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Universal Basic Income: how the experience in developing countries can inform the discussion in South Africa*

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Executive Summary

The COVID-19 pandemic gave new traction to the discussion about Universal Basic Income (UBI), particularly in South Africa, where members of government and civil society have been advocating for transforming the special COVID-19 social relief of distress grant into a UBI scheme. While advocates of UBI argue that such a policy effectively decreases poverty and inequality, opponents assert that it might bring harmful unintended consequences and that its high costs make it hard to ensure fiscal sustainability.

The present report aims at contributing to the UBI discussion in South Africa by revisiting UBI experiences and the impacts of cash transfers in developing countries. Three main messages summarize such a review.

First, there are very few instances of government-implemented UBI schemes. Most of the experience so far comes from pilot programs, where budgetary concerns are less of an issue. Iran and Mongolia are the only developing countries that implemented country-wide UBI policies. However, in both cases, they suffered immense fiscal pressure and had to scaled-down the program.

Second, there is an extensive body of research on the impacts of cash transfers, mostly coming from target cash transfers but also stemming from the evidence on UBI produced so far. Cash transfers lead to significant poverty reduction and well-being in-

crease, measured by different measures. There is no evidence that they lead to declines in labor force participation or increased consumption of alcohol or tobacco.

Third, when comparing target cash transfers with UBI, one must consider an important trade-off. On the one hand, for any given budget, a UBI scheme will represent a smaller share of money going to the poor. On the other hand, target cash transfers suffer from exclusion errors where individuals who should receive cash transfers are excluded from the system, increasing poverty. Perhaps the most efficient design would be a policy in the middle of the target and universal basic income. For instance, there might be relatively easy ways to induce the rich to select out from receiving the benefits. Whether this is indeed possible and would be enough to alleviate budgetary pressures is an empirical question that needs more research to be answered.

The report finishes with a discussion about the Southern Africa context. Several simulations have shown that UBI schemes would not be the most efficient policy to decrease poverty and inequality in the country. There might be alternatives to increase the efficiency of such schemes. However, the government needs more research-based evidence before deciding whether or not to implement such a policy.

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1 Introduction

As a reaction to the lockdown imposed by the COVID-19 pandemic, governments of several countries worldwide implemented monetary benefits to relieve the economic distress experienced by many citizens, especially the poorest. The amount of money and the universality of the transfers varied widely. Still, several analyses have shown how such benefits helped alleviate poverty, even under the complex pandemic environment (for instance, see [Raza & Soares, 2021](#), for a review of programs in the global south).

Discussions about establishing a permanent Universal Basic Income (UBI) have become even more salient in this context. UBI schemes, also known as Basic Income Grant (BIG), are characterized as periodic (usually monthly) cash transfers, large enough to lift individuals out of poverty, paid by the government to all citizens or residents in a region or country. Beneficiaries receive the transfers regardless of their socioeconomic status and with no strings attached to what they should do with the money. Several politicians and civil society members in developed and developing countries have advocated for such schemes for quite a long time, going back to Milton Friedman in the 1960's ([Widerquist, Noguera, Vandeborgh, & Wispelaere, 2013](#)).

South Africa, in particular, has been debating whether to replace the country's special COVID -19 social relief of distress grant with a UBI scheme. The special COVID -19 grant can reach working-age individuals who are unemployed but do not have access to other forms of assistance ([World Bank, 2021](#)). It was supposed to end in October 2020, but it has been extended ever since due to public pressure.

Advocates of a UBI program argue that this is a powerful tool to eliminate poverty, particularly extreme poverty, with minimum use of state capacity. They also assert that such a program has a potential multiplier effect, which would lead to substantial economic growth. Opponents of such a policy, in turn, argue that it might lead to market distortions, such as decreases in labor supply. Moreover, they argue that funding such a policy requires

lavish spending that could be invested in other welfare policies more targeted toward the poor. This is especially true for developing countries with limited tax bases and frequent fiscal deficits.

Fiscal sustainability has been a central concern in the discussion about implementing a UBI scheme in South Africa. The special COVID-19 grant, along with temporary increases in the amount of the existing social grants, represented an increase of R50 billion (about US 3.2 bi) in the welfare spending of the country (Bhorat, Oosthuizen, & Stanwix, 2021). Some specialists point out that sustaining such expenditures will increase deficits in the country's budget, which is already under a lot of pressure, leading to a non-sustainable fiscal path (e.g. Sachs, 2022).

In this context, the international experience with basic income programs and the evaluation of such experiences might bring crucial insights to the discussion in South Africa. Empirical analyses from such experiences have provided substantial evidence on some of the points raised by UBI advocates and opponents. Other issues have remained more obscure, but the evidence presented so far also points to the direction of future research to address these points.

The present report reviews both the existing experiences of UBI in developing countries and the literature on the impacts of UBI. The report has three main goals. First, it aims to provide a picture of the implementation and the functioning of basic income programs in developing countries. For now, very few countries experienced UBI, even less if we consider developing countries and governmental projects instead of pilot programs. The few governmental UBI schemes implemented in developing countries – in Iran and Mongolia – suffered substantial budgetary burden that led to design changes towards targeted programs. Kenya has been hosting the largest experiment on UBI already seen. The results from such an experiment will be able to inform the long-term impacts of such a policy.

Second, this report aims to provide a comprehensive yet summarized review of the evidence on the impacts of basic income transfers. Due to the lack of truly universal basic

income schemes, most of the evidence comes from other types of cash transfers, such as those targeted at low-income individuals. The literature on this topic shows that cash transfers led to poverty reduction and higher investments in health and human capital from the beneficiaries. At the same time, they did not induce individuals to work less or increase their consumption of the so-called "temptation goods" such as alcohol and tobacco.

The third goal of this report is to compare UBI with target cash transfers. The discussion disentangles the pros and cons of each policy and focuses mainly on the financing of UBI schemes, considering the fiscal sustainability of such programs. It presents alternative designs for a UBI, but it warns that we still need more research to understand the effectiveness of such alternatives.

The report concludes with a discussion about how the current evidence – or the need for further evidence – can be helpful for the debate about UBI in South Africa. The report's final message is that, while implementing a UBI in the country can be an effective poverty alleviation tool, policymakers still need more evidence to understand how to design such a scheme in a fiscally responsible way.

2 (Universal) Basic Income in Developing Countries

Even though the discussion about UBI has long gotten space in developed and developing countries' social and political agendas, we still have few instances of actual implementations of such a scheme, especially in developing countries.

In the developed world, the State of Alaska in the United States is the closest experience of UBI so far. Every resident in the State – adults and children – gets a transfer, regardless of their income and with any condition attached. The program was implemented in 1982, and it is financed by the Alaska Permanent Fund, a state-owned investment fund established using oil revenues. Besides this experience, other developed countries have implemented only pilot or small-scale interventions, usually encompassing non-universal forms of basic income.

In Canada, for instance, between 1974 and 1979, the city of Dauphin, in Manitoba, implemented a basic income guarantee (BIG) in which low-income families would receive a cash transfer large enough to lift them out of poverty (Simpson, Mason, & Godwin, 2017). Countries like Spain, Finland, and the Netherlands have implemented randomized-control trials where randomly selected people would receive a basic income grant (Merrill, Neves, & Laín, 2021). The primary aim of such trials is to evaluate how individuals react to the basic income support – what types of goods they consume with the grant, whether they change their work supply or whether their mental health improves after receiving the money.

Even though concerns about poverty are salient in the discussion about basic income in developed countries, poverty alleviation is not central to the debate in these countries – at least not extreme poverty alleviation. Instead, the discussion is focused on security in job transitions, ways to encourage entrepreneurship, and solutions to massive job losses likely to happen due to technological innovations. Moreover, the debate around funding a UBI scheme is intrinsically different for developed and developing countries since the latter have much more pressure on their budget (Ghatak, 2017).

For these reasons, the present review will focus on UBI (or quasi-UBI) experiences in developing countries. Unfortunately, even these cases will not be able to say much about funding UBI or long-term impacts in terms of poverty reduction since most of them are pilot projects still under analysis. However, these cases are informative regarding both the logistics of implementing a UBI and the consequences of such an implementation for poverty reduction and individuals' consumption and working behavior. Two cases, in particular, are worth noting: Iran and Mongolia had, for a while, implemented a UBI scheme for the whole country. As we will see, both countries suffered from budgetary pressure and needed to scale down their programs.

Table 2 summarizes all the experiences described in this review. The following subsections provide details of each of such experiences.

2.1 Namibia

Namibia is among the first developing countries to concretely explore the possibility of implementing a universal basic income policy. In 2008, a pilot implementing a Basic Income Grant (BIG) took place in the region of Otjivero-Omitara. All residents under 60 of the region – registered in the previous year– received N\$100 (US\$ 22 in 2008 PPP) per month for 24 months starting in January 2008. An evaluation of the project was conducted jointly by the Desk for Social Development (DfSD) and the Labour Resource and Research Institute (LaRRI), on behalf of the BIG Coalition ([Haarmann et al., 2009](#)). The results of such evaluation – discussed in section 3 – were used as supportive evidence for a campaign to implement the BIG nationwide, which gained traction after the COVID-19 crisis.

The pilot was idealized after the Namibian Government’s Tax Commission (NAMTAX) proposed a universal grant financed by a progressive expenditure tax on the wealthy. Such a proposal opened a public discussion about the topic, and a coalition formed by churches, unions, NGOs, and Government representatives started to advocate for the grant’s adoption. To verify the BIG’s feasibility and impact, the commission raised money from national and international donors and chose the region of Otjivero-Omitara to receive the pilot, given the region’s manageable size, accessibility, and poverty situation.

At the initial stages of the pilot, the practical payout of the BIG used the same state capacity as the pension payout in the country. Each recipient received a ‘smart card’ with their name, picture, ID number, birthday, and fingerprints. The history of every payment was registered in the smart card, avoiding double payments. At later stages of the pilot, every recipient of the BIG gained access to a savings account at the Namibian Post Office, where the benefit was deposited monthly. Beneficiaries could then choose when (and how much) to withdraw the money.

[Haarmann et al. \(2009\)](#) calculate that the net costs for a national BIG in Namibia would represent 2.2 to 3% the country’s GDP. The authors also argue that the country’s capacity to raise taxes overcompensates the program’s costs. Besides tax adjustments, other

financing possibilities would be implementing a royalty tax on fishing, mining, or tourism or re-prioritizing the country's current budget.

2.2 Iran

Iran is a crucial case study of UBI experiences. Unlike most experiences, such a scheme was not a pilot: it was a national policy, implemented and funded by the government. Its introduction happened in 2010, under the presidency of Mahmoud Ahmadinejad, in the context of the *Targeted Subsidies Reform*, where the country cut drastically massive indirect subsidies to energy products. To compensate for the increasing energy prices expected after the reform – which would disproportionately harm low-income individuals since they spend a higher share of their budget on energy –, the government introduced an across-the-board energy dividend transfer to the population (Guillaume, Zyteck, & Farzin, 2011).

In the beginning, the transfers were indeed universal, reaching about 95% of households in the country. The monthly transfer per person was set to 455,000 Iranian rials (90 USD in 2011 PPP). However, the policy went under great pressure in the years following its implementation, and the transfers' real value has decreased significantly due to non-correction for inflation. Under the presidency of Hassan Rouhani, the Iranian government significantly cut the programs' budget and switched the policy from a universal basic income to a cash transfer to the 80% poorest population (Salehi-Isfahani & Mostafavi-Dehzoeei, 2018). In practice, however, it has been able to remove the benefit only from a small share of the richest (Enami, Lustig, & Taqdiri, 2019).

Part of the pressure came from the program's critics, arguing that it reduced the incentives of poor individuals to work. President Hassan Rouhani was himself a strong opponent of the program. Such criticism, however, was based on anecdotal evidence and, as shown in section 3, rigorous studies about the topic, including in Iran, did not find evidence that it decreased labor supply.

Another source of pressure, however, was to find sustainable ways to fund the policy:

the expectation was that the fiscal burden from the transfers would be lower than the one of subsidizing energy products. However, the additional revenue generated with the end of subsidies was lower than previously expected since energy consumption – and hence taxes generated from it – decreased after the end of subsidies. This, along with the reduction of global oil prices, led the spending with the transfer program to be higher than the amounts saved with the Targeted Subsidies Reform (Enami et al., 2019). This led to an unsustainable rise in the budget deficit, which ultimately led to a change in the program’s design.

2.3 Mongolia

Like Iran, Mongolia is one of the few developing countries that have implemented a universal basic income scheme as a governmental program. The country has been experimenting with different forms of cash transfers since 2004, when it established a cash transfer program targeted at children from low-income households. The government made the transfers universal for all children in 2006 and universal for all residents from 2010 to 2012. Since then, the program was scaled down and returned to a basic income only for children. Nonetheless, due to the COVID-19 outbreak, the universal basic income turned back on the agenda.

During the UBI phase, each citizen of the country would receive about 120,000MNT (US\$89.08) per month. To avoid fraud and double counting, individuals had to present a personal identity document to register for the benefit. The benefits payment soon proved to be unsustainable and were reduced to 10,000MNT (US\$7.42) right after the beginning of the program, but soon increased again to 21,000MNT (US\$16.57) (Yeung & Howes, 2015).

To fund the program, Mongolia adopted a resources-to-cash scheme that uses mining dividends to pay for the transfers. However, the different basic income programs in the country have unfortunately been very tied with electoral interests, and the government has not always respected fiscal sustainability to fund the program (Yeung & Howes, 2015).

In 2010, for instance, the government established the Human Development Fund (HDF) to finance the new universal basic income program. Nonetheless, since the required budget

for the program was fixed while the HDF's savings were dependent on commodity prices, the fund soon accumulated unsustainable deficits. With the end of the universal basic income and the implementation, in 2016, of the Future Heritage Fund Law establishing that mineral revenue should be saved in a sovereign wealth fund instead of spent in transfers to the population, the country restored a sustainable fiscal path.

The transfers that took place during COVID were paid as dividends to citizens, who are shareholders of the Erdenes Tavan Tolgoi (ETT) company that manages massive coal deposits in the country. The dividends are proportional to the company's revenues to keep the transfers under a financially sustainable path.¹

2.4 India

In India, UNICEF and the Self Employed Women's Association (SEWA) formed a partnership to provide more evidence on the impacts of basic income in the country (Bharat, UNICEF, et al., 2014). The discussion on this issue, up to then, was mainly centered around the "cash" vs. "food" debate,² and the idea to implement a basic income pilot was to add more evidence-based arguments to such a debate.

The pilot was implemented in mid-2011 in 9 villages in Madhya Pradesh (one of them being a tribal village) with funds from UNICEF. All residents of each village, registered before the beginning of the pilot, got monthly cash transfers for 17 months. The transfer amount was initially Rs 200 (about US\$ 6 in 2011 PPP) for each adult, and Rs 100 (about US\$ 3 in 2011 PPP) for each child – transfers to children were directed to their mothers or guardians. Due to inflation, in the last five months of the pilot, the amount was raised to Rs 300 (about US\$ 13 in 2012 PPP) to adults and Rs 150 (about US\$ 7.5 in 2012 PPP) for children.

¹More information can be found [here](#).

²In this debate, supporters of in-kind transfers argue that they encourage the consumption of certain goods (such as food instead of alcohol, for instance) and discourage less needy individuals from selecting into the program. In contrast, supporters of cash transfers argue that they are more efficient than in-kind ones and they give individuals more freedom.

The only thing residents had to do to participate in the program was to open a bank account (except for beneficiaries in the tribal village, where the benefit was paid in cash). Thanks to financial intermediaries (such as SEWA) that helped with the process and paperwork of opening a bank account, the financial inclusion of those who did not have a bank account at the beginning of the program was very efficient and happened within four months after starting the program. Each beneficiary had the transfer deposited in their bank account each month, and there were no strings attached to how they should spend the money.

The report produced on the pilot does not discuss how to fund a basic income project countrywide in India. However, based on the impacts of the pilot – discussed in section 3 –, the report offers some recommendations, such as implementing other pilots to assess the impact of basic income in other regions and states before implementing a more extensive program. The report also suggests that a basic income scheme could be tied up with financial inclusion programs since these two types of programs have many complementarities. Finally, the report recommends that substituting other cash transfer schemes with basic income should happen slowly. Such schemes should not be completely ruled out until basic income is very consolidated to not harm poor individuals who rely on these schemes.

2.5 Brazil

Brazil currently is home to the most extensive basic income (albeit not universal) program in Latin America, the Renda Basica da Cidadania (RBC), or Citizens' Basic Income program. Such a program has been underway since 2013 in the city of Marica, in the suburbs of Rio de Janeiro. The city is entitled to the largest oil royalties in Brazil and employs part of these royalties to fund the RBC. As the experience in Iran and Mongolia, this is not a pilot program but a government policy with a dedicated budget and meant to last.

In 2019, the program went through a significant expansion, and it currently benefits around 42,000 people, accounting for roughly one in four inhabitants of the city. To be eligible to receive the transfer, residents must have lived in the city for at least three years

and belong to households earning less than three times Brazil’s minimum wage per capita. Before 2020, residents would receive a monthly payment of about US\$ 23. This amount temporarily increased to about US\$ 58 in April 2020 in response to the COVID-19 emergency. Currently, the monthly benefit is around US\$ 31.

An interesting feature of the program is that the benefits of RBC are not paid in reais, the Brazilian currency, but in Mumbuca, a currency that circulates only within the city of Marica. This was a strategy adopted by the municipal government to ensure that the money that funds the RBC stays in the city, promoting local development. Hence, the programs’ benefits are expected to have a multiplier effect on the city’s economy. A team of researchers is following closely the implementation and impacts of the basic income program in Marica, and a report with their preliminary findings should be released soon. ³

2.6 Kenya

Kenya is currently holding the largest randomized control trial implemented to evaluate the impact of universal basic income. GiveDirectly, a charity that gives money directly to the poor, implemented a 12-year basic income study in the country in 2017. It is taking place in two of the country’s poorest regions: the counties of Bomet and Siaya, with the participation of 295 rural villages, 14,674 total households, and approximately 34,000 total people.⁴

The study’s primary purpose is to evaluate the impacts of different types of transfers. Hence, the research team set three treatment arms, besides the control group. The first treatment will evaluate the long-term impacts of UBI. Each adult in villages within this treatment started to receive US \$0.75 per day, paid through a monthly transfer, in January 2018, and will keep receiving it until January 2030. The second treatment is meant to evaluate the short-term impacts of UBI. Adult individuals in this treatment received the same monthly amount as the long-term treatment. However, the transfers ceased in January 2020. Finally, to understand whether paying the benefits at once or breaking it in several

³More information can be found [here](#).

⁴More information can be found [here](#).

months changes the impact of the transfer, a third arm of the treatment will pay adult individuals the same amount of the short-term basic income treatment but as a lump-sum transfer.

The transfers' logistics work as follows. First, all individuals living in the treated and control villages at the baseline were enrolled in the program. After this enrollment, if someone moved to the village, they were not given the benefits. Second, the payment scheme leveraged Kenya's relatively widespread use of digital payments and mobile money. Specifically, GiveDirectly delivered all transfers through Safaricom's M-PESA mobile money system, the leading such system in the country.

Start year	Country	Region	End year	Pilot/Policy	Initial Amount	Source of funding	Details
2008	Namibia	Otjivero-Omitara	2010	Pilot	~ 22 USD PPP/month	National and international donors	All residents under 60 of the region â registered in the previous yearâ received the benefit for 24 months.
2010	Iran	-	-	Policy	~ 90 USD PPP/month	Government funding originated from the phase-out of subsidies on energy	Phase I: UBI for all citizens (2011-2014); Phase II: Transfers to the 80% poorest (from 2014 on) – but in practice, a larger share of the population keeps receiving it.
2010	Mongolia	-	2012	Policy	~ 7 to 90 USD/month	Mining dividends	Financing the UBI scheme became unsustainable since the program required a fixed budget, and the mining dividends were largely dependent on the commodity prices.
2011	India	Madhya Pradesh	2012	Pilot	~ 6 to 13 USD PPP/month	UNICEF	All village residents registered before the beginning of the pilot got monthly cash transfers for 17 months.
2013	Brazil	Rio de Janeiro	-	Policy	~ 6 US\$ 30	Oil royalties	To be eligible to receive the transfer, residents must have lived in the city for at least three years and belong to households earning less than three times Brazil’s minimum wage.
2018	Kenya	Bomet and Siaya	2030	Pilot	US \$0.75/day	GiveDirectly	Largest RTC on UBI already implemented. Three treatment arms: 1) Long-term treatment: beneficiaries will keep receiving the transfer until January 2030; 2) Short-term treatment: beneficiaries have received the transfer until January 2020; 3) Lump-sum treatment: beneficiaries have received the same amount of the short-term treatment but as a lump-sum transfer.

Table 1: Universal (or quasi-Universal) Basic Income Programs in Developing Countries

3 The impacts of UBI

Besides the issue of how to fund UBI schemes – discussed further in the next section –, there are two perspectives one should analyze when accessing the impact of such programs. The first is whether the UBI met its intended effects. The outcomes researchers focus on when accessing such effects are usually individuals’ well-being, health, education, and financial stability. For developing countries, in particular, an important question is whether such programs effectively lifted individuals out of poverty. The second perspective is whether basic income programs have detrimental unintended consequences, such as reducing the work supply or encouraging individuals to spend their benefits on the so-called “temptation goods”, such as alcohol and tobacco.

As shown in the previous section, there are still very few basic income programs – let alone those experimentally evaluated – to produce enough evidence on the topic, especially if we consider the long-term impacts of such programs. Hence, while some of the literature focuses on basic income programs, most of the evidence comes from other transfer programs, such as conditional or unconditional cash transfers. As further detailed next, cash transfers usually have positive effects in terms of well-being, health, education, and poverty alleviation. Interestingly, no study has found evidence of cash transfers’ potential detrimental unintended consequences.

Table 2 summarizes the discussion in the following subsections.

3.1 Evidence on the intended effects of basic income

The evidence of basic income programs is very scarce. Among all the programs reviewed in section 2, only the ones in India, Kenya, and Brazil have been experimentally evaluated or have evaluation plans ahead. From those, India is the only case with final results. Kenya has some short-run effects already, but we still need to wait to know about the long-term impacts of the program. The Brazilian program’s research team has also not released the final results

yet. In Namibia, the collection of data before and after the program's implementation gives us some idea about its impact. However, since there is no control group to compare the trends with, one should read the results stemming from this program with such a critical caveat in mind.

However, although scarce, the evidence on basic income programs is promising regarding the benefits of such programs for individuals' well-being, especially if one focuses on poverty reduction.

The Namibia pilot on the Basic Income Grant compared households in the region receiving the program before and after its implementation. Even though the evidence from the pilot should be seen with a grain of salt since there was no control group to compare the poverty trends with, the results show a reduction of households below the food poverty line and household debt one year after the implementation of the program. Other results include a reduction in child malnutrition and school drop-out, and increased health expenses ([Haarmann et al., 2009](#)).

Since India's basic income pilot encompasses both treatment and control villages, the evidence stemming from this project is more credible than the one in Namibia. Still, the pilot's evaluation results send the same message about the benefits of basic income in reducing poverty. The basic living conditions of individuals in the treated villages improved, with many individuals getting better access to sanitation, drinking water, and cooking and lighting energy source. The share of households reporting having enough money to buy food also increased, especially in tribal villages, the poorest in the relevant study. Other results include increased school enrolment and decreased children malnutrition, especially for girls ([Bharat et al., 2014](#)).

The first wave of results from the large-scale experiment underway in Kenya was released during the COVID-19 crisis. The research team implementing the Kenya UBI experiment was in a unique position to evaluate how a basic income scheme might be a buffer for poor individuals during difficult times since the implementation and baseline of the program had

taken place before the pandemic. Even though these results say little about the impact of basic income programs under normal circumstances, understanding their effect on alleviating poverty in times of crisis is extremely relevant, especially because such an effect is far from obvious. On the one hand, basic income might matter the most during a crisis since inflation and unemployment usually increase. On the other hand, if supply chains get disrupted during the crisis – as was the case with COVID-19 –, transferring money might not be the most effective way to alleviate poverty. Moreover, a small amount of transfer might not be large enough to make a difference during difficult times (A. Banerjee, Faye, Krueger, Niehaus, & Suri, 2020).

A. Banerjee et al. (2020) show in their paper that even a small basic income grant such as the equivalent of USD 0.75 per day delivered substantial benefits for individuals in Kenya. Not only did basic income alleviate food insecurity, but it also increased the physical and mental well-being of receivers. Regarding business activities, while at the beginning of the benefits, before the pandemic, the basic income encouraged individuals to start a business, the grant helped business owners to avoid closing their doors for good during the pandemic.

Besides the evidence described above, we can learn about the impacts of basic income programs by looking at the effects of cash transfers. In particular, the design of unconditional cash transfers is very similar to basic income programs, except that such transfers are not universal and target the poor. As it will be discussed in section 4, financing target cash transfers might impose a lighter budgetary burden when compared to universal basic income, but they demand more administrative effort from governments and are subject to exclusion errors that might harm the poor. In any case, the main differences between basic income programs and unconditional cash transfers regard their costs and implementation logistics. One might worry that target cash transfers discourage work, especially for the individuals close to the threshold considered for inclusion. As we will see, however, there is no evidence of such a pattern. Besides working considerations, the impact of both types of programs on beneficiaries should be the same, which makes the evidence of unconditional cash transfers

a valuable source to learn about the effects of basic income.

The body of evidence on the impacts of cash transfers is much larger. [Bastagli et al. \(2016\)](#) perform a rigorous review on the topic and show that, until 2016, there were about 130 low- and middle-income countries that had at least one unconditional cash transfer program. The review presents evidence on the impact of conditional and unconditional cash transfers on several outcomes. First, conditional and unconditional cash transfers increase household expenditure, particularly on food. Some studies also reported a decrease in different poverty measures. Second, cash transfers also increase school enrollment and engagement – measured by absenteeism. The authors point out that results were more substantial for conditional cash transfers. However, if unconditional cash transfers are labeled as being aimed at human capital accumulation, they also deliver positive results. Third, regarding health outcomes, cash transfers positively affect the use of health facilities and dietary diversity, with some evidence also showing increases in anthropometric outcomes, such as reduction in stunting and underweight. While the impacts were more prominent for conditional cash transfers, they were also positive for unconditional transfers. Fourth, cash transfers led to increases in savings and the ownership of agricultural and livestock assets. Most of the evidence on these last results comes from unconditional cash transfers implemented in Sub-Saharan Africa. Other positive benefits pointed out by the authors were decreased child labor and increased women’s empowerment.

In South Africa, in particular, [Bell \(2020\)](#) investigated the impacts of extending the child support grant to adolescents on their human capital accumulation. The author finds that the grants – which are unconditional – increased school enrollment and attainment, especially for girls and low-SES individuals.

3.2 (Absence of) Evidence on the unintended effects of basic income

Policymakers have two main concerns when considering the implementation of basic income programs. The first concern is that transferring cash to individuals will reduce their labor

supply. Such a concern is rooted in the simple economic labor supply model, where individuals should work to pay for leisure time. Hence, if they receive a lump-sum amount of cash, they naturally will reduce their working time due to an income effect. However, there are other variables one should consider when making such predictions, especially in low- and middle-income countries, where many individuals are financially constrained. If individuals cannot make investments or take risks because of financial constraints, cash transfers might help them increase their labor market participation.

Policymakers' second concern is that individuals will spend cash transfers on "temptation goods". These are goods that individuals benefit from consuming at the time of consumption but would not like their future selves to consume such goods (A. Banerjee & Mullainathan, 2010). In the cash transfer arena, alcohol and tobacco are the main kinds of temptation goods policymakers care about.

As detailed in the following paragraphs, the evidence so far has not shown support for either of these concerns.

For what regards labor supply, two studies, in particular, greatly help to alleviate such concerns. First, A. V. Banerjee, Hanna, Kreindler, and Olken (2017) re-analyze the data of cash transfers randomized control trials in six countries worldwide to investigate whether such transfers reduced labor supply. They use data from two programs in Mexico and programs in Honduras, Indonesia, Morocco, Nicaragua, and the Philippines and focus on individuals' propensity to work and the number of hours worked. They find a very precisely estimated zero impact of cash transfers for both outcomes, looking at each program separately and pooling all data together to increase precision.

Second, Salehi-Isfahani and Mostafavi-Dehzoeei (2018) investigate whether the basic income program implemented in Iran led to changes in the country's labor supply. The authors use panel data and establish causal effects by exploiting both the fact that households started receiving the benefit at different times and that the transfers had a heterogeneous impact on individuals' income, given their initial level of wealth. As in A. V. Banerjee et al. (2017),

they find no evidence that the transfers reduced labor force participation or hours of work. Their results actually show that the transfers increased the labor supply of women and self-employed men.

Besides these two studies, [Bastagli et al. \(2016\)](#) did not find support for the hypothesis that cash transfers reduce overall labor supply in their review about cash transfers. Most of the studies investigating the impact of cash transfer on labor found null results. Among those who did find an effect, the evidence shows that, depending on the nature of the program, the transfer can help individuals meet their desired increase or decrease in time spent on paid work. Elderly individuals, for instance, might be able to reduce their workload if they receive the transfers ([Kassouf & de Oliveira, 2012](#)).

Regarding temptation goods, [Evans and Popova \(2017\)](#) perform a systematic review on studies about conditional and unconditional cash transfers implemented in low- and middle-income countries. First, the authors show that almost none of the 19 studies analyzed, encompassing ten countries in Latin America, Africa, and Asia, found evidence of cash transfer in the consumption of alcohol and tobacco. Second, the authors perform a meta-analysis to calculate the mean effect of cash transfers on total expenditure on alcohol and tobacco and find a negative and significant impact. Hence, if anything, individuals decrease their consumption of temptation goods when receiving cash transfers. The causal chain probably works in the opposite direction of common sense: individuals are not poor because they spend all their money on temptation goods; instead, they might consume more temptation goods because they are poor.

Other evidence from UBI programs also shows no reason for concern. In Namibia, results from the BIG pilot found an increase in the share of individuals engaged in income-generating activities. At the same time, there was no evidence that the program increased the use of alcohol ([Haarmann et al., 2009](#)). During the basic income grant pilot in India, productive work increased, and there was no change in the consumption of alcohol ([Bharat et al., 2014](#)).

Country	Type of program	Methodology	Results	Reference
Namibia	UBI	Before/After comparison of beneficiaries	Reduction of households below the food poverty line; Reduction of household debt; Reduction in child malnutrition and school drop-out; Increase in health expenses; Increase in the share of individuals engaged in income-generating activities; No impact on the use of alcohol	Haarmann et al. (2009)
India	UBI	Random selection of treated and control villages	Increase in access to sanitation, drinking water, and cooking and lighting energy sources; Increase in the share of households reporting having enough money to buy food; Increase in school enrolment; Decrease in children malnutrition; Increase in productive work; No change in the consumption of alcohol	Bharat et al. (2014)
Kenya	UBI	Randomized Control Trial	Decrease in food insecurity; Increase in physical and mental well-being; Prevented business activities from closing during COVID-19	A. Banerjee et al. (2020)
Iran	UBI	Difference-in-differences	No general impact on labor force participation or hours of work; Increase in the labor supply of women and self-employed men	Salehi-Isfahani and Mostafavi-Dehzoeei (2018)
Several low- and middle-income countries in Latin America, Africa, Asia and the Pacific, Europe, and the Middle East	CCTs and UCTs	Systematic review	Increase in household expenditure, particularly on food; Decrease in different poverty measures; Increase in school enrollment and engagement; Increase in the use of health facilities and dietary diversity; Increase in anthropometric outcomes; Increase in savings and the ownership of agricultural and livestock assets; Decrease in child labor; Increase in women's empowerment; No impact on overall labor supply	Bastagli et al. (2016)
Mexico, Honduras, Indonesia, Morocco, Nicaragua, and the Philippines	CCTs and UCTs	Re-analysis of the data of each RCT	No impact of cash transfers on individuals' propensity to work and the number of hours worked	A. V. Banerjee et al. (2017)
Several low- and middle-income countries in Latin America, Africa, and Asia	CCTs and UCTs	Systematic review and meta-analysis	No impact on the consumption of alcohol and tobacco	Evans and Popova (2017)
South Africa	UCT	Difference-in-differences	Increase in school enrollment and attainment	Bell (2020)

Table 2: Impacts of UBI, Conditional Cash Transfer (CCT), or Unconditional Cash Transfer (UCT) on several outcomes

4 UBI versus targeted cash transfer programs

We have seen in section 3 that most of the evidence about the impact of giving cash to people comes from target cash transfer programs, conditional or unconditional. Once the benefits – and the absence of undesirable side effects – of cash transfers are established, an important policy question is whether to provide cash transfers targeted to vulnerable populations or a UBI – a non-target cash transfer – to the whole population.

Supporters of target cash transfer argue that, for any given budget, if a cash transfer policy aims to reduce poverty and inequality, it should target the poor so they will receive a larger amount of money. If the entire population shares the budget dedicated to a cash transfer policy, each individual cash transfer will be so minimal that it would not make a difference. Hence, the budget should be directed only to the poorest so that each of them will receive a larger share.

A UBI scheme could, in principle, be financed through proportional or progressive taxation, which ultimately would result in substantial redistribution to the poor. However, most individuals in developing countries are outside the tax net due to the massive informal sector in these countries. Raising taxes on the small share of the population who do pay taxes could lead to significant distortions (Hanna & Olken, 2018).

Three other elements increase the complexity of such discussion. First, UBI schemes can lead to social multipliers and avoid social and political costs linked to targeting cash transfers. Second, since income is hard to observe, especially in developing countries, targeting the poor leads to errors, violating horizontal equity, where similar individuals should be treated similarly. Third, there might exist alternative cash transfer schemes that could represent a reasonable middle ground between target cash transfers and a UBI. The following subsections discuss each of these elements in more detail.

4.1 Social multiplier and social and political costs of target cash transfers

Since markets are imperfect, especially in developing countries, offering cash transfers to a part of the population that is slightly better off than the extremely poor could lead to high multiplier effects. For instance, an individual not so trapped in poverty that receives a transfer might not need to spend all of it on basic needs such as food and health and might be able to invest part of the money. This person could open a small business and hire other people in the community or could loan money to a neighbor in need. In this case, the money going to that individual would generate a larger multiplier effect, ultimately benefiting the poorest (A. Banerjee, Niehaus, & Suri, 2019).

Angelucci and De Giorgi (2009), for instance, provide evidence that Progressa, the most extensive cash transfer program in Mexico, increased the consumption not only of recipients of the transfers but also of their uneligible neighbors. The authors show that this multiplier effect emerges because, in the absence of formal credit and insurance markets in Mexican villages, community members engage in informal risk-sharing activities. Hence, once some start to receive cash transfers, they re-distribute such money through gifts and loans.

At the same time, however, target cash transfers can have substantial social and political costs. On the one hand, they can lead to stigmatization and a social divide among beneficiaries and non-beneficiaries. On the other hand, since middle class and wealthier individuals do not directly benefit from cash transfers, this makes it harder for such a policy to be politically viable in the short or long run (Adato, Roopnaraine, Álvarez, Peña, et al., 2015; Gelbach & Pritchett, 1999; Kidd, Calder, & Wylde, 2011; Kidd & Wylde, 2011; Moene & Wallerstein, 2003). Such costs could reduce the positive multiplier effects of a target cash transfer program.

A UBI scheme could potentially generate higher multiplier effects than target cash transfer programs by offering money to individuals in a better condition to reinvest it and avoiding social and political costs associated with targeting. However, as said before, any financially

sustainable UBI scheme would need to significantly decrease the amount of money going to each individual, which could prevent multiplier effects from emerging. Unfortunately, there is still not enough evidence to understand if a universal basic income would generate similar (or larger) multiplier effects than target cash transfers. The experiment underway in Kenya will bring valuable insights into this issue, but we will need to wait some more years to have a clear idea about the results.

4.2 Targeting errors and Administrative costs

Means-tested cash transfers are based on individuals' wealth and aim to benefit the poorest share of the population. However, identifying individuals' wealth is highly challenging, especially in developing countries where the informal sector is so prevalent. Most governments do not adopt a means-tested transfer but a "proxy means test" where households' income is proxied by individuals' assets, education, etc. Hence, targeting the poor involves administrative costs, such as regularly gathering detailed data on individuals' wealth proxies. Besides such costs, using proxies for individuals' wealth leads to two types of errors: inclusion errors, when the government sends transfers to those who are not poor, and exclusion errors, when the government fails to include poor individuals among the beneficiaries. Exclusion errors, in particular, lead to violations of horizontal equity, which establishes the government should treat individuals in similar circumstances similarly ([Hanna & Olken, 2018](#)).

The discussion regarding the trade-off between incurring exclusion errors at the risk of increasing poverty, and incurring inclusion errors at the risk of pressuring the governmental budget, is extensive, and it does not offer a definite answer. For instance, [Hanna and Olken \(2018\)](#), [Brown, Ravallion, and Van de Walle \(2018\)](#) and [Gentilini, Grosh, Rigolini, and Yemtsov \(2019\)](#) perform simulations of poverty and welfare comparing different countries and assuming different targeting-efficiency and budgetary scenarios for two different policies. The first is a target cash transfer that incurs exclusion errors. The second is a UBI scheme that can be thought of as incurring inclusion errors since rich people who do not need the

money will also be eligible to receive it.⁵

Hanna and Olken (2018) find that, in terms of welfare gains, target cash transfers deliver greater welfare for budget-neutral policies, even after administrative costs are taken into account. Brown et al. (2018), in turn, focus on poverty count and shows that for some scenarios, a UBI scheme performs just as well, or even better, than a target cash transfer program. Gentilini et al. (2019) show that the differences between target and not target cash transfers regarding poverty will depend on how well poor people are included in a target cash transfer. In South Africa, for instance, the authors find that target cash transfers perform better than a budget-neutral UBI scheme, especially if we consider the extremely poor.

4.3 Alternative cash transfers

Perhaps the discussion should not focus on a binary choice between two very opposite options: a rigorously targeted cash transfer or a completely universal basic income scheme. Hanna and Olken (2018), for instance, discuss alternative methods of transferring money that could improve targeting and alleviate administrative and political costs of traditional target cash transfers. One of these methods is self-selection into a basic income scheme that would, in principle, be universal since anyone could receive it, but that would impose some small costs to select out wealthier individuals. Suppose there are opportunity costs – more costly for the rich – associated with subscribing to or receiving a cash transfer. In that case, wealthier individuals might select out of the program, even if it is framed as a UBI. An example is the National Rural Employment Guarantee Act (NREGA) in India, which entitles any citizen in a rural area to 100 days of work paid with the minimum wage. The program is not means-tested since anyone can enroll in it, regardless of their income. However, individuals who have slightly better jobs will not choose to subscribe to the program.

The opportunity costs to screen out more affluent individuals from a cash transfer program can be even smaller than those associated with NREGA. In a field experiment in

⁵See Besley (1990) for a more theoretical discussion about this issue.

Indonesia, [Alatas et al. \(2016\)](#) shows that making individuals come to government offices to subscribe to the program as a first screening stage induces wealthier individuals to do not subscribe.⁶

India has been working to issue a system of identification based on the biometric identification of individuals. Although the implementation costs of such a system might be high, once it is implemented, it might help identify the receivers of cash transfers and avoid double counting. As discussed by [A. V. Banerjee and Duflo \(2019\)](#), in this scenario, if individuals need to personally go to a government office to be biometric identified and only then receive a cash transfer (potentially a UBI), this might discourage wealthier individuals from going through this hassle to receive the money. If this is a large enough share of the population, a UBI scheme might be more effective than a target cash transfer since it would not incur exclusion errors and, at the same time, its budget would not need to be shared among the whole population.

Another way to prevent wealthier individuals from benefiting from a cash transfer is labeling such a transfer as directed to the poor. A field experiment in Morocco has shown that only labeling a cash transfer as an educational support program led to higher human capital investments in the beneficiaries' children, even if effectively enrolling their children in school was not a condition to receive the money ([Benhassine, Devoto, Duflo, Dupas, & Pouliquen, 2015](#)).

However, labeling a cash transfer as directed to the poor might create stigma. At least in the US, stigma is an important factor that prevents poor individuals from claiming certain benefits directed to low-income populations. For instance, an experiment showed that labeling the Supplemental Nutrition Assistance Program (SNAP) as an advantage program from the State that working families might be eligible to lead to higher take-up rates than labeling it as a "food stamp" benefit ([Whitmore, 2009](#)). Hence, any transfer scheme labeled as directed to the poor should be experimentally tested before its implementation to ensure

⁶Of course, such costs will only be effective in selecting out the rich if they are more costly for the rich. As shown in [Gupta \(2017\)](#), too complex paperwork can actually impact the take-up of the poor.

that stigma will not prevent the poor from subscribing.

The final message is that we need more research to understand the optimal design of cash transfer programs. Whether there is an opportunity cost high enough to discourage rich people from benefiting from the program without discouraging the poor, a label appealing enough to attract only the targeted population to receive the transfer without creating stigma, or a combination of both methods, is an empirical question that still needs to be answered. Moreover, the optimal design of cash transfer programs might be highly cultural- and context-dependent, making it essential for governments to perform their own research on the topic through pilot programs, surveys, and field experiments.

5 Discussion: UBI in South Africa

South Africa is a middle-income country with the most industrialized, technologically innovative, and diverse economy in Africa. The country's GDP per capita in 2019, before the COVID-19 pandemic, was about US\$ 6,600, compared to the average of US\$ 5,400 for other middle-income countries and the average of US\$ 1,600 for other Sub-Saharan countries. Still, the country has one of the highest poverty and inequality rates. In 2014, the most recent year of data from the World Bank indicators, 57% of the population was living below US\$ 5.50/day (2011 PPP), and 18.7% of the population was living below US\$ 1.90/day (2011 PPP). Inequality, measured by the Gini index, was about 63 in 2014. In the same year, the richest 10% of the population concentrated 50.5% of the income share, while the poorest 10% concentrated only 0.9% of this share. Unemployment is another pressing concern. In 2019, before the pandemic, 28.5% of the total labor force was unemployed. This figure, already very high, increased after the pandemic and achieved a level of 33.6% in 2021.⁷

The discussion about implementing a UBI in the country has been very prominent, especially after the government introduction of the special COVID-19 social relief of distress grant. Supporters of UBI see it as an effective policy to address the country's high poverty

⁷Source: <https://data.worldbank.org/>

rates and pressing inequality. The results from the literature about the impacts of cash transfers in section 3 indeed show positive results regarding poverty and inequality reduction.

However, budget considerations need to be at the center of any discussion about implementing such a policy. Unfortunately, as shown in section 2 for Mongolia and Iran, the few instances of UBI implementations in developing countries led to budgetary deficits and had to be re-designed as target transfers. Both Iran and Mongolia tried to fund their UBI schemes with royalties from natural resources, which have proven problematic in times of low commodity prices. Raising taxes to fund a UBI scheme would require a state capacity that most developing countries do not have, given the size of their information economy. In South Africa, for instance, one in every six individuals who work is employed by the informal sector (Chen, 2018).

Hence, when designing a financially sustainable cash transfer program, policymakers have to consider the efficiency of such a program, that is, a program that decreases poverty the most by requiring the smallest budget. Goldman et al. (2021) performed several simulations considering scenarios to replace the special COVID-19 social relief distress grant in South Africa. The authors show that a UBI scheme would be the least efficient one, even if it would have the most significant impact on poverty reduction. The inefficiency of a UBI scheme stems from the prohibitive costs of implementing this policy, even considering a clawback mechanism that would reclaim the value of the grant from all wealthy enough registered taxpayers. Other complicating factors not considered by the authors are the political costs of raising taxes and the possible distortions on the already small formal market that such a raise could lead to.

Another alternative would be implementing a budget-neutral policy, substituting the current social assistance programs with a UBI scheme. An immediate candidate for such a budget-neutral reform in South Africa would be the social grants.

In South Africa, social grants are the largest source of benefits in the social assistance

system, both in terms of beneficiaries and the budget dedicated to it. These are composed of eight types of unconditional cash transfers under the Department of Social Development (DSD) responsibility. The grants' benefits target different groups of vulnerable populations such as children, the elderly, and people with disability. The system also encompasses a social relief of distress program, a temporary provision of assistance to vulnerable individuals involved in some kind of emergency. The amount spent on social grants is quite large. The average spending between 2009 and 2019 was about 3.3% of the country's GDP ([World Bank, 2021](#)).

However, the country's social grants have a crucial weakness. The groups of people targeted by the grants are those who cannot participate in the labor market. This is justified by the fact that these groups of people face higher risks of poverty. Nonetheless, South Africa suffers from very high unemployment rates, making working-age individuals vulnerable to poverty. Since the design of the social grants has a blind spot around these individuals, their poverty risks are considerable. Moreover, since these individuals usually have fewer chances of investing in their human capital, not having them under the social assistance umbrella might also increase inequality.

Hence, replacing the social grants with a UBI scheme could be more effective in decreasing the poverty risk for a larger share of the population. Nevertheless, since the whole population would now share the social grants budget, the amount of money going to each individual might not be enough to lift them out of poverty. Which effect of such a reform – having a larger share of the population at risk of poverty benefited by the program or decreasing the amount of money going to each individual – will prevail in poverty reduction is an empirical question.

As stated in section 4, [Gentilini et al. \(2019\)](#) investigated such an issue in several countries, including South Africa. The study simulated what would happen to poverty and inequality if the countries' main social assistance program – social grants in the case of South Africa — were replaced by a UBI scheme. The results are not very encouraging for

UBI supporters. The study found that, in South Africa, the poverty count – that is, the number of people living under the poverty line – would be the same either with the current social grants scheme or with a budget-neutral UBI scheme. However, if one focuses on the squared poverty gap – a poverty index that gives higher weight to the extremely poor – the social grants perform better than the UBI. While the social grants reduce 15.55 percentage points the squared poverty gap, a budget-neutral UBI scheme would reduce it by only 12.68 percentage points. According to the simulations, social grants are also more effective in reducing inequality: they reduce the Gini index by 7.4 p.p., while a UBI scheme would reduce them by only 6.0 p.p.

Nonetheless, while the simulations performed by [Gentilini et al. \(2019\)](#) are a good starting point, they consider a UBI scheme that goes to the whole population. For instance, they do not simulate what would happen if alternative UBI schemes, like the ones discussed in [section 4.3](#), could make wealthier individuals select out from receiving the benefits.

Again, whether nudging wealthier individuals to not benefit from the basic income would be enough to make a budget-neutral UBI reform effective in South Africa is an empirical question. To answer it, one would need to perform a similar exercise such as [Gentilini et al. \(2019\)](#)'s simulations, but under different scenarios. These estimations would show what would be the share of the wealthy population willing to forego the benefit to make a UBI scheme more effective for poverty and inequality reduction. Moreover, one would need to perform a pilot or at least a survey experiment with the population to understand individuals' willingness to claim the basic income benefits and how much such willingness would depend on their income, the time needed to get the benefits, and the labeling of the benefit. So far, these are open questions that need more evidence to be answered. Hence, it is perhaps premature for the government to think about a large-scale implementation of a UBI scheme in the country.

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