10.48	7.81
	Cost as % GDP (PPP)	6.9%	2.6%	115.7%	20.3%	46.9%	51.0%
Scenario 5 USD 2/day	Cost/yr USD (bn)	15.20	1.39	56.20	1.39	16.77	12.49
	Cost as % GDP (PPP)	11.0%	4.1%	185.2%	32.5%	75.1%	81.7%

(Footnotes)

1 IMF Economic Outlook Database accessed August 2013

2 World Bank Development Indicators (2012).

Mau	Moz	Nam	Seyc	RSA	Swaz	Tanz	Zam	Zim	SADC -15
1.30	22.91	2.17	0.09	51.81	1.09	48.09	14.26	13.12	296.54
21.3	28.93	17.7	2.4	608.8	6.3	80.3	26.3	7.7	1 043.95
0.16	2.76	0.26	0.01	6.24	0.13	5.79	1.72	1.58	35.72
0.7%	9.5%	1.5%	0.5%	1.0%	2.1%	7.2%	6.5%	20.4%	3.4%
0.24	4.18	0.40	0.02	9.46	0.20	8.78	2.60	2.39	54.12
1.1%	14.5%	2.2%	0.7%	1.6%	3.1%	10.9%	9.9%	31.0%	5.2%
0.48	8.36	0.79	0.03	18.91	0.40	17.55	5.21	4.79	108.24
2%	29%	4%	1%	3%	6%	22%	20%	62%	10%
0.59	10.45	0.99	0.04	23.64	0.50	21.94	6.51	5.98	135.30
2.8%	36.1%	5.6%	1.7%	3.9%	7.9%	27.3%	24.8%	77.4%	13.0%
0.95	16.72	1.59	0.07	37.82	0.80	35.10	10.41	9.57	216.48
4.5%	57.8%	8.9%	2.8%	6.2%	12.6%	43.7%	39.6%	123.8%	20.7%

Notes

OSISA
Open Society Initiative
for Southern Africa

The Open Society Initiative for Southern Africa (OSISA) is a growing African institution committed to deepening democracy, protecting human rights and enhancing good governance in southern Africa. OSISA's vision is to promote and sustain the ideals, values, institutions and practice of open society, with the aim of establishing a vibrant southern African society in which people, free from material and other deprivation, understand their rights and responsibilities and participate democratically in all spheres of life.

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SADC
Poverty alongside mineral wealth:

The case for a universal basic income grant

Taku Fundira

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