

The Basic Income Grant in Namibia

Resource Book



Edited by Claudia & Dirk Haarmann

The Basic Income Grant in Namibia Resource Book

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Abbreviations

ARV	Antiretroviral (ARV) Treatment
BIG	Basic Income Grant
CCN	Council of Churches in Namibia
DfSD	Desk for Social Development (ELCRN)
ELCRN	Evangelical Lutheran Church in the Republic of Namibia
EPRI	Economic Policy Research Institute, South Africa
HANIS	Home Affairs National Identity System, South Africa
MDG	Millennium Development Goals
NAMTAX	The Namibian Tax Consortium
NANASO	Namibia Network of AIDS Service Organisations
NANGOF	Namibian NGO Forum
NDP2	Second National Development Plan
NGO	Non Governmental Organisation
NUNW	National Union of Namibian Workers
SACU	Southern African Customs Union
STD	Sexually Transmitted Disease
TB	Tuberculosis
VAT	Value Added Tax

Introduction

In recent months, the Basic Income Grant proposal has generated an overwhelming response in Namibia, and the launch of the Basic Income Grant Coalition has added further public debate. This resource book is compiled in order to inform policy makers and civil society role players about the background and the details of the proposal for a Basic Income Grant in Namibia. In addition, it provides the results of research of the social, economic and financial implications of a BIG in Namibia.

The first section of the book documents the launch of the Basic Income Grant Coalition. The Council of Churches, the National Union of Namibian Workers, the National NGO Forum, the Namibian Network of AIDS Service Organisations, the Legal Assistance Centre, and the Labour, Resource and Research Institute committed themselves to the common platform on April 27th 2005. The platform of the coalition as well as the speeches at the launch of Bishop Dr. Z. Kameeta (Evangelical Lutheran Church in the Republic of Namibia (ELCRN) and Vice President of the Council of Churches in Namibia (CCN)), Mr. P. Naholo, Acting General Secretary of the National Union of Namibian Workers (NUNW), and Mr. S. Tjaronda, Chairperson of the Namibian NGO Forum (NANGOF), are published in this first section.

The second section explains the underlying concept of the Basic Income Grant. Crucial questions of understanding and clarification are addressed in order to form the basis for an informed debate about the concept.

The third section introduces the key passages of the findings and recommendations made by the Government appointed Namibia Tax Consortium (NAMTAX). In 2002 the tax consortium "*found that by far the best method of addressing poverty and inequality would be a universal income grant [= Basic Income Grant]*" (NAMTAX, 2002:60). This research is crucial as it lays the foundation on the basis of which the churches, unions, NGOs and AIDS Service organisations have now formed the coalition to join hands with Government to see that this proposal can be implemented effectively.

The fourth and fifth sections provide relevant results stemming from social and economic analysis. The fourth section by Dr. C. and Dr. D. Haarmann is based on a Microsimulation Model modelling the developmental impact of a Basic Income Grant on poverty and inequality. The fifth and final section by Prof. M. Samson and Ms. I. van Niekerk

This resource book is compiled in order to inform policy makers and civil society role players about the background and the details of the proposal for a Basic Income Grant in Namibia.

Introduction

calculates the costs of the Basic Income Grant and its various financing options. Based on a comparative international Tax Effort Analysis, the affordability given Namibia's current economic capacity is assessed. This section concludes by looking at likely second round effects on Namibia's economy if a Basic Income Grant is to be introduced.

Section 1: The Basic Income Grant Coalition



NANGOF
Namibia NGO Forum



A Basic Income Grant for Namibia

We the undersigned organisations have resolved the following:

- We note that Namibia has extremely high levels of poverty and the highest incidence of income inequality in the world. The reduction of inequality and of poverty needs to be addressed as a top priority because social justice is a prerequisite for economic growth and investment in Namibia.
- We note that poverty is a contributing factor to the spread of HIV/AIDS and is thereby undermining economic security, and, at the same time exacerbating poverty. Consequently that means we need to address poverty and HIV/AIDS together.
- We resolve that the Basic Income Grant is a necessity to reduce poverty and to promote economic empowerment, freeing the productive potential of the people currently trapped in the vicious and deadly cycle of poverty.

Therefore:

- We agree that every Namibian should receive a Basic Income Grant until she or he becomes eligible for a government pension at 60 years.
- The level of the Basic Income Grant should be not less than NS 100 per person per month.
- The Basic Income Grant should be an unconditional grant to every Namibian.
- The costs for the Basic Income Grant should be recovered through a combination of progressively designed tax reforms.

We the undersigned organisations committed ourselves to working together with all stakeholders to make the Basic Income Grant a reality in Namibia. We invite and call upon all stakeholders to join our effort and to become a member of this coalition.

Umbrella organisations:

- *Council of Churches in Namibia (CCN)*
- *Namibian NGO Forum (NANGOF)*
- *National Union of Namibian Workers (NUNW)*
- *Namibia Network of AIDS Service Organisations (NANASO)*

Individual organisations:

Legal Assistance Centre (LAC); Labour Resource and Research Institute (LaRRI)

1.1 Bishop Dr. Z. Kameeta (ELCRN-CCN)¹



Honourable Guests, and distinguished Speakers,
dear Comrades, dear Sisters and Brothers,

I would like to greet you with the words from our
Lord Jesus Christ taken out of Mt 7,16:

*You will know them by their fruits. Are
grapes gathered from thorns, or figs
from thistles?*

This, for me, is a challenge we are facing in Na-
mibia today. Can we as churches and government,
in fact as Namibians deliver real fruits? The hun-
gry farm worker, the orphaned child on the street
indeed know that *grapes are not gathered from
thorns, and figs not from thistles.*

To me this serves as a challenge and an encour-
agement as a leader of a member church of the

Council of Churches, to be part of the Basic Income Coalition which
will be launched today. The introduction of a Basic Income Grant, a
benefit of at least N\$100 to every Namibian citizen will be an impor-
tant and concrete step towards bearing fruits for our people.

I am convinced that a Basic Income Grant will bear fruits in more than
one way, and not only in the form of urgently needed food on the table
of the hungry. In Namibia we have come a long way to fight colonial-
ism and apartheid, one of the worst forms of dehumanisation of a
whole people; where you were supposed to say, “Yes Baas” or “Yes
Missis” and then “they” decided whether you and your children got
some pap at the end of the day. We are proud to have been fighting
this, to have won the struggle and to have ended this dehumanising
nonsense once and for all. We are proud to say, that this will never be
accepted in Namibia again and that reconciliation is becoming a real-
ity, especially within the context of the CCN.

We have come a long way, but we still have a long road ahead of us:
We need to overcome the deadly circle of poverty, which still forces
people into dependency, which forces them to bow their heads in order
to get some crumbs from the table.

I know that there are lobby groups in Europe and America who rally
against social security systems based on cash grants. They are claim-
ing that actual money to the poor would create dependency. But
firstly, they speak of systems, where you lose your benefit the moment
you start to work - and this is not the case with the BIG. The BIG is an
unconditional grant for every Namibian whether you are working or
not, you will receive this Basic Grant. Only if you earn above a certain
amount, you will be required to pay back the grant through the tax
system and to contribute towards the cost. This approach ensures that

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people.***

there is no dependency on the grant, but instead it creates incentives to become economically active. Secondly, and this is most important, the opponents seem to assume that the poor they speak about are free to act and to make choices. When people argue like this, they prove that they don't know what it means to live in poverty. Poverty is a trap, it is the ultimate state of being dependent, it is a stage where you do not have a choice and the freedom to act:

- Mothers are forced to enter into abusive and exploitative relationships to secure a roof over their heads for their children and end up contracting HIV,
- people who are sick, cannot afford the travel expenses to the next clinic, but stay at home to suffer and die,
- people are forced to sell their houses, because they can no longer pay the bills for the water they need to drink,
- after a hard day's work, you cannot sleep because you don't know how you and your family will make it through the next day.

These are situations where you are trapped in dependency! This is where the economy breaks down, where every child on the street knows that *grapes are not gathered from thorns, and figs not from thistles*.

A Basic Income Grant will not be a panacea. For example, I am convinced that we will still need to change the system where we charge horrendous amounts for a basic necessity like water! The Basic Income Grant will fight dependency that is created by abject poverty. A BIG will give meaningful financial security to the majority of people, enabling many - for the first time in their lives - to part take in the economy.

We know, that poor people have to carry a disproportional, a much higher burden to assist their extended families than people from the formerly privileged communities. A Basic Income Grant will not only be a tool of restoring some social justice, but it will free productive potential towards economic empowerment.

Furthermore, if we want the ARV roll-out to succeed, which we so urgently need, so that the parents of today - the economically productive people - are not dying away from AIDS, we need to have a Basic Income Grant: As with the TB treatment, you cannot take HIV treatment without having had something to eat before. A Basic Income will secure this minimum.

By doing all this, the Basic Income Grant will - by bearing fruits to the people - fight and reduce dependency created by the various and deadly faces of poverty.

The Basic Income Grant will fight dependency that is created by abject poverty.

If we want the ARV roll-out to succeed, we need to have a BIG.

The BIG poses important challenges to Government: To set-up the initial delivery system to each and every Namibian citizen.

What is the role of Government in this? To set up the Basic Income Grant poses important challenges to Government. One of the main challenges will be to set-up the initial delivery system to each and every Namibian citizen. This is not easy. But I am confident that our Government can manage that. In fact, I was proud to learn at last years Greiters' Conference that our payout system of Old Age and Disability Grants is technologically far more advanced than that of neighbouring South Africa. Our Government is able to manage the payouts at a fraction of the cost and has built a system, which reliably can service even the most remote areas of our country. So, with the Basic Income Grant, we do not have to start from scratch, but can build on this system.

The tax system needs to be redesigned to redistribute to the benefit of the majority.

The second challenge will be to revise our tax system. It needs to be redesigned in such a way that the money paid to those who do not need the support pay it back to the state. From the richer members of our country, it needs to be redistributed to the benefit of the majority. Government's NAMTAX commission has made a proposal how this could be done, and there are other options. The policies to implement this, need to be discussed and developed.

On behalf of our constituencies, we, the four umbrella organisations from the Unions, NGOs, AIDS Service Organisations and the Churches are joining hands and extend a joint and concrete proposal for poverty reduction to Government.

This is not going to be an easy road, but a bumpy one. In this process we therefore need the Basic Income Grant Coalition to keep the public support and not to lose focus. On behalf of our constituencies, we, the four umbrella organisations from the Unions, NGOs, AIDS Service Organisations and the Churches are joining hands and extend a joint and concrete proposal for poverty reduction to Government. It is our commitment to work together with Government, jointly - as we have fought colonialism and apartheid - *we will bear fruits, from which we will be known.*

Redistribution means sharing the fruits of this country more equally. This also means to give away, and the beginning of this process is always difficult. But as Martin Luther King said: "The Christian victory against oppression will be twofold: liberating the oppressed and at the very same time liberating the oppressor." I believe that the same holds for closing the gap between the rich and the poor. And therefore I am confident that together we can manage this. When you look to the posters on the side you will see the signatures of the CCN member churches

- churches from North to South
- churches from different church traditions.

This demonstrates to me that we can get support for the Basic Income Grant beyond ideological lines. This Coalition today here re-affirms this. While this has started off as a small initiative from the side of the church, it has grown into a big and joint conference with civil society and government, and now into a social movement comprising such a broad and diverse group of civil society organisations, joint in this ef-

fort, to work towards the implementation of the Basic Income Grant and to be judged by the fruits we deliver. I wish us all success in this venture! May the Lord Almighty guide us and protect us.

I thank you!

Bishop Dr. Z. Kameeta

(Bishop ELCRN)

1.2 Mr. P. Naholo (Acting General Secretary NUNW)²

Director of Ceremonies,
Your Worship Bishop Dr Kameeta,
Your Worship Bishop Shivute,
Director of NANGOF, Mr Tjaronda,
Government Officials,
Traditional Leaders,
Members of the Media,
Ladies and Gentlemen!

It is indeed a privilege for me to be with you today at the Launching of the Basic Income Grant Coalition. I am here before this esteemed gathering on behalf of the Namibian labour force under the banner of the NUNW, which is struggling to promote and defend the rights of working men and women, endeavouring to create social justice, equality as well as human rights and democracy.

Director of Ceremonies, I would like to declare from the very onset that the working -class in Namibia is firm and supportive of this noble initiative, which is aimed to introduce a policy on Basic Income Grant in our country. This is exactly in line with Vision 2030, NDP2 and the Millennium Development goals (MDGs).

As you may be aware, the Millennium Development Goals (MDGs), derived from the World Summits and Conferences during the 1990s were adopted by 189 nations in the Millennium Declaration in September 2000. The commitments to the goals were strongly reaffirmed by all the United Nations Member States, Namibia included, at the Johannesburg World Summit on Sustainable Development in March 2002. In the Millennium declaration global targets were set to help mobilize political commitments and to provide benchmarks for measuring progress in promoting human development and poverty reduction.



I would like to declare from the very onset that the working - class in Namibia is firm and supportive of this noble initiative, which is aimed to introduce a policy on BIG in our country. This is exactly in line with Vision 2030, NDP2 and the MDGs.

(...) viewed in the context of the MDGs there is really nothing untoward regarding the introduction and implementation of the BIG Scheme.

The point that I am trying to drive home is that when viewed in the context of the MDGs there is really nothing untoward regarding the introduction and implementation of the Basic Income Grant Scheme.

For instance, goal number one of the MDGs calls for the eradication of extreme poverty and hunger. Its target was to halve, between 1990-2015, the proportion of people whose income is less than US\$1 a day.

Furthermore, as a universally agreed agenda, MDGs bring unprecedented clarity to the shared responsibilities and objectives of all development stakeholders such as governments, international and civil society organisations and the private sector.

Under these premises we as a labour movement in Namibia, which is part and parcel of the civil society, will always remain firm and ready to embrace and support the struggle for social justice and economic emancipation. It has always been and remains our sacred belief that there will be nothing about us without us as workers. Therefore we have come out in our multitudes today to support this noble initiative (Basic Income Grant).

In view of the current onslaught on the job opportunities (...) the BIG would ultimately serve as a fall-back position for the re-trenched workers.

In view of the current onslaught on the job opportunities of our members whereby retrenchments and job losses are the order of the day, obviously the Basic Income Grant would ultimately serve as a fall-back position for the retrenched workers. When a worker is retrenched, it simply means loss of income. Loss of income means loss of hope. Without hope, life is shattered. Therefore, we need to provide hope for them, we must enable them to appreciate that there is always life after retrenchment.

However, it is highly disturbing that while we are pushing the agenda of poverty reduction the private sector is still sharpening the contradictions. They are designing policies, which have negative consequences for workers. This is contrary to the objectives of the MDGs. Retrenching people means increasing poverty instead of reducing it.

The private sector is really not helpful in these endeavours. Time has now come that they realise they have a role to play. They should no longer ignore the plight of the workers and therefore should help create decent jobs in response to the Global Call to Action Against Poverty.

With these few words, I thank you!

Peter Naholo

NUNW Secretary General (Acting)

1.3 Mr. S. Tjaronda (Chairperson NANGOF)³

Thank you Master of Ceremonies
Distinguished members of civil society
Colleagues and Compatriots,
Spiritual leaders,
Ladies and Gentlemen!

Today marks a very unique day in the calendar of the Republic of Namibia. Unlike other equally important days commemorated and celebrated in our country, today a conscious selfless pronouncement is delivered and a social movement is put in gear to seek redress on the plight of many Namibians languishing in abject poverty in rural areas and towns.



It is needless to mention that Namibia has and sadly so, the most unequal distribution of income in the whole world.

In fact Namibia can be classified as a dual country in terms of social and economic construction. My submission is that there is a dichotomy in terms of livelihood analysis in Namibia.

There is a highly impoverished dimension where people live on less than N\$6.00 per day on the one hand and a lavish wealthier fraction of society on the other. The latter is small but powerful and controls the economy of the country and natural resources. The fraction determines who exploits our resources, who gets opportunities such as government tenders and what types of jobs and wages are suitable for the majority.

This reality is compounded by a deceptive measurement being advanced to make the world believe all is going well and Namibia does not need support from the international community. And many of our leaders hide their shame by nodding their heads and pat each other for a job well done. I am not, however, surprised at these conclusions because many of them hear only from people about shack dwelling and have concluded that people that stay in these shacks desire to.

Through the goggles of per capita income; Namibia is classified as a middle-income country. As a result, many of the development partners particularly inter-national partners are leaving the country dumping the majority of citizens.

This is to me, ladies and gentlemen, a bone of contention. About two thirds of Namibians live below the poverty line.

Today a conscious selfless pronouncement is delivered and a social movement is put in gear to seek redress on the plight of many Namibians languishing in abject poverty.

This makes the reduction of inequality not only a justice issue but also a fundamental human rights issue. Poverty is the evil of the highest degree! It destroys people. It is a beast that inhabits in prejudice, assumption and attitudes.

Already as we discuss the Basic Income Grant in Namibia, many of you are holding tight to your purses thinking this is another scheme that will coerce you to part with your hard-earned cash.

The BIG is one of the measures we can and must use to re-distribute wealth to all Namibians.

Ladies and Gentlemen; The Basic Income Grant is one of the measures we can and must use to re-distribute wealth to all Namibians. It must be shameful to all development agencies in the world to continue to quote the current statistics on injustice and imbalance in people's livelihoods for the sake of "good reports" and fundraising intentions. We must move beyond talk shop to real workshop to be true architects of a world that creates positive reflections of the status of humanity by embracing not only the needs of citizens but engaging our whole being to seek solutions to their challenges.

Ladies and Gentlemen; The Basic Income Grant could not have come at a better time for Namibia. With the new administration of His Excellency President Hifikepunye Pohamba, the emphasis is on good governance and accountability of state and any other public funded agency including civil society. We need to embrace this bold stance of the President and the current government but go a step further to say, now that we will be making savings in public spending, it is time we invest more in sustainable livelihood for the citizens both on a short and long term basis. On a short term basis people need constant and reliable supply of food, which we in other words define as food security. The shortcomings with these concepts are that they create limiting images in our minds about how for instance food security should be achieved. You are sitting there and thinking food security must be connected to crop production and as a result you miss the crucial component of production-seeds, fertilizers, land, and labour. Where does one get the money to buy seeds and fertilizers?

Where does one get the money to buy seeds and fertilizers? (...) The truth of the matter is, the BIG will stimulate economic growth and activate Namibia's full potential to produce for subsistence and commercial purposes.

We are now here back from our short tour through livelihood lane to the basics. Let us think again.

How much more can it assist the people to achieve their dreams with a universal income like the Basic Income Grant, which can serve as a safety net, but sustainable income that is not attached to a means test.

I appeal to you all, peace-loving Namibians, to reach into your heart and support this noble cause. While the critics want us to believe that the Basic Income Grant is going to be a burden to the economy, the truth of the matter is, it will stimulate economic growth and activate Namibia's full potential to produce for subsistence and commercial purposes.

We all can contribute to a future we want our children and grandchildren to live in today.

I thank you.

Sandi Tjaronda

Chairperson of NANGOF

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- ¹ Speech delivered at the Basic Income Grant Coalition launch at the CCN Hall Katutura on April 27th 2005.
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Section 2: What is it all about? – The concept

2.1 What is the Basic Income Grant (BIG)?

A Basic Income Grant (BIG) is a monthly cash grant (e.g. N\$100) that would be paid by the state to every Namibian citizen regardless of age or income. The money, which is paid to people not in need, is recuperated through the tax system. The main benefit of the grant is its ability to improve everyone's life by eradicating destitution and reducing poverty and inequality.

2.2 Where does the idea come from?

The Namibian Tax Consortium (NAMTAX) made the proposal for a Basic Income Grant for Namibia in the year 2002. The consortium was asked to review the current tax system in Namibia. The proposal for a Basic Income Grant is part of their recommendations to redistribute income in Namibia.

The proposal recommends to pay a cash grant to every Namibian⁴. The Consortium has drawn on the debate in South Africa, where a wide range of groups - including the trade unions, NGOs, churches and a government's expert panel on comprehensive social security - have proposed a Basic Income Grant.

2.3 How would a BIG work?

Every Namibian would receive such a grant until s/he becomes eligible for a state pension at 60 years. In the case of children aged 17 or younger, the care-giver would receive the grant on behalf of the child. In practice this means that if there are 6 people living in a household and the level of the grant is set at N\$100, this household in total would receive N\$600,- per month from the state.

2.4 Why do we need a BIG?

About two thirds of all Namibians live below the poverty line. Furthermore, Namibia has the most unequal distribution of income in the

A Basic Income Grant (BIG) is a monthly cash grant (e.g. N\$100) that would be paid by the state to every Namibian citizen regardless of age or income. The money, which is paid to people not in need, is recuperated through the tax system.

If there are 6 people living in a household this household in total would receive N\$600,- per month.

whole world. The reduction of inequality - one of the greatest legacies of Colonialism and Apartheid - is not only a justice issue, but also has been identified as a prerequisite for economic growth and investment in developing countries.

2.5 Why do the rich qualify for a BIG? Shouldn't one rather target people who are most affected by poverty?

Classic welfare programmes using a means-test to target beneficiaries have been proven to be more expensive, wasteful and also ineffective to target people and to limit social assistances to specific groups and people. If targeting is applied by means of added administrative requirements - the poorest are actually those who are least likely to get benefit from the programmes, as they by nature are the most disadvantaged in terms of access to information, infrastructure, and administrative services provided. Instead, by giving a grant to everyone one is can be sure that all people in need receive support. The BIG is thereby self-targeting without having to rely on an administratively difficult means-test with adverse economic incentives.

The rich will be paying more in taxation than what they receive through the grant. They become net payers and income is effectively redistributed.

With a BIG the rich will at first also receive the grant. However, through adjustments in the tax system the money is gradually recuperated. The adjustments in the tax system are made in such a way, that middle-income earners will receive the grant, but at the same time their tax is increased so that they pay back the amount of the grant. The rich, however, will be paying more in taxation than what they receive through the grant. They become net payers and income is effectively redistributed. By doing so, social assistance becomes a right, not labelling people as poor, and at the same time an effective tool in redistribution.

2.6 What are the benefits of a BIG?

The main benefit of the grant is its ability to improve everyone's life by reducing poverty and inequality. All Namibians would benefit from the BIG and there would be nobody without a baseline support. Everybody would at least get some money to support him/herself. In addition, a BIG would redistribute income from the rich to the poor people in Namibia and by doing so would make Namibia a more just and equal society.

Research shows that an increase in income, also increases peoples capacity to look for work and also increases their chances of finding work. A BIG would therefore not only be a safety net but it would be more like a springboard for people to find jobs and earn money.

Furthermore, a BIG is a universal grant, that means that everybody receives it. It is not means-tested, people do not have to prove that they are poor or do not have a job. Means-tested grants penalise people for getting a job or earning money in other ways because they lose the grant if their income increases. Thereby through means-testing, well intended cash grants can become a poverty-trap creating dependency. On the contrary a BIG, as a universal grant, would not discourage people from looking for work but instead would enable people to get out of the vicious circle of poverty and look for work.

2.7 How much would a BIG cost and how would it be funded?

There are three basic options or a combination thereof, out of which a BIG can be funded:

First, adjustments in the income tax structure. Higher income earners would bear the cost in form of a solidarity levy to finance the benefit to the poor.

Second, the NAMTAX consortium proposed to fund the BIG through an increase of 6.5% in VAT. This would entail that people would pay more for their daily goods but at the same time would also benefit from the BIG. The model prepared by the consortium shows that 85% of the people would benefit more from the BIG than paying more on daily goods. The increase in VAT would finance the BIG by making rich people pay for it, hence it would distribute income more fairly in society. In addition, one can think of other funding methods, like increasing taxes on luxury goods like cars, tobacco, alcohol etc.

Third, through reprioritization in the budget.

2.8 How would people get the BIG?

The BIG could be paid out just like the other current grants. Ideally, the consortium proposed to use smart cards and fingerprint identification like they are used for some of the Old Age Pensions. In the long run, this is a cost-effective way and does not leave room for corruption. In the beginning, the setting-up of the system would need additional funding.

2.9 What are the disadvantages of the BIG?

The initial costs and the setting up of the delivery system are the main difficulties of the BIG in the beginning. However, once the delivery system is set up, the costs will go down. In addition, the BIG is likely to stimulate economic growth as people have more money to spend and to invest within the Namibian economy. This will not only improve the

Means-tested grants penalise people for getting a job or earning money in other ways because they lose the grant if their income increases. Thereby through means-testing well intended cash grants can become a poverty-trap creating dependency. On the contrary a BIG, as a universal grant, would not discourage people from looking for work but instead would enable people to get out of the vicious circle of poverty and look for work.

living standard of people but also increase the tax revenue of the government.

2.10 How can you prevent people from wasting the grant on alcohol, lottery tickets, etc.?

Honestly, you can't. You can also not prevent people who currently receive money from government from wasting their money. However, poor people cannot afford to waste their money and the majority of people use their money responsibly and wisely - the people themselves know what they need most. Namibia has the experience that the state pensions are- by the overwhelming majority - spent to the benefit of the poorest people in society, including grandchildren.

2.11 Are there better alternatives to a universal grant?

Following an extensive review of the relevant literature and an analysis of possible alternative strategies, the NAMTAX consortium found that by far the best method of addressing poverty and inequality would be a BIG (NAMTAX, 2002:60) There are alternatives, like only supporting children up to the age of 17. However, these alternatives are less effective and many people would still be left without any support. There are also more expensive alternatives, like 'workfare', which requires people to work in order to get support from government. However, these programmes are very expensive and are not able to reach all people in need. Other programmes of government like school feeding schemes etc. should not be seen as alternatives, but as being complementary.

2.12 Will people become dependent on the BIG?

Poor people are dependent on assistance from other people – relatives and friends who have some sort of income. A BIG gives people an income source of their own, which they can count on and which enables them to take their own decisions. It also lessens the burden on the working poor who currently have to support relatives and friends with their limited incomes. Therefore, a BIG in fact reduces dependency, freeing resources for economic investment.

Local and especially rural markets benefit greatly from these transfers as they have the potential to kick-start the economy in the underdeveloped rural areas. The Basic Income Grant, by providing a universal, stable, and continuous income source, has the highest developmental potential as the people can count on it and better plan their economic activities.

2.13 What is the BIG Coalition?

In September 2003, the Synod of the ELCRN stated that Namibia faces the problem of poverty and inequality. In this context, it welcomes the proposal of a BIG by the NAMTAX commission. It believes that a BIG has the ability to lift people out of poverty, enabling them to become economically active. Furthermore, it acknowledges that a BIG can facilitate the redistribution of wealth. The synod has made a resolution to work with the Namibian government to further investigate and implement this proposal. In November 2004, the ELCRN organised an international conference on income security where the idea of a BIG for Namibia was discussed between many different stakeholders, including churches, NGOs, and Government representatives. This conference resolved to launch a BIG coalition in Namibia. On April 27th 2005, the coalition was officially launched in Windhoek and the Council of Churches, the National Union of Namibian Workers, the National NGO Forum, the Namibian Network of AIDS Service Organisations, the Legal Assistance Centre, and the Labour, Resource and Research Institute are part of the coalition. The aim of the coalition is to work together with Government to make the BIG a reality in Namibia.

The aim of the BIG Coalition is to work together with Government to make the BIG a reality in Namibia.

⁴ The NAMTAX commission suggested N\$ 70 per person per month in 2002 and if only introduced after three to four years, the commission suggested a start of level of N\$ 100, excluding children under 6 (due to current registration problems).

Section 3: How it all started – Government's Namtax commission

Proposal for a Development Grant to the Poor Financed out of a Progressive Expenditure Tax on the Affluent⁵

3.1 Introduction

This appendix contains the Consortium's tax proposal to address the serious problem of poverty and income inequality in Namibia.

Following an extensive review of the relevant literature and an analysis of possible alternative strategies, we found that by far the best method of addressing poverty and inequality would be a universal income grant of at least N\$70 per month to all Namibians of six years and older. This grant is to be financed out of an increase in indirect taxes earmarked for a universal income grant.

Provided that an effective delivery system can be implemented, such a grant funded by an increase in indirect taxes will:

- Significantly reduce absolute poverty levels
- Significantly reduce the degree of inequality, bringing the Gini coefficient down from 0.68 to 0.60
- Target those most in need without requiring a complex administrative system
- Be sustainable and affordable without retarding economic growth
- Avoid the negative consequences of alternative strategies to transfer income from the rich to the poor.

We found that a universal income grant financed out of indirect taxes will effectively offer a progressive anti-poverty grant to the poor, and impose a progressive expenditure tax on the affluent.

Following an extensive review of the relevant literature and an analysis of possible alternative strategies, we found that by far the best method of addressing poverty and inequality would be a universal income grant.

3.2 The Problem

In terms of income distribution, Namibia is one of the most unequal societies in the world. (...) Namibia's Gini coefficient is thus the highest measured Gini coefficient in the world.

In terms of income distribution, Namibia is one of the most unequal societies in the world. Namibia's Gini Coefficient (a measure of inequality), is about 0.68. Income inequality is thus worse in Namibia than it is in Brazil and South Africa - two countries infamous for their high Gini coefficients of just above and just below 0.60. Namibia's Gini coefficient is thus the highest measured Gini coefficient in the world.

The Gini Coefficient measures a society's ratio of income inequality on a scale between 0 - 1. If all the country's income were earned by only one person, the Gini-coefficient of the country would be 1. If all income were equally distributed, the Gini coefficient would be 0. The higher the coefficient between 0 and 1, the more unequally the society's income is distributed. With a Gini coefficient of 0.68 and a per person annual expenditure of N\$9,735 it can be shown that the expected difference between the annual expenditure of any two randomly drawn individuals would be as much N\$13,240.

In addition to the extreme disparities in income distribution, Namibia has a very serious problem of poverty. It is obviously important for a government to try to address this problem in a way that is sustainable, encourages investment and economic growth, and avoids the poor becoming dependent on the state (rather than seeking ways to become self-supporting).

Various countries have tried to reduce income inequalities through the tax system, but these attempts have often failed. Sometimes this is because the system enables the more affluent to pass the real burden of the increased taxes on to the poor. Sometimes the system encourages people to move their income generating assets into investments (or foreign countries) to avoid the increased taxes. Often the increased revenue does not result in increased benefits to those most in need because the additional revenue is spent on creating a new bureaucracy to administer the distribution of grants. This usually means that very little reaches the poor, for whom the money was intended.

We have devised our tax proposal to fund the universal income grant in a way that will avoid these negative consequences.

3.3 The Proposal

We recommend a grant of N\$70 per month to every Namibian of 6 years and older, to be funded by increases in Value Added Tax (VAT) and preferably also increases in excise tax⁶ and possibly also the institution of a bed tax or tourist levy. Every Namibian would receive such a grant until s/he becomes eligible for a state pension at 60 years.⁷ In the case of children aged 17 or younger, the care-giver would receive the grant on behalf of the child.

Financing this grant will require an increase in VAT of about 6 ½% . It should be possible to also fund the grant through a proportional increase in excise taxes (e.g. on alcohol, tobacco, luxury motor vehicles etc.), and if some of it is funded out of a tourism levy, the VAT increase could be kept down to about 4 ½ %.

If every Namibian gets a state grant of N\$70 per month and every Namibian pays an additional 6,7% in indirect taxes, it follows that every Namibian benefits from the grant, and every Namibian contributes to it. However, they do not do so in the same proportion. Those who spend more, contribute more through indirect taxes to the funding of the grant and benefit less from receiving the grant. Those who spend less, contribute less to the funding of the grant, but benefit more from receiving the grant. Our funding model shows that the wealthier will subsidise the poor to a very significant extent. Our model also shows that about 85% of Namibians will receive a grant that is worth more than the additional amount they pay in indirect taxes to fund it. Those who benefit the most will be the poorest 40% of the population. Furthermore the grant will target and benefit the poor, effectively transferring a larger nett benefit the poorer one is, without requiring the cumbersome bureaucratic application of a means tests.

If a person spends exactly N\$1,040 per month (in an average expenditure pattern), the 6,7% increase in indirect tax is exactly equal to the N\$70 received in a grant from the state. This person will neither gain nor lose from the grant or the tax. This is the break-even point. In a household of four with an average expenditure pattern, the break-even point, where the household gains as much from the grant as it contributes in tax, will be N\$4,160.

Individuals who spend less than N\$1,040 per month (in an average expenditure pattern) will gain more from the grant than they contribute in additional VAT. Those who spend more than N\$1,040 per month will gain less from the grant than they pay in additional taxes to fund the grant. This form of tax is called a negative expenditure tax because below the break-even point, the person receives more back than s/he pays. A negative expenditure tax is, in fact, a grant to the poor. The lower the person's expenditure, the higher the grant will be. The higher a person's expenditure, the larger the additional tax burden both in absolute terms and as proportion of expenditure.

If the grant is also funded by increased excise taxes (on alcohol and tobacco and cars) those who spend a lot on these products will subsidise the grant to a greater extent. (This is difficult in Namibia's case, because excise taxes are determined by the SACU arrangement).

For example, a person who drinks, smokes and drives expensive cars, will have a far lower "break-even" point of approximately N\$580. When he spends more than this amount, he will contribute more to funding

It should be possible to also fund the grant through a proportional in-crease in excise taxes (e.g. on alcohol, tobacco, luxury motor vehicles etc.), and if some of it is funded out of a tourism levy, the VAT increase could be kept down to about 4 ½ %.

85% of Namibians will receive a grant that is worth more than the additional amount they pay in indirect taxes to fund it.

the grant through additional taxes than the monthly benefit of N\$70 he receives through the grant.

Conversely, a person who neither drinks alcohol nor smokes, will have a far higher “break-even” point of about N\$1,460. Such persons will benefit more from the grant than they contribute towards funding it, if they spend less than N\$1,460 per month.

3.4 The Assumptions

The funding model rests on the following assumptions:

- The poor, who receive a benefit from the grant, will spend the additional money they receive. This is very likely to happen as poor people generally use increases in their disposable income to fund their daily cost of living.
- Those who receive less from the grant than they contribute in VAT to the grant will maintain their existing expenditure levels. (Very similar results to those reported here will, however, be obtained even if the expenditure is cut back by half or by the full amount of the indirect tax increase)⁸ The assumption that expenditure levels of the affluent will not be too dramatically reduced is only likely to hold if the increases in indirect taxes are not too high. The higher the grant, the higher the tax required to fund it, and the more this assumption will be open to question. For this reason we have proposed that the grant be limited to N\$70 per month. If increased excise taxes are also used to fund the grant, it is easier to assume that people will not reduce their levels of expenditure significantly, because people using alcohol and tobacco products generally do not reduce their consumption because of increased costs.
- The reduction in savings will not influence the rate of investment in Namibia. This is also a reasonable assumption to make, given the nature of existing savings and investments.

The system we propose can only be implemented successfully if three administrative conditions are met:

- The efficiency of the existing indirect tax system must be maintained or improved
- Every Namibian citizen must be capable of unique identification, preferably biometrically (by finger print or eye pupil)
- An efficient and cost effective delivery system must be established.

Despite the challenges posed by the above conditions, we believe it is possible for Namibia to develop the institutional capacity to fulfil them. The biggest challenge that must be met is the establishment of an efficient and cost effective delivery system. Unless this condition is met, the universal income grant cannot be implemented. The development of an appropriate delivery system will take at least four years and require substantial donor assistance.

Despite the challenges posed by the above conditions, we believe it is possible for Namibia to develop the institutional capacity to fulfil them.

3.5 The Nett Impact of a Grant Combined with an Increase in Indirect Taxes

Figure 1 illustrates this very clearly:

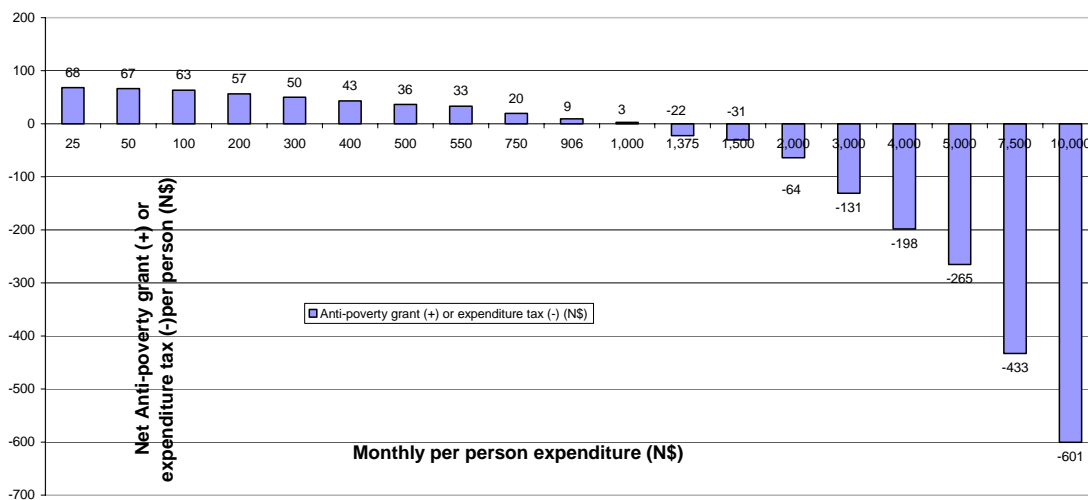


Figure 1: Nett anti-poverty grant received or progressive expenditure tax paid with grant of N\$70 financed by increasing indirect taxes by 6.7% (including an increase in VAT of 4.8%)

3.6 The Actual Fiscal Burden Imposed by a Universal Grant

This gross additional tax burden appears extremely high and could lead people to conclude that the proposed universal grant is unaffordable for the Namibian economy. However, this is a misleading conclusion.

(...)

This nett tax burden represents the real cost of the universal grant, and brings it well within the realm of affordability for Namibia.

Paying a monthly N\$70 grant to every Namibian between ages 6 to 60 yrs will cost N\$1,156-million per year. This *gross* additional tax burden appears extremely high and could lead people to conclude that the proposed universal grant is unaffordable for the Namibian economy. However, this is a misleading conclusion. According to the fiscal model, everyone will pay taxes to fund the grant - but everyone will benefit from it in return. About 85% of Namibians will get back more than they pay. The total value of the amount they receive over and above the amount they contribute is N\$522mil.⁹ This amount comes from the 15% of people with the highest monthly expenditure who will contribute a total of N\$522 mil more than they get back in return. This nett tax burden of N\$522 mil per year is the real measure of the tax burden, and falls on the 15% of the wealthiest Namibians. This nett burden in this redistributive model, falls only on those who spend more than the “break-even” point of R1040 per person each month. This nett tax burden represents the real cost of the universal grant, and brings it well within the realm of affordability for Namibia.

It is easier to understand the argument regarding the difference between a nett and gross burden by assuming a hypothetical situation in which all income and expenditure in Namibia were completely equally distributed (i.e. a Gini Coefficient of 0). Under such circumstances everyone would pay N\$70 through VAT increases to fund the grant, and everyone would get back N\$70 in return (assuming no cost of collection and delivery). The state would raise N\$1,156-million and pay back N\$1,156-million to the same people. Thus the nett tax burden on each individual would be nil. This is the tax burden that counts. In this case it obviously makes no sense to argue that this is unaffordable to the society, based on the gross tax value of N\$1,156-m.

It would, however, make no sense to introduce a universal income grant if everyone had the same income and expenditure. It only makes sense to offer such a grant because there is such disparity in incomes. The greater the inequality in a society, the greater the nett gain of the income grant will be to the poor, and the greater the nett burden in taxes for individuals with a high level of expenditure. In Namibia, which has one of the most unequal distributions of income in the world, the nett tax burden is close to half the gross amount paid out.

Although an increase in indirect taxes is usually regressive because the poor spend a larger proportion of their income than the rich, the nett impact of a grant combined with an increase in indirect taxes is clearly progressive. 85% of the population will be better off if indirect taxes are raised and an income grant is paid out to everyone above five years of age. Those who benefit most will be the poorest four or five deciles of the population, with a low monthly per person expenditure.

In Namibia, which has one of the most unequal distributions of income in the world, the nett tax burden is close to half the gross amount paid out.

Those with a N\$200 per month expenditure will be able to increase their expenditure by at least a third. Those with an expenditure of N\$100 per month will be able to increase their expenditure by two thirds. This makes a significant difference to the poorest of the poor.

The progressive benefit and burden imposed by a combination of a universal grant and an indirect tax increase is shown in Figure 2. This diagram shows that although the indirect tax has to be increased by 6.7% to finance a grant of N\$70 per person, all those with a per person expenditure of less than N\$1040 a month are better off, and it is only when the monthly per person expenditure exceeds N\$4,000 that the tax rate creeps up to above 5%.

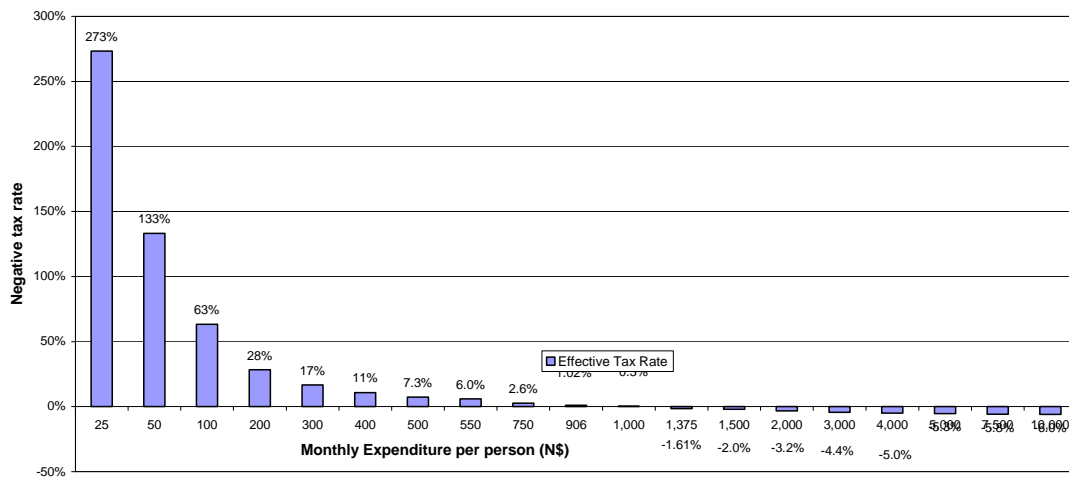


Figure 2: Net grant (-) and net tax (+) burden as percentage of expenditure, with a N\$70 grant and 6.3% increase in Vat

3.7 Targeting the Grant, while Avoiding Poverty Traps and Dependency

The approach we suggest avoids all the problems associated with means tests, which are often applied in industrialised countries to target state assistance to the poor. In some countries, such as the German Federal Republic, the state's assistance to the poor is cut back by 1 Euro, for every Euro the family earns itself. This amounts to a 100% marginal tax and serves as a serious disincentive to a poor family to earn additional income. Furthermore in such countries the state can afford to adopt a high poverty line. In Germany, for example, a family of four in certain circumstances can receive as much as E1500 (equivalent to N\$15,000) per month. This approach inevitably creates a poverty trap because unskilled people can earn as much by relying on a state grant as they can by going out to work. There is therefore no incentive to work, and under these circumstances the grant creates dependency.

The approach we suggest avoids all the problems associated with means tests, which are often applied in industrialised countries to target state assistance to the poor.

Apart from this very negative aspect, the implementation of a means test requires a sophisticated and extensive bureaucracy. Some times this can cost as much as the savings achieved by introducing a means test to prevent those who do not qualify from getting the grant.

The consortium's proposal of a universal grant funded by increases in indirect taxes also targets the poor, but without the negative consequences of a means test.

On the contrary, it is far more likely to offer opportunity to the poor to improve the opportunities of earning additional income. Children can be better nourished, youth can pay for additional training opportunities or transport costs in looking for work.

If Namibia were to introduce a N\$70 monthly grant financed by an increase in indirect taxes, a poor person would lose only N\$6,70 for every N\$100 by which the person's expenditure increases. This is a marginal tax rate of 6,7% compared to the 100% rate in the German example used above. Because everyone gets a grant, which is funded by the wealthier who spend more, the grant is perfectly targeted without requiring an expensive bureaucracy. A small grant of N\$70 is very unlikely to create dependency. On the contrary, it is far more likely to offer opportunity to the poor to improve the opportunities of earning additional income. Children can be better nourished, youth can pay for additional training opportunities or transport costs in looking for work. The poorer one is, the more support one gets from the grant.

The grant will be a very effective way of targeting households for support in which the breadwinner has become unemployed because of ill health, e.g. because of AIDS.

Another great advantage of paying out the grant to individuals, or in the case of children, to the caregiver, is that it enables the grant to reach the needy within households.

This system, in contrast to any other system, has the great advantage of being able to address inequality in power relationships within households by automatically targeting those who get the least, to benefit most from the grant.

For example, if a husband earns N\$1,900 a month and keeps N\$1,100 for himself and gives the rest to his wife and three children, he himself will pay as much in tax as he receives from the grant. However, his wife and three children, with a per person expenditure of N\$200 per month, will benefit by N\$56 per person per month (or N\$224 together) from their grant. This system, in contrast to any other system, has the great advantage of being able to address inequality in power relationships within households by automatically targeting those who get the least, to benefit most from the grant. This would be greatly assisted if the grant could be delivered in the form of electronic money to a smart card which can only be accessed by the caregiver and if it is possible to store the money on the card if required.

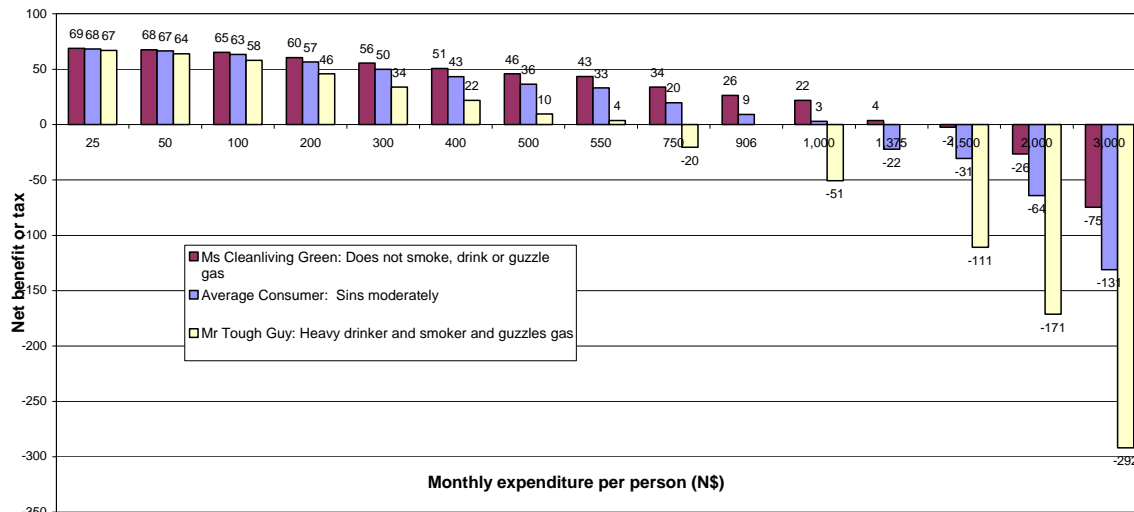


Figure 3: Proportional increase of all indirect taxes target Ms Cleanliving Green for highest net grant and lowest tax increases.

Another advantage is that the system distinguishes between people on the basis of how they spend their money. If it should be possible to get agreement from SACU to fund the grant by proportional increases in excise levies on tobacco and alcohol, those who purchase these items will subsidise the grant to a greater extent than people who do not. (See Figure 3) This supports the case for levying increased excise taxes to fund the grant. However, it must be borne in mind that excise taxes are levied within SACU, and cannot be unilaterally altered by individual countries.

3.8 The Dynamic Economic Consequences of a Grant

For the purpose of alleviating poverty, a N\$100 per month grant would be preferable to a N\$70 amount. However, the macro-economic consequences of the larger amount are more difficult to predict because of the higher tax burden on the affluent. If implemented today, it would be more prudent to start with a lower monthly grant and evaluate the macro-economic impact over a reasonable period. If there is no reason for concern, the grant can be increased. If a grant is only implemented in three to four years' time, it would be possible to start with N\$100 per month. The real cost of such a grant then would be much lower and would be similar to the cost of a N\$70 monthly grant in 2002.

If a grant is only implemented in three to four years' time, it would be possible to start with N\$100 per month.

There is also a case to be made for extending the grant to Namibians five years and younger. However, this may be administratively very difficult to implement. The biometric identification system foreseen for Namibia, similar to the HANIS system implemented in South Africa, should be used for every Namibian that receives the grant. This will

prevent fraud. However, if one uses fingerprints, such an identification system cannot be implemented in the case of younger children. The grant could well, as is the case with the existing targeted poverty grant in Brazil, only be paid in the cases where children attend school to ensure school attendance and to monitor via the school who the caregiver is.

Another reason some may put forward for restricting the grant to children six years and older is that a grant for small kids may in some cases create a perverse incentive to have children.

The effects of the expenditure tax the consortium proposes to fund this grant will have much less of a distorting influence on the economy than an increase in income tax would have. We consider the expenditure tax the ideal method of raising taxes and supporting the poor. By adopting these measures, Namibia can succeed in implementing, by an indirect method, a direct and progressive expenditure tax.

It would, of course, be essential to earmark the additional amount thus raised for the grant. If the increased funds were spent elsewhere, the taxpayers would not get a direct repayment, and this would wipe out the advantage achieved by the difference between the gross and the nett tax burden. In fact, if the increased revenues raised in indirect taxes were not spent on the grant, the nett tax burden would be as high as the gross tax burden.

The nett impact of the grant will be to create more demand in rural areas. This should stimulate economic development in parts of the economy that have been marginalised.

Should a grant of N\$70 be paid out today, it would bring down the Namibian Gini coefficient from 0.68 to about 0.60. Namibia would no longer have the dubious distinction of having the highest measured Gini coefficient in the world.¹⁰

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⁵ Appendix 4: Income Redistribution and Poverty Relief - A Universal Income Grant Combined with Indirect Tax Increases (Namtax Report, 2004,60-72 as published on the IPPR Web Page: http://www.ippr.org.na/other_research.htm)

⁶ Increases in excise taxes could, however, only be made with the agreement of the other SACU members.

⁷ We recommend that the existing pension of N\$250 be retained, and not, as has been argued in some quarters, replaced by a "means tested" pension. A means test is extremely difficult and costly to administer efficiently. If the recommendations of this report are accepted, the pensioners with a high per person expenditure will in any case be worse off, because of the increase in the indirect taxes. The pensioners with a low per person expenditure will probably be better off if our recommendations are implemented, because the other members of the household who at present also live off the pension, will then be receiving a grant.

⁸ If the expenditure level increases with the full amount of the indirect tax increase, in other words, if expenditure is not cut back at all because of the tax increases, the increase in indirect taxes required to finance the

grant is 6.7%. If, on the other hand, the affluent cut back on their expenditure levels by the amount that tax increases, so that the overall expenditure remains the same, then the increase in indirect taxes required will be about 7.1%. Assuming that the expenditure of the affluent increases by half the increase in indirect taxes, an increase of 6.9% in indirect taxes is required.

⁹ If one assumes that the rich cut their expenditure back by half of the indirect tax increase (which means that indirect taxes have to be increased by 6.9%), this amount will be by NS516 million, and if the rich cut back their expenditure by the full amount, they will contribute only NS509. The higher the required tax rate, the lower the net benefit and the net burden. The more the affluent cut back their expenditure because of the tax increases, the less the actual additional tax burden is, even though the indirect tax increase is higher.

¹⁰ Countries such as Brazil and Guatemala have Gini coefficients of higher than 0,6.

Section 4: The developmental impact of a Basic Income Grant ¹¹

4.1 Introduction

This paper assesses the developmental impact of a Basic Income Grant given Namibia's poverty and inequality situation.

Firstly, the paper provides a brief overview of the current levels of poverty in Namibia. A framework, against which the developmental impact of a poverty reduction policy needs to be assessed, is introduced. Secondly, the paper visualises the current income distribution and inequality in Namibia and then depicts the measurable impact of a BIG on income security. The third and final section, by taking into account the findings before, outlines the developmental impact of the BIG.

4.2 The current situation in a nutshell

Current levels of poverty in Namibia

Methodological considerations in defining poverty

Namibia is in the process of developing an official poverty line and in this there are several methodological challenges involved:

Firstly, it needs to be decided whether a relative or an absolute poverty line is chosen. A relative poverty line is often easier to establish. It allows to measure policy impacts by looking at whether people are better or worse off after a certain policy implementation. However, by nature, relative poverty lines do not allow to tell, whether a person living above the line is in fact not poor. A relative poverty line cannot establish whether the person has the means to live a decent human life. The World Bank, for example, often defines a relative poverty line. Using this line, the people living in the poorest 40% of households are regarded as the "poor" and the people in the poorest 20% of households as the "ultra-poor". One thereby creates a ranking of the "poor" and "poorer" than "poor", which raises serious questions: Is this adequate to describe living conditions of people? In addition, can this line, which is open for interpretation, be used to identify some of the "poor" as not

in need of policy interventions? Another concern is that the poorest 40% in Namibia will be much poorer than the poorest 40% in Germany. And again, living among the people above the poorest 40% of households might imply a reasonable and by international standards quite acceptable standard of living for Germany, whereas the same obviously does not hold for Namibia. There seems to be agreement here in Namibia that an absolute poverty line needs to be identified. The relevant policy makers need to be commended for this stance.

Secondly, besides the decision about a relative poverty line or an absolute one, it needs consideration on which indicator or composition of indicators a poverty line should be based. E.g. internationally the poverty line is often defined as referring to people who have less than US\$1 per day. The Household Subsistence Level determined by the University of Port Elizabeth instead collects a basket of goods (including expenses for nutrition, transport, energy for cooking etc.) for major urban areas in Namibia, and has in fact looked at the actual costs of covering this basic basket of goods. Further, it can be argued that one indicator like income or nutrition is not adequate to capture real life poverty. A person might have above US\$1 per day but does not have the means to access basic health facilities. This person might in fact die from a preventable disease and should therefore be considered as poor. Or a Masters student, while temporarily having limited financial means, should in fact be considered not poor, as his education might guaranty him to find a job much more easily than a comparable person with the same income, who dropped out of standard 10.

A great deal can be learnt about living standards from a sufficiently comprehensive measure of consumption. But there will be relevant aspects of well-being (from both welfarist and non welfarist perspectives) which are not reflected in that measure. This points to the need to supplement poverty measures based on distribution of household consumption with other indicators which (though possibly quite crude on their own) do have a better chance of picking up the omitted variables. (Ravallion, 1994:9-10)¹²

This is where composite indices with the concept of capabilities come in. They define several absolute poverty lines, relying on various indicators and compile them into one index.

In order to check the robustness of the monetary poverty lines outlined above, this paper calculates a composite index based on Sen's notion of capability.¹³

The composite index applied includes a ranking into four sub-groups, which are then weighted equally:

- Expenditure
- Housing
- Health

- Employment opportunities

A score of 1 and 2 is regarded as below the poverty line.

		Score (1 = most deprived up to 5 = well off; 1 and 2 are regarded as below the poverty line)				
	Indicator	1	2	3	4	5
Expenditure	standardised monthly HH expenditure (HH with 1 member)	- R316	R316 - R476	R476 - R952	R952 - R1904	R1904 -
Housing	type of house	improvised housing - shack, mobile home - tent	traditional dwelling, single quarter	apartment - flat, guest flat, part commercial - industrial	semi-detached house	house
	type of energy used for cooking	none, wood, charcoal	dung - crop residue, paraffin	coal, solar	gas	electricity
Health	type of water access	river / stream, dam, standing water, canal	rain-water, protected spring, well, borehole	public stand-pipe, water tanker / carrier	piped water on premise	piped water inside house
	type of sanitation facilities	bush	bucket / pan	Pit / long drop latrine	imp. latrine, shared flush toilet	own flush toilet
	accessed health facilities	none	family / friend, trad. healer, shop	clinic, public hospital	pharmacy, visit by PHC nurse	private doctor
Employment opportunities	share of employment among the adult HH members	0-19%	20-39%	40-59%	60-79%	80-100%
	average years of education among HH members 16+ years	<2	3-5	6-9	10-11	12+

In conclusion, it is important to be clear that any poverty line is an analytical tool in order to picture the extent of a complex social reality. It still cannot express the feelings of people, who are inflicted by this deadly situation. The definition and the discussion about this issue as such do not result in a change of the situation on the ground! However, different poverty lines focus the attention of policy makers on certain aspects of poverty and thereby are an important tool for policy development and policy evaluation.

Having looked at the methodological limitations, this paper therefore has a look at a variety of measures, in order to begin to sketch the extent of the poverty problem in Namibia. The paper therefore calculates the following poverty lines:

- People living in the poorest 40% of households (bottom two quintiles)
- Household subsistence level
- Crude international poverty line (US\$ 1 per person per day)
- Composite index

Poverty rates in Namibia

	Measure	Percentage of people below poverty line
Bottom two quintiles	people living in the poorest 40% of HH	48.1%
Household Subsistence Level	N\$ 409.37 per adult equivalent	82.2%
Crude international poverty line	US\$ 1 day	62.3%
Method used in this paper	Composite index	74.8%

One can conclude that according to their financial situation at least about two thirds of all Namibians live in poverty.

The relative poverty line defines 48% of Namibian people as living below the poverty line. This mainly points to the fact that the poorer the people are, the more likely they are to live in bigger households. As explained earlier, this poverty line does not allow one to tell whether the living conditions of the people above the poverty line are above the minimum necessary to live.

The two absolute measures, based on a monetary indicator, define between 62% (crude international poverty line) and 82% (Household

Subsistence Level) of Namibia's people as below the poverty line. One can conclude that according to their financial situation at least about two thirds of all Namibians live in poverty.

This picture is confirmed when looking at the composite index. The composite index, which also defines an absolute poverty line and combines monetary and non-monetary measures, identifies 75% of Namibians as living in poverty. This shows further that poverty in Namibia has many different faces and is deeply rooted in all spheres of Namibian society.

A policy intervention, which tries to address such an extent of poverty, has to be geared to face several developmental challenges:

- It needs to be simple and efficient to reach the majority of people within the near future.
- Despite being simple, it needs to be able to address the various faces of poverty e.g. rural / urban poverty, different health challenges (access to clinics, safe drinking water), different employment situations (subsistence farming, informal sector employment, domestic- farm workers, mineworkers) etc.

The United Nations High Commission for Human Rights (UNHCHR) defines poverty as:

A human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights. (UNHCHR, 2004:1)

Accordingly, three characteristics of poverty need to be taken into account:

- The lack of resources to meet basic needs (nutrition, access to health facilities, housing etc.)
- the lack of capability ("real opportunity")
- the lack of freedom of choice, security and power to take ownership and to use resources to become a full functioning agent in society.

All these aspects of poverty prevail in the Namibian society. Poverty is a multi-faced phenomenon and each and every aspect is influencing and influenced by others to the point, where it becomes a trap in the form of a poverty circle. The third part of this paper is going to build on this framework to evaluate, on which of these different levels a BIG will assist the people concerned to escape this vicious circle of poverty.

Poverty in Namibia has many different faces and is deeply rooted in all spheres of Namibian society.

A policy intervention needs to be simple and at the same needs to be able to address the various faces of poverty.

4.3 The immediate effect of a Basic Income Grant

The immediate effect of the BIG is at the income level as it provides income security. The following microsimulation model shows the dramatic effect at that level. In order to evaluate the change it firstly looks at the current situation of income distribution in Namibia. The microsimulation model, by using a weighted national household data set and representing the total Namibian population, is able to look at the individual income and how this is changed if social assistance policies, like the BIG, are changed or introduced.

Current income distribution and inequality

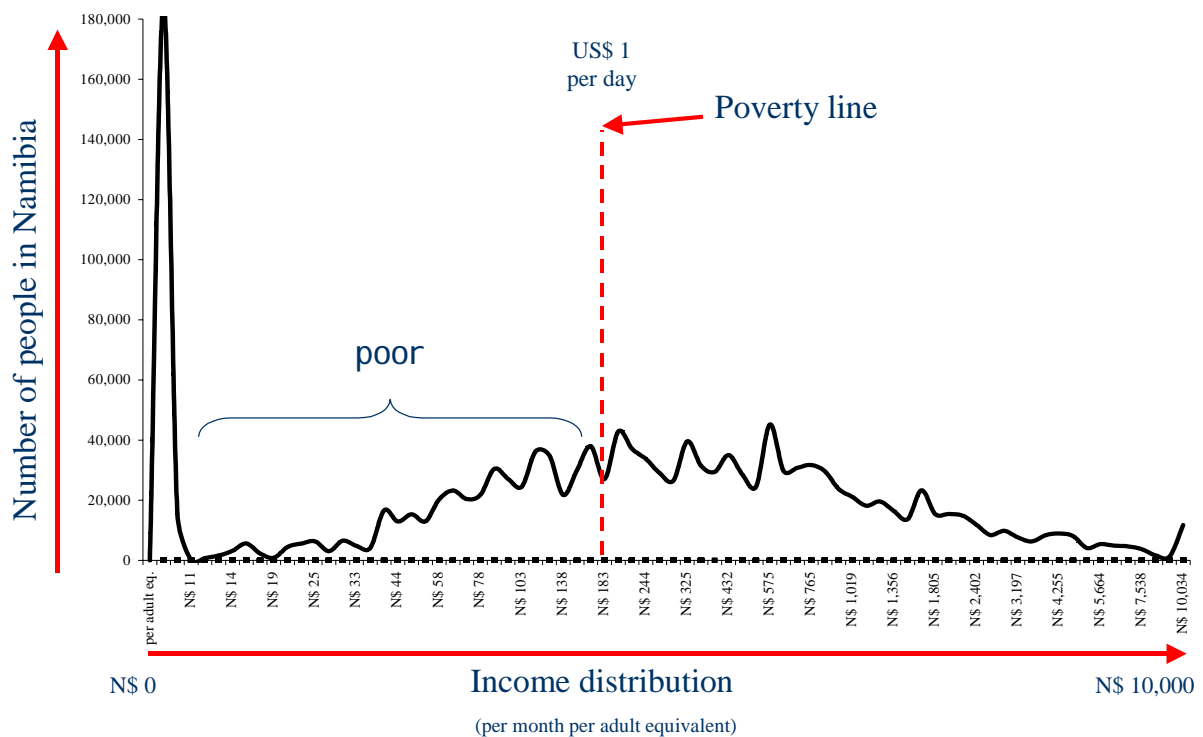


Figure 4: Namibia's income distribution in a nutshell - Source: DfSD Microsimulation Model

Figure 4 represents the total current income distribution in Namibia updated to 2004 standards. On the x-axis the income standardized to an adult equivalent (weighting children below the age of 16 years as half an adult, and taking account of economies of scale (powered by 0.9)) is represented. The y-axis depicts the total number of people for each income.

As the graph is extremely broad, it becomes clear that Namibia has a highly unequal distribution of income. The Gini-coefficient of 0.68 in fact documents the highest inequality in the world. While Figure 4 shows many people with nearly no cash income available in their households (up to 180,000), this goes along with wealth pockets where there are people in households with an adult equivalent income of N\$ 10,000 and above.

As the graph is extremely broad, it becomes clear that Namibia has a highly unequal distribution of income.

The red line in the middle visualises the crude international poverty line of US\$1 per day. Even according to this crude standard, 62% have to struggle for survival on less than US\$1. It becomes clear that destitution is ripe in many communities in Namibia.

Destitution is ripe in many communities in Namibia.

Namibia with a Basic Income Grant

The next graph models the effect, which would be achieved, if every Namibian citizen from birth up to the age of 60, the qualifying age for a social pension, would receive N\$100 per month. The model is based on the assumption that the money from people living in the richest 40% of households (4th and 5th top quintile), is recuperated tax neutral. Meaning the richest 40% do receive N\$100 per month but at the same time N\$100 is recuperated through adjustments in the tax system, so that their net benefit / cost is kept at N\$0.

The total net cost for a BIG in this scenario would be N\$1,251 million per year. And out of this N\$978 million would go into rural areas.

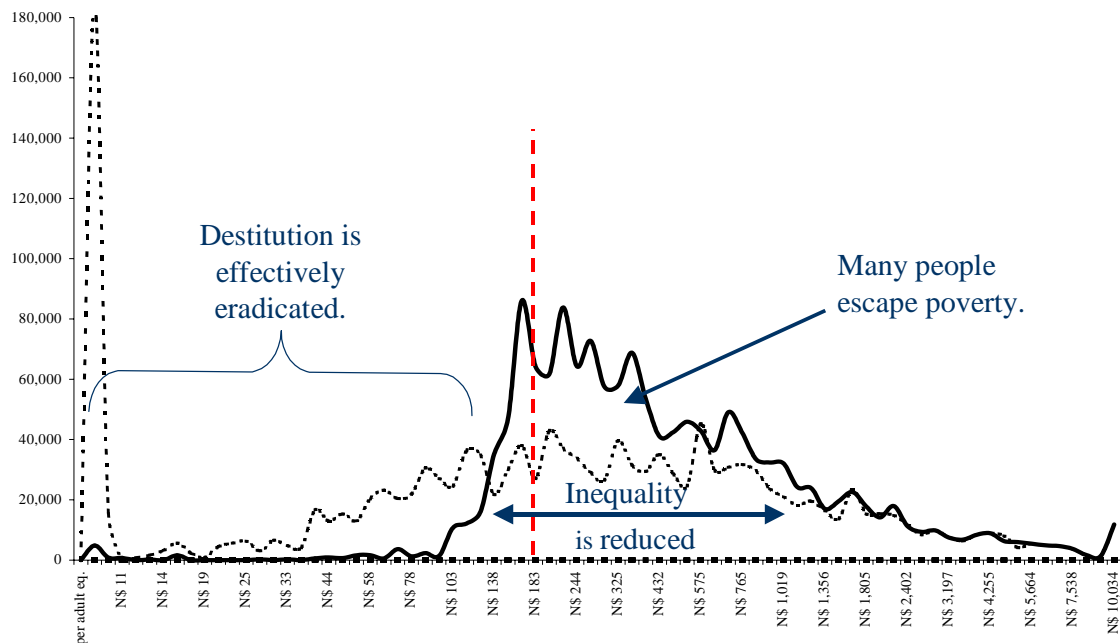


Figure 5: The impact of a BIG on Namibia's income distribution compared to the current income distribution (dotted line) - Source: DfSD Microsimulation Model

Destitution is effectively eradicated through a BIG.

The head count index of people having to live below an acceptable minimum income would drastically be reduced.

Figure 5 shows the dramatic effect the BIG has on income security. Destitution is effectively eradicated. As the BIG is a right, each and everybody has at least some income. This would go a long way to eradicate hunger and malnutrition.

With the BIG, many people escape poverty and are brought over the crude poverty line. The head count index of people having to live below an acceptable minimum income would drastically be reduced.

As the graph in Figure 5 is much narrower than in Figure 4, it becomes obvious that the BIG reduces inequality. The gap between the rich and the poor would be no longer as extreme as it currently is.

4.4 The developmental impact of a Basic Income Grant

The positive impacts of the BIG, despite being straightforward and simple, are nevertheless extremely manifold and cut across many fields. Although it is clear that N\$100 is not adequate for a person to live on, on household level the proposal makes a decisive difference (e.g. a household of six people would receive N\$600 per month). The next part of this paper is going to look at the developmental effects.

Resources to meet basic needs (nutrition, access to health facilities, housing etc.)

- On a household level, the BIG would effectively eradicate destitution and provide a lifeline for people living in poverty.
- Given the increasing effects of the HIV/AIDS pandemic, the BIG would bring crucial resources into households, which are infected and affected. Nutrition is a pre-requisite for a healthy lifestyle. Furthermore, the success of the roll-out of ARVs, which is crucial to enable many Namibians to continue living a productive life, is inseparably linked to access to basic nutrition. Like e.g. TB treatment ARVs can only work, if taken after a meal. What about people who do not have the means to provide for regular meals? A BIG would guarantee these means to everybody, regardless of whether they are infected or affected. Especially in rural areas, lack of transport money to access health care is often the reason for people to get no, or too late medical assistance, which could save lives.

The success of the roll-out of ARVs (...) is inseparably linked to access to basic nutrition. A BIG would guarantee these means to everybody, regardless of whether they are infected or affected.

Capability (“real opportunity”)

- The following two graphs explain why people living in formerly disadvantaged communities, still continue to carry a disproportionately high burden of caring for other poor people. It can be argued that this informal social security system effectively imposes an informal tax on the poor, which prevents people from escaping poverty and developing their own full potential as well as that of the whole economy.

People living in formerly disadvantaged communities, still continue to carry a disproportionately high burden of caring for other poor people.

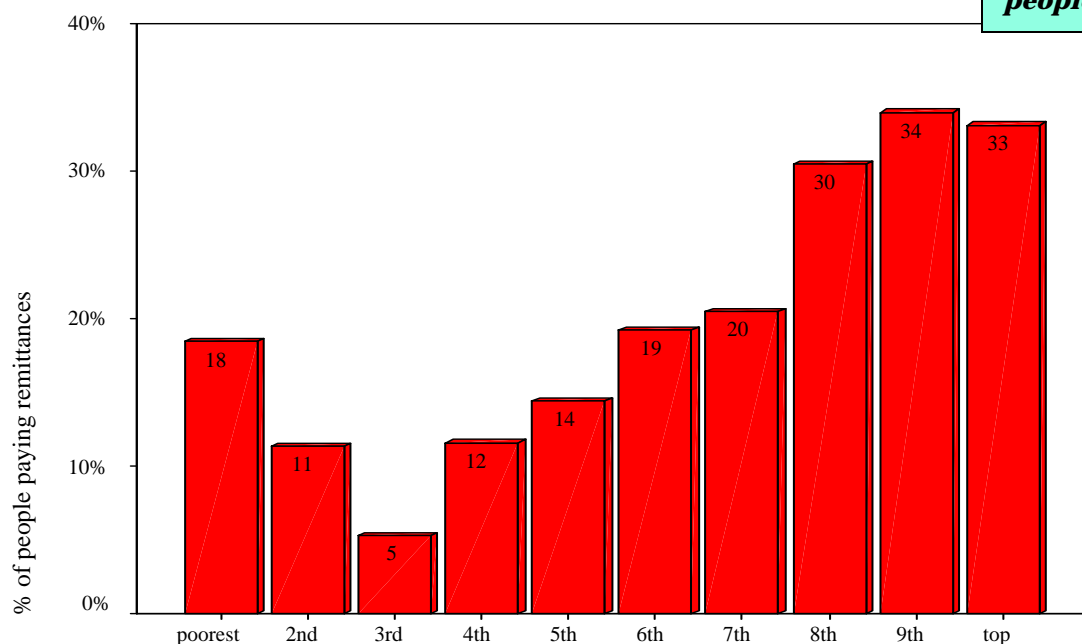


Figure 6: Percentage of people paying remittances to other households from their income.

Figure 6 shows the percentage of households paying part of their income to other households in the form of remittances. One would expect that the richer the households are, the more likely they are to support other households, especially the extended family. What is especially striking in Figure 6 is that from the third poorest ranking to the poorest the percentage of households is again increasing and not decreasing.

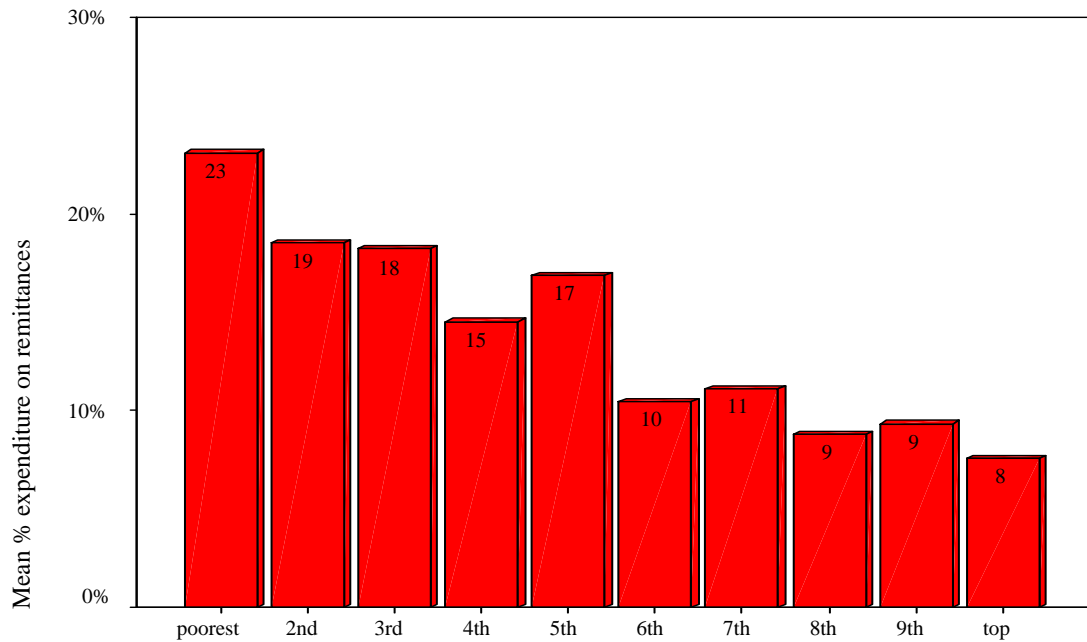


Figure 7: Percentage of income paid as remittances to other households

A BIG is an effective tool in lowering this regressive informal tax on the poor. Thereby, money of the working poor would be freed for economic investment.

Figure 7 now looks at the percentage of income, which is paid to other households. It becomes obvious that there is a linear correlation of the richest households only supporting other households with about 8% of their income to the poorest households spending up to 23% of their income of the little income they get for other poor people! This can be explained by the demand brought forward against income earners in poor communities. Social solidarity and the absence of any other form of formal social security necessitate that income earners in poorer communities assist their extended families and neighbours to cover costs like medical expenses for children, funeral costs, school fees etc. In economic terms this, however, means that this in effect imposes a regressive tax on the poor, diminishing their ability to save and invest, and thereby diminishing the chance to ever escape poverty. A BIG is an effective tool in lowering this regressive informal tax on the poor, as it would put in place a basic social security system and the poor would not be as dependent on other members as before. The burden of caring for the poor would be more justly and progressively distributed over the whole society. Thereby, money of the working poor would be

freed for economic investment, to productively use their own resources and potential in the economic realm, and ultimately offer the chance to escape the vicious circle of poverty.

- On the expenditure side, a BIG has again various impacts. A BIG of N\$100 per month per person will generate a net-benefit of over N\$900 million a year reaching the rural communities in Namibia. It can well be argued that this will work as an engine for local economic development. The poor have the propensity to spend larger amounts on goods and services, which are produced locally. It will create more viable and sustainable opportunities for self-employment in the rural areas.
- Many Namibians are trapped in unemployment, lacking the necessary resources to successfully enter the job market. Decent clothing, a permanent postal address, telephone etc. are important prerequisites to be employable. The BIG would assist in providing necessary start-up capital.
- The BIG, by securing nutrition, is a human capital investment. Currently children who do not get proper nutrition cannot perform at school. Children who are malnourished under the age of 4 years are stunted and will never develop their full potential. The BIG, by providing the means for basic nutrition, would increase capabilities and real choices of the future workforce of Namibia.

A BIG of N\$100 per month per person will generate a net-benefit of over N\$900 million a year reaching the rural communities in Namibia. This will work as an engine for local economic development.

The BIG, by providing the means for basic nutrition, would increase capabilities and real choices of the future workforce of Namibia.

Freedom of choice, security and power to take ownership

- Currently, many communities are inflicted by the loss of vision for a future and thereby the loss of hope. This results in social illnesses such as drug- and alcohol- abuse and a non-caring attitude, when it comes to HIV/AIDS as an illness, which strikes you only years after you contracted it. The BIG, by guaranteeing opportunities for a future, would contribute to reversing this effect and could give hope to build a future.
- Economic insecurity prevents people from taking entrepreneurial risks. If people are faced with the alternative of buying food for the household for the day or of investing the money into self-employment, with the risk of no or delayed returns, people necessarily are reluctant to take risks, which endangers the survival of their families. The BIG would provide income security, which in return would free resources for entrepreneurial risk-taking, which in turn is crucial for a growing and innovative economy.
- The BIG would help to rectify current power imbalances, which are created by severe dependency on any form of cash income. This is applicable to intra-household distribution, where espe-

The BIG would provide income security, which would free resources for entrepreneurial risk-taking, which is crucial for a growing and innovative economy.

The Basic Income Grant is not a panacea, but a big step that has the potential to yield crucial developmental benefits for the majority of Namibians while being economically sensible and socially acceptable.

cially women would be empowered to say 'no' to abusive relationships. This would also go a long way to strengthening workers' bargaining power against exploitative labour practices (e.g. domestic or farm workers etc.).

It can be concluded that the extremely unequal distribution of wealth, the high levels of poverty, as well as the HIV/AIDS pandemic, necessitate urgent measures in Namibia. The Basic Income Grant is not a panacea, but a big step that has the potential to yield crucial developmental benefits for the majority of Namibians while being economically sensible and socially acceptable.

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- ¹¹ This paper is written by Claudia and Dirk Haarmann. They are pastors of the Evangelical Lutheran Church in the Republic of Namibia (ELCRN) and are currently working as the Project Directors of the Desk for Social Development (DfSD-ELCRN). Both hold a PhD in Social Development from the Institute for Social Development (UWC, South Africa) and a Masters in Theology (Germany).
- ¹² RAVALLION, Martin 1994. Poverty comparisons Switzerland, Australia, Belgium etc. (Harwood Academic Publishers). (Fundamentals of Pure and Applied Economics).
- ¹³ For a detailed discussion of the methodology see Haarmann 1999 and 2001:
HAARMANN, Dirk 1999. The living conditions of South Africa's children. Cape Town (Applied Fiscal Research Centre). (= Research Monograph Series.9)
HAARMANN, Dirk 1999. The use of microsimulation in social policy planning and implementation: The case of the child support grants. Cape Town (Applied Fiscal Research Centre). (= Research Monograph.10)
HAARMANN, Claudia 2001. Social assistance programmes: Options and impact on poverty and economic development in South Africa Cape Town (Applied Fiscal Research Centre). (= Research Monograph Series. 22)

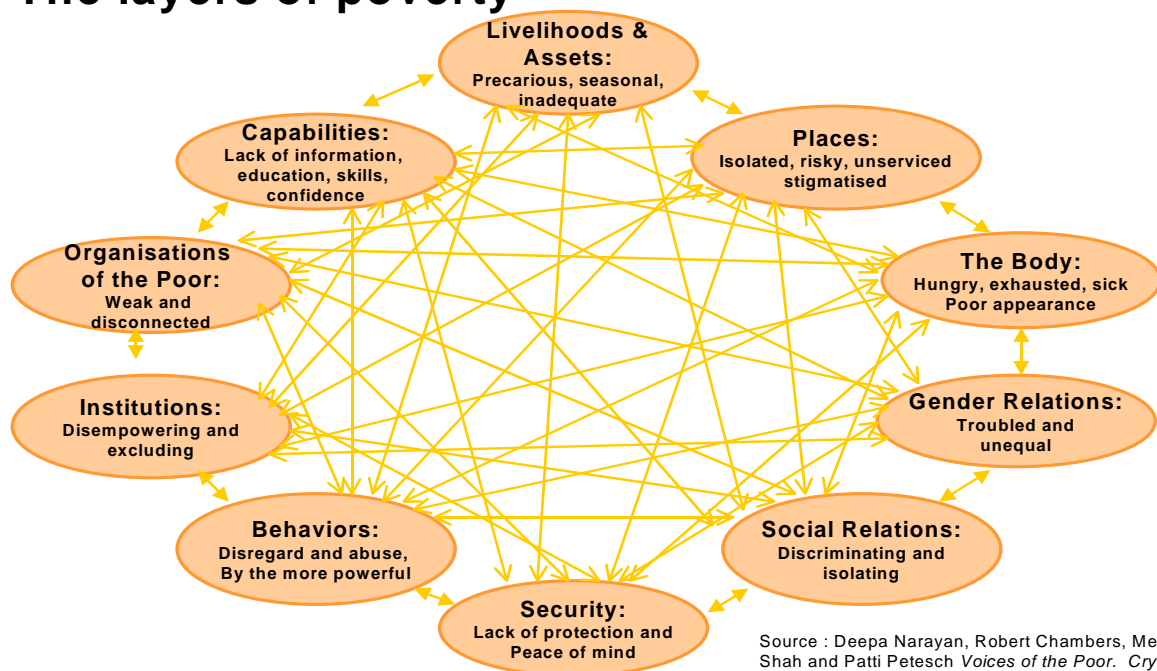
Section 5: Financing a Basic Income Grant in Namibia

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5.1 Introduction

On one level, the affordability of a Basic Income Grant poses a simple question—how much will it cost, and what is the capacity of Namibia’s public finances to generate the necessary resources? The affordability of poverty-reducing policy initiatives depends critically on how they affect the lives of the poor. The diagram below models the complexity of poverty, illuminating how policy interventions can succeed or fail to tackle the core of poverty. Economists often focus on the top layer—“Livelihoods and Assets” can be measured with economic data, and policy analysts can assess the impact of income support programmes. Increasingly, economists are also incorporating the role of capabilities and geography in poverty impact assessments, as depicted in the second level.

The layers of poverty



Source : Deepa Narayan, Robert Chambers, Meera Shah and Patti Petesch *Voices of the Poor. Crying out for Change*, page 249

Figure 8: The layers of poverty

Economic models, however, rarely encompass the impact of organisations, institutions, behaviours, security, social and gender relations and health, in spite of their important interactions with poverty. This paper begins with a high level assessment of the cost of a Basic Income Grant for Namibia, and then provides evidence of its affordability given Namibia's current economic capacity. Then the paper discusses the long term effects on the economy in the context of the above model.

5.2 The cost of a Basic Income Grant

The first step in estimating the cost of the grant is to model the number of individuals eligible to receive the grant. Since the Basic Income Grant is universal, this number is the entire population. However, since those eligible for the State Old Age Pension already receive a social grant, the cost of their associated Basic Income Grants is already a public obligation. (It is assumed that the total grants to the elderly would not increase with the introduction of a Basic Income Grant.) The official 1999 population estimate is 1.7 million people, and population growth rate from 1999 to 2004 is approximately 1.5% per year. The population model results for 2004 are depicted in Figure 9 below.

Namibian Population: 2004

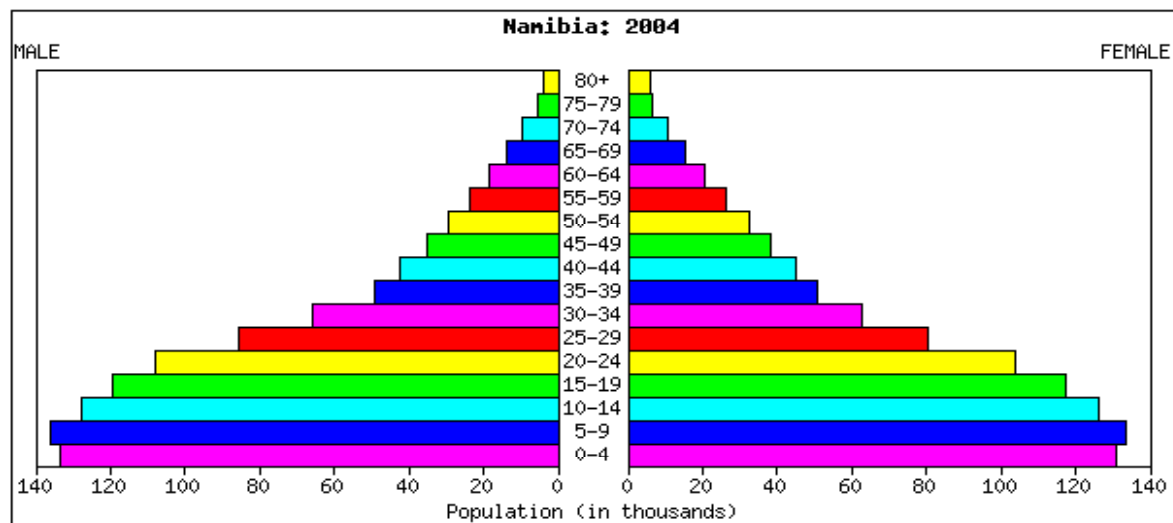


Figure 9: Namibian Population 2004

Assuming a grant size of N\$100 per month, with an age-eligible proportion of 93.1%, the net cost ranges from N\$0.8 to N\$1.4 billion per year. Given the Gross Domestic Product estimate in 2004 of N\$37 billion, these net cost estimates range from 2.2% to 3.8% of national income. The actual net cost will depend on how it is financed—with a VAT-financed grant leading to a lower net cost (as low as 40% of the gross cost) while greater reliance on income taxes raises both the net cost (70% of the gross cost) and the total amount transferred to the poor.

Assuming a grant size of N\$100 per month, with an age-eligible proportion of 93.1%, the net cost ranges from N\$0.8 to N\$1.4 billion per year. These net cost estimates range from 2.2% to 3.8% of national income.

5.3 The cost of a Basic Income Grant

The second step in assessing affordability is determining how much additional tax revenue Namibia can afford. Economists usually address this question with “tax effort” analysis, a type of econometric modelling based on cross-country comparisons. Tax effort models evaluate the taxable capacity of a country based on the structural characteristics of the economy and the country’s ability to raise taxes. The graph below documents the growing tax capacity of the Namibian economy from 2001 to 2007.

Namibia has the tax capacity to finance a Basic Income Grant (2.2 - 3.8% of GDP)

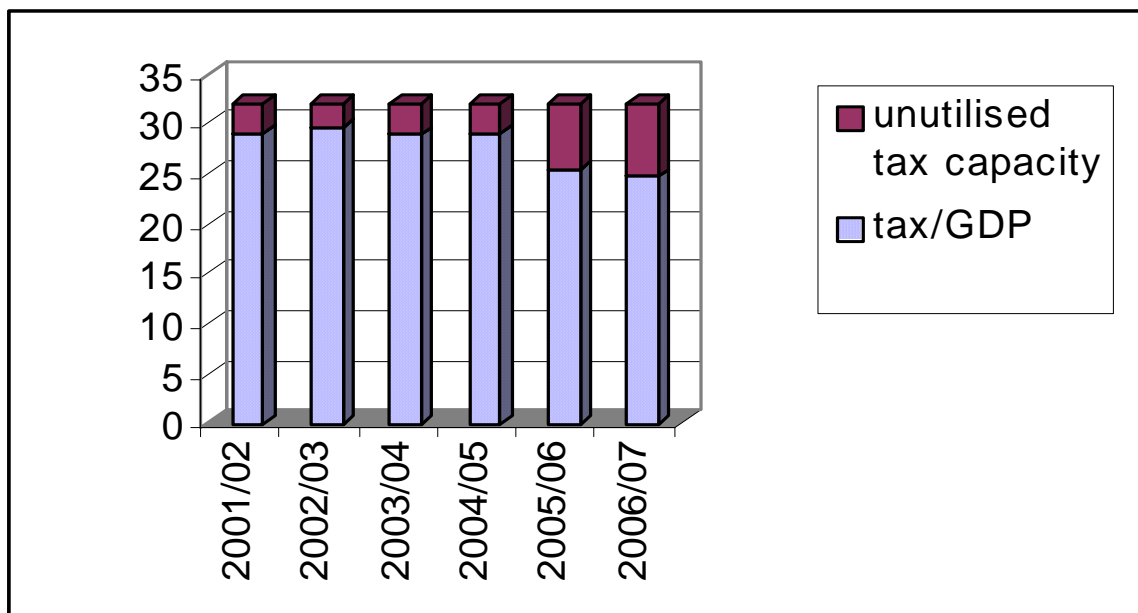


Figure 10: Namibia’s tax capacity

Namibia's excess capacity to raise tax revenue significantly exceeds the net cost of a BIG under all the financing scenarios.

According to the econometric analysis, Namibia's taxable capacity exceeds 30% of national income. Yet Namibia's actual tax collection and projected tax collection over the medium term horizon has been falling. In particular, Namibia's top marginal income tax rate has been reduced from 36% to 35%, and taxes on trade are scheduled for substantial reductions over the next several years. Yet the fundamental determinants of taxable capacity remain strong. Namibia's excess capacity to raise tax revenue significantly exceeds the net cost of a Basic Income Grant under all the financing scenarios.

5.4 The economic impact of a Basic Income Grant for Namibia

Estimates of the net cost in the first year range from 2.2% to 3.8% of Gross Domestic Product, while Namibia's excess taxable capacity exceeds 5% of national income. This means even at current economic levels the BIG is affordable, without jeopardising fiscal policies.

The preceding analysis documents current affordability of a Basic Income Grant for Namibia. Estimates of the net cost in the first year range from 2.2% to 3.8% of Gross Domestic Product, while Namibia's excess taxable capacity exceeds 5% of national income. This means even at current economic levels the BIG is affordable, without jeopardising fiscal policies. But even more important are the second round effects. What are the long term prospects for the economy if a Basic Income Grant is introduced in Namibia? The answer to this question depends on the impact of the grant on household well-being, labour productivity and the macro economy.

International experience with social grants documents the positive impact on household well-being. Low income households that receive social grants spend nearly the entire amount on food, education and transportation—expenditures that support long term household well-being. Children in households that receive social grants are more likely to attend school, and this effect is particularly strong for primary school-age girls, supporting gender equity effects. Social grants are associated with significantly greater household expenditure on food, and children in households receiving grants have lower rates of hunger, even compared to households with similar income levels. Social grants reinforce developmental household spending.

The household spending effects improve labour productivity, providing a means for households to accumulate human capital that can help to break the poverty trap afflicting low income households. International studies document how social grants increase labour force participation by very low income households. In addition, job-seekers from households receiving social grants are more likely to succeed in finding employment than comparable income job-seekers from households that do not receive grants. Social grants provide security, and this security increases the likelihood that unemployed potential workers will invest in job search. In the absence of the security social grants provide, job search is too risky, particularly when the likelihood of success is low. Workers in households that do not have access to safety nets cannot afford the risk that the few resources they have available will be squandered in futile job search—and this insecurity traps them into poverty. The Basic Income Grant is not so much a safety net but rather a springboard that lifts the poor to more sustaining livelihoods.

In addition, the macroeconomic impact of social grants tends to reinforce economic growth and job creation, further supporting their affordability. Social grants shift spending power from higher income groups to lower income groups, as taxes on the more affluent finance grants to the poorest in the country. Upper income households spend a greater proportion of their income on imports and goods produced with capital-intensive technology. Neither of these characteristics of spending supports job creation in Namibia. The poor, however, tend to spend a greater proportion of their income on goods produced in Namibia—and goods produced in a relatively labour-intensive manner. As social grants shift spending power to the poor, the demand for goods that create jobs in Namibia increases. A Basic Income Grant is also likely to increase social stability, boosting the confidence of investors and supporting a greater rate of capital accumulation.

These economic effects increase the affordability of the Basic Income Grant over time. The improvements in household well-being reinforce the poverty-reducing income effects of the grant, improve labour productivity and support household human capital accumulation. In addition, the improvements in nutrition, education and health reduce the direct expenditure obligations of government, further supporting the affordability of the Basic Income Grant. For instance, a child who attends school and has the resources for proper nutrition is more likely to succeed, reducing the government's expenditure on repeat rates. This child is more likely to grow into an adult who can find a job, contributing taxes that further support the Basic Income Grant's affordability. As the adult ages, she is less likely to suffer from chronic and debilitating diseases if she had proper nutrition as a child—diseases that often increase the expenditure liabilities of the government. In addition, the labour market and macroeconomic impacts of the Basic Income Grant support long term sustainability.

Workers in households that do not have access to safety nets cannot afford the risk that the few resources they have available will be squandered in futile job search—and this insecurity traps them into poverty. The BIG is not so much a safety net but rather a springboard that lifts the poor to more sustaining livelihoods.

A Basic Income Grant is also likely to increase social stability, boosting the confidence of investors and supporting a greater rate of capital accumulation.

5.5 Conclusions

The Basic Income Grant is more than an income support programme. It provides security that reinforces human dignity and empowerment. It has the capacity to be the most significant poverty-reducing programme in Namibia, while supporting household development, economic growth and job creation. While the cost is substantial—ranging from 2.2% to 3.8% of national income, Namibia has the capacity to mobilise the necessary resources without undermining international competitiveness. Over time Namibia's economy will benefit from the long-term growth impact of the Basic Income Grant.

The Basic Income Grant is more than an income support programme. It provides security that reinforces human dignity and empowerment. It has the capacity to be the most significant poverty-reducing programme in Namibia, while supporting household development, economic growth and job creation.

¹⁴ This paper is written by Prof. Dr. Michael Samson and Ms. Ingrid van Niekerk. Dr. Samson is the Director of the Economic Policy Research Institute in South Africa (EPRI) and is also an Associate Professor of economics at the Williams College Center for Development Economics in the United States. Ms van Niekerk is a Co-Director of EPRI. Both have done extensive work on the Basic Income Grant in South Africa et al. for the Cabinet appointed Taylor Commission.

