ECONOMIC MITIGATION AND RELIEF MEASURES FOR COVID-19: A PROPOSAL FOR A SPECIAL COVID GRANT

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Executive Summary

The COVID-19 pandemic - as well as the measures to contain it - threaten to dramatically deepen South Africa's existing crisis of unemployment, poverty, and inequality. While many important relief interventions have already been announced, there is a serious risk that many poor South Africans may still fall through the cracks, precipitating large increases in the levels of food insecurity, poverty and unemployment. Without serious mitigation efforts, many households will fall even further into poverty and some will not be able to recover, significantly increasing our unemployment rate. In addition, the potential scale of food insecurity could tip South Africa into an unprecedented social crisis. This is why the response needs both economic and social dimensions, with a strong interaction between these. A key issue in this regard is that poor households are disproportionately reliant on income from the informal economy, which will suffer significant income losses as a result of the Covid-19 crisis, with a risk of a significant rise in food poverty as a result.

It is in this context that work on the design of Special Covid Grants was commissioned by Rudi Dicks and Saul Musker from the Project Management Office in the Presidency. On 28 March 2020, the first proposal for Special Covid Grants was tabled into government's Covid-19 emergency response processes by the PMO. The first part of this proposal motivated that **the first priority should be to secure a temporary increase to the Child Support Grant (CSG).** This was supported by work commissioned by the Presidency PMO and undertaken by SALDRU, using data from the National Income Dynamics Study (NIDS) to model the impacts of various grant options.

The evidence illustrates that the CSG is a highly effective means of progressively distributing income to the poorest households and of supporting the food security of children, which might otherwise be compromised from loss of household income over this period, as well as the loss of access to interventions such as school feeding. The work undertaken also illustrates the significant shock that can be expected in poor households from the loss of income from informal sector activities, with a 35% projected increase in extreme poverty from a loss of 75% of informal sector income. The proposal illustrates that over forty percent of CSG households include someone from the informal sector, with this overlap strongest in the poorest deciles, creating important spill-over effects of an increase in the CSG for the poorest segment of the informal sector.

The increase to the CSG remains crucial and is an urgent priority. The proposal as tabled by the PMO also argues that the CSG will however not on its own be sufficient to mitigate the economic impact on households reliant on income from the informal sector, including in the middle deciles where the overlap with the CSG is less pronounced and where the income loss from informal earnings could act as a pushback into poverty. On this basis, the proposal motivates that further work should be undertaken to scope the potential for a Special Covid Grant targeting those most affected by the loss of informal sector income. This is the outcome of that work.

At the start of this process, there seemed to be a policy logic to targeting people in the informal sector directly. Yet there was a disjuncture between what was desirable and what was possible, because by definition, the informal sector is largely invisible in administrative data. Although we have statistical information on its scale, this is anonymised. Without a complex process of verifying people's individual histories of economic activity, there is no way to separate out those in the informal economy from the wider group of those who are unemployed or not economically active. These latter groups largely fall outside of current social protection provisions. There has therefore long been a case to include them. But the argument made was that because they are not 'directly' affected by the COVID crisis, now is not the time to do so. What this overlooks, however, is that these groups are completely dependent on 'goodwill transfers' within their households. The drop in household incomes *will* directly affect them and they are particularly vulnerable.

The imperatives of the moment informed a shift focusing on mitigating the poverty-deepening impacts of the crisis in ways that would support people in the informal economy as part of a wider vulnerable group. In the process, this would also assist recovery in the informal sector, through the stimulus effect of increased local spending by a wider universe of poor households.

The challenge, however, is that this wide targeting creates a large group of about 15 million people, and the fiscal implications are considerable. The grant design team has, therefore, explored ways of reducing the scale of this group in ways that nevertheless continue to reach those who need it most. For example, current targeting yields relatively large numbers of potential beneficiaries in deciles 8-10, which could be considered errors of inclusion. Through engagement with the Banking Association of South Africa (BASA), it has been confirmed that it would be feasible to apply an upper income threshold on applicants, based for example on an average turnover in their bank accounts over the last three months.

Based on a range of variables discussed in 5.2, it is possible to bring the scale of the grant down to levels that although still significant, are at least somewhat more manageable from a fiscal perspective, without compromising the intended impacts. A scale of 8 million beneficiaries would yield the following indicative budget options. Of course, the higher the amount per month and the longer the duration, the better the poverty impacts.

Total beneficiaries (estimate) (millions)	Grant amount p/m	Total Budget plus admin @ 8% for 3 months	Total Budget plus admin @ 8% for 4 months
8	R375	**R9,7 billion**	**R12,9 billion**
8	R500	**R 12,7 billion**	**R 17,0 billion**
8	R700	**R17,5 billion**	**R23,4 billion**

The proposal for a Special Covid Grant on these terms is presented here, covering those in the informal economy as well as unemployed people and people who are not economically active, and who are not receiving other grants or support. It is tabled as a contribution to the current urgent policy debate on measures to mitigate the social and economic impacts of the COVID crisis.

1. Introduction

The South African government has moved quickly and decisively to contain the transmission of COVID-19. In the process, however, both the pandemic and the measures to contain it threaten to dramatically deepen our existing crises of unemployment, poverty, and inequality. While many important relief interventions have already been announced, there is a serious risk that large groups of vulnerable South Africans may still fall through the cracks.

As **Table 1** illustrates, despite the extensive social grants system, over 45% of the population still lives under the StatsSA poverty line, while the poorest 10 percent of the population live on an average monthly income of just R352 per month. In the South African context of high inequality, even households in deciles 5, 6, and 7 still frequently find themselves in, or remain vulnerable to falling into, poverty (*Schotte, Zizzamia and Leibbrandt*, 2019)

Table 1: Mean monthly per capita income by population decile, in February 2020 Rands.

Decile	1	2	3	4	5	6	7	8	9	10
Monthly Income	352	603	829	1,127	1,497	1,983	2,737	4,107	7,473	25,214

Particularly vulnerable are households reliant on income from the informal economy, for which the lockdown and other measures to curb the spread of the virus will have caused a steep loss in income. The ensuing collapse in consumption expenditure by poor households will only multiply the impact on the informal sector and the poorest South African households.

Informal employment[1] constitutes **a full 30% of total employment**. A significant proportion of these jobs are at risk, with these workers having no access to UIF or other COVID wage support mechanisms. Despite their lower earnings, analysis of the impacts on informal enterprises suggests that in terms of the effect on poverty, the loss of 100 typical informal jobs is still equivalent to the loss of around 63 formal sector jobs. These effects are substantial. The informal sector, consequently, has very real economic importance, not just for questions of equity, but because it constitutes a weight-bearing column upon which the South African economy and social cohesion are built.

One response to this is to target the informal sector directly. Yet doing so presents unique challenges, because by definition, the informal sector is largely invisible in administrative data, and, despite serious investigation of options by a range of interested parties, robust ways of overcoming this gap at the speed and scale required have proved elusive.

As a result, the focus has shifted to approaches that attempt to mitigate the poverty-deepening impacts of the crisis directly, in ways that support people in the informal economy as part of a wider group of vulnerable households. In the process, this approach also provides support to recovery in the informal sector, through the stimulus effect of increased local spending by poor households.

Any grant attempting to address the poverty impacts of the crisis needs to be underpinned by the following principles:

[1] Informal employment is defined as including the self-employed as well as people who are working precariously (not entitled to basic benefits such as paid leave and medical contributions), working in informal enterprises, in private households or formal firms

- **It needs to be *fast***: which means it requires a simple design which would most likely be a bolt-on to a current policy or programme, with as little complexity as possible. A new institutional architecture would take too long to be enacted and implemented.
- **It needs to be *targeted* as far as possible**: Given tight fiscal constraints any intervention should have the greatest impact on those who would bear the brunt of the downturn.
- **It needs to be *temporary***. There is insufficient fiscal space for a structural increase in support. A special grant would need to be reversed in due course.

This proposal sets out the rationale for such a grant and how it could be operationalised, including how it would be targeted and the options for application and payment platforms.

2. Targeting a Special Covid-19 Grant

How best might vulnerable South African households be supported, in the context of the COVID-19 crisis? The proposal here is for the introduction of a temporary, targeted Special Covid-19 Grant. This grant has been designed as a policy intervention complementary to an increase in the CSG, intended to support those individuals currently falling though the cracks of existing support systems.

Given the urgency of the challenge, the scale of need as well as the constraints imposed by social distancing, such a grant would need to be rolled out quickly, which means it cannot require means-testing or any individualized assessments of application data. Instead, the targeting needs to be able to rely on administrative or other 'clean' data as a basis for categorization and approvals. The implications of this and for its poverty impacts and impacts on people in the informal economy are explored below.

As a starting point, the process aimed to identify the universe of the target groups. Using the 2017 National Income Dynamics Survey (NIDS) data, and triangulating, where possible, with the 2019 Quarterly Labour Force Survey (QLFS) and the 2017 General Household Survey (GHS), the team has been able to identify the groups that might be targeted through a Special Covid-19 Grant (Co-G). To simulate the targeting of this grant, two groups of individuals were prioritised according to the following criteria:

- Co-G Group 1: Individuals who **do not receive a social grant** AND are **not in formal employment**AND are **not registered for UIF**. *This group is meant to proxy individuals who would be eligible for a grant according to criteria of no PAYE, no UIF, and no social grant. It includes informally employed*[2]*, unemployed and non-economically active individuals.*
- Co-G Group 2: individuals who **are informally employed** AND **do not receive a social grant** AND are **not registered for UIF**. *This group is meant to proxy individuals who are vulnerably employed but who not have access to any of the current state interventions.*

Note: Group 2 is a subset of Group 1.

For the individuals in these groups, **there is no current support in place.**

[2] For this analysis, an informal worker is defined as **an individual** that, **if employed,** has no written contract, no medical aid deductions, and no pension deductions**. If self-employed**, the individual's business is not registered for income tax or VAT. Additionally, informal workers include subsistence workers and those doing casual work.

Table 2: Numbers of individuals under different coverage and Co-G groups			
	age 18-59	age 21-59	age 25-59
Co-G group 1	15,100,000	12,800,000	10,400,000
Co-G group 2	4,500,000	4,340,000	3,880,000

Table 2 above shows the number of individuals who would be direct recipients of each CO-G option, differentiating between three age intervals. CO-G group 1 is the larger group, reflecting the broader definition, including the informally employed, unemployed and not economically active. CO-G group 2 is of course smaller, reflecting the fact that it is limited to those who are in informal employment, including self-employment. Neither group receives social grants or is registered for UIF.

CO-G group 2 is more tightly defined and might have been a priority target for special relief in the context of the COVID crisis. However, in practice, while it is possible to separate this group statistically, using survey data, there are very steep barriers to effectively identifying the identities of the individuals in this group in order to target a grant to them. Similarly, while there may have been a case to target support to households, there is no register of households nor of household members - with household composition anyway highly unstable.

In the absence of any robust methodology for targeting either the informal sector or at the household level with existing data sets, further discussion of the Special Covid Grant and its impacts is focused on CO-G Group 1 – the wider group. The analysis looks at the extent to which doing so does indeed reach people in the informal economy as well as the unemployed.

In the sections that follow we assume a simple implementation model of the Special Covid-19 Grant with CO-G group 1 as recipients, with the analysis based on the 21-59 age bracket.

3. Motivation for Intervention Beyond the CSG

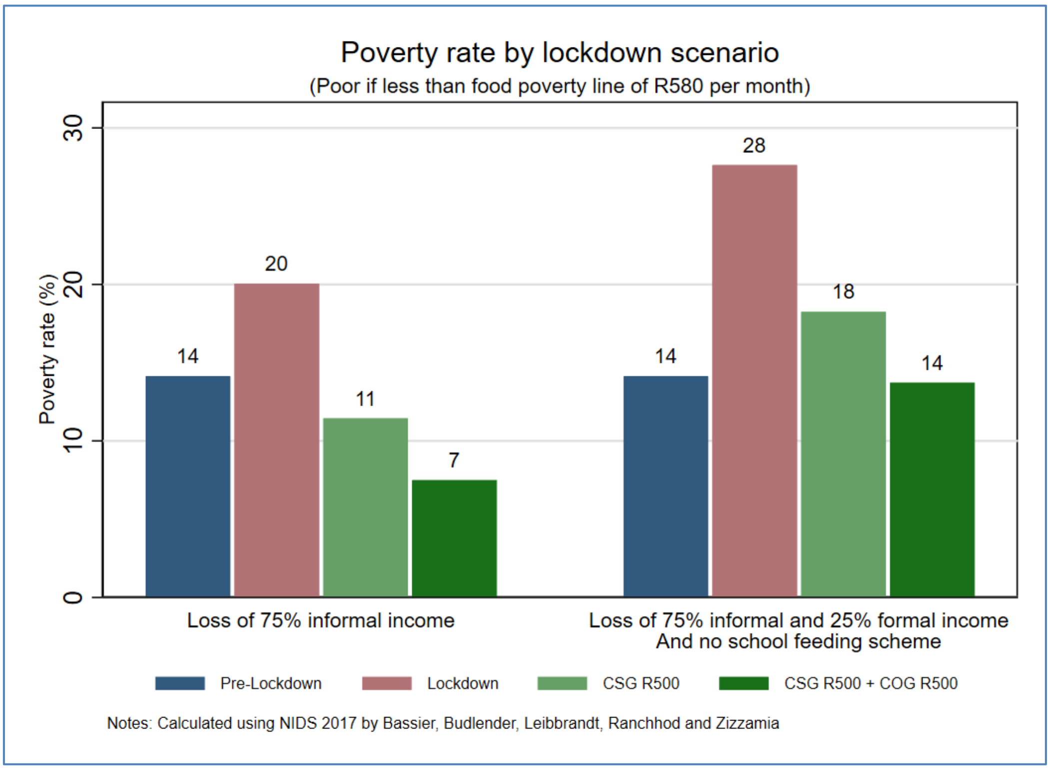
3.1 Better Prevention of Extreme Poverty

Important as it is, on its own, the increase in the CSG fails to adequately combat the slide of poor households into extreme poverty.

This is well illustrated in **Figure 1**. We assume a negative income shock of 75% of informal sector income (without accounting for any of the many other expected shocks to the economy). With no intervention we expect the rate of extreme poverty in the country as a whole (per capita income less than R580 per month) to increase by more than 35%. This, however, is on average largely mitigated by a R375 increase in the CSG.

The impact is more complicated when we look at the subset of households with an informal worker. **For households reliant on income from at least one informal worker the situation is more dire.** Without intervention we expect levels of extreme poverty to more than double (in fact an increase of almost 150%), and while an increase in the CSG is an important mitigating intervention, **it still fails to prevent a 70% increase in extreme poverty** among households reliant on income from the informal sector. Clearly, the CSG increase is not enough on its own to halt the slide of a large number of households into extreme poverty, as a result of informal sector income loss.

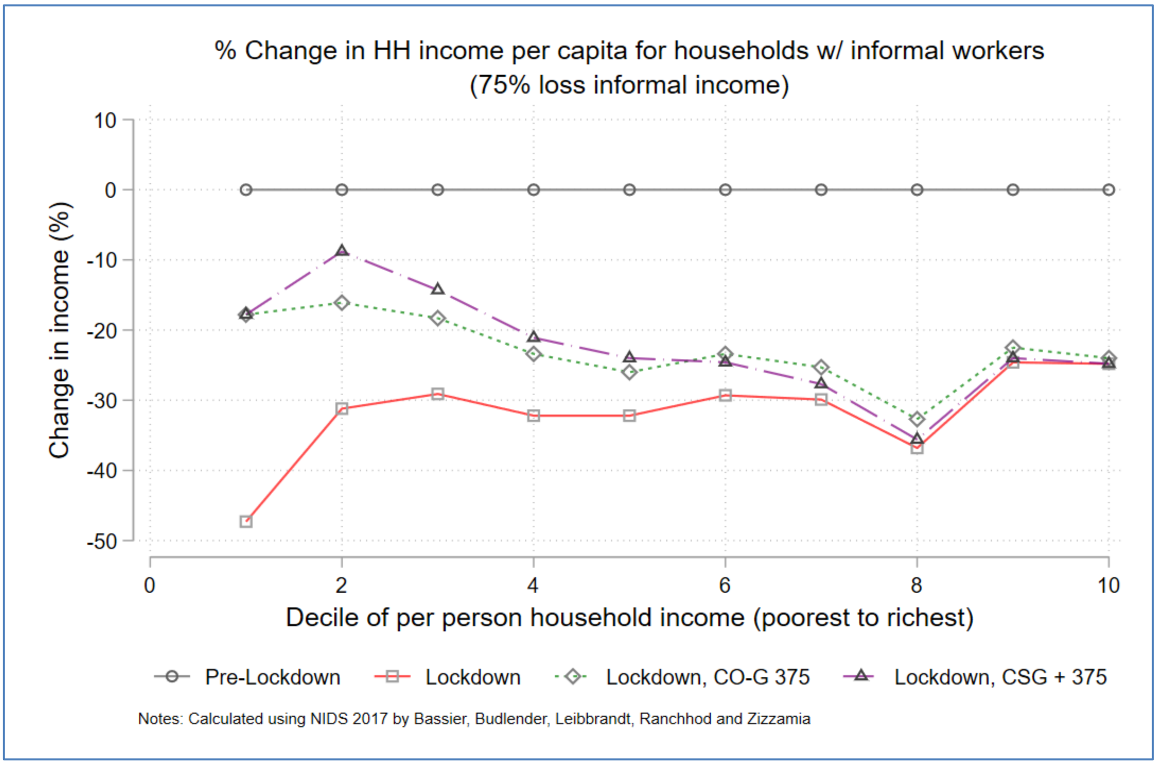
Figure 1: Levels of extreme poverty (headcount ratio) by lockdown scenario, with CSG and Special Covid Grant (COG)



3.1 A Special Covid-19 Grant as Complementary to an Increase in the CSG

A CO-G introduced in tandem with an increase in the CSG offers a well targeted and complementary suite of policy interventions that more successfully covers a broad base of households reliant on informal sector income than either intervention manages individually.

Figure 2: Impact on households with informal workers



In **Figure 2**, we look at the incomes of individuals who are in households with an informal worker**.** We impose a negative lockdown shock to the income of informal workers and then see how the different interventions bring (or do not bring) their household incomes back up. The direct effect of this decrease in income can be seen in how incomes decrease from the horizontal black line at 0% to the **red line** below. As can be seen, the fall in per capita household income is dramatic for those co-resident with an informal worker. This collapse in income is most significant in the 1st decile where households lose fully half of their income, but it remains remarkably consistent through deciles 2 through 7 with households losing around a third of their income due to the shock. Even in those cases in which a household is in receipt of both grants, incomes are not returned to pre-crisis levels.

Figure 2 illustrates that an increase in the CSG (purple) and the introduction of a CO-G (green) each effectively halve the severity of the shock for the very poorest South Africans when implemented individually. It is worth recalling that although there is some overlap, they do in fact cover different households, consequently, used in tandem they present a strong plausible policy response to prevent the slide of vulnerable households into extreme poverty.

3.2 Better Prevention of Marginal Households Falling Below the Poverty Line

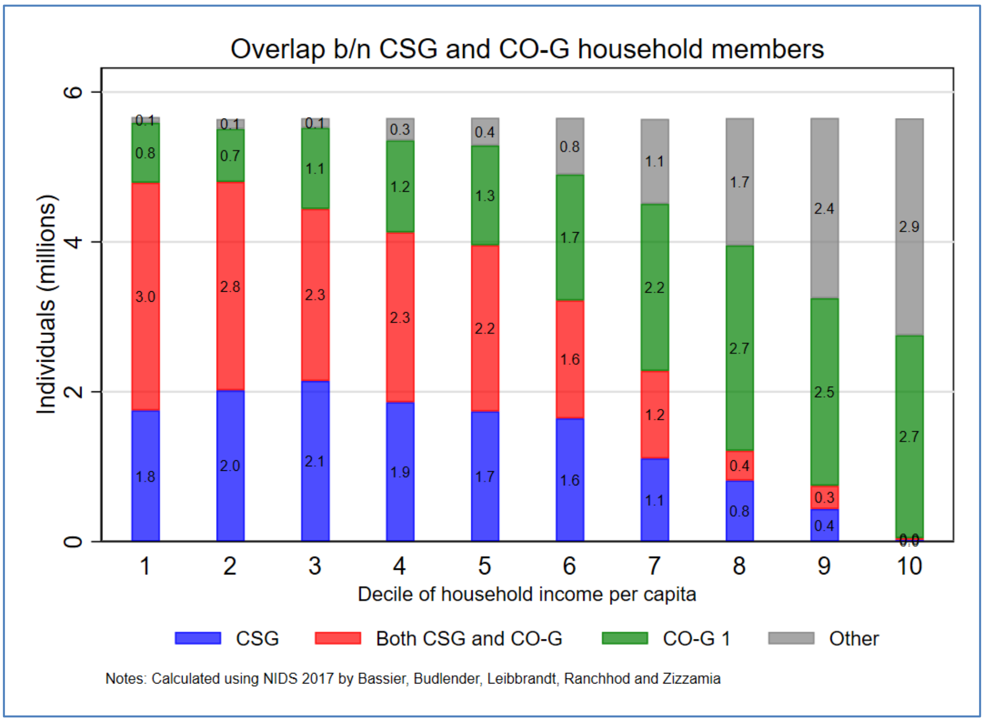
As emphasized, in the South African context even households in deciles 5, 6, and 7 frequently still find themselves in, or remain vulnerable to, falling into poverty. While the CSG is an effective intervention for the lowest deciles its impact is lower, both in coverage and in value for vulnerable deciles further up the income spectrum. This is illustrated in **Figure 3.**

First a note on interpreting these figures. Although we have continued our analysis through the lens of the national income deciles, the number of households reliant on at least one informal worker **will <u>not</u> be equal across these deciles.** They are concentrated in the first 7 deciles and then drop precipitously in deciles 8, 9 and 10. So while the proportional coverage by the CO-G of households reliant on an informal worker may seem quite large in decile 10, for example, the actual number of households being covered in decile 10 is small. The same should be born in mind when interpreting

Figure 1. Both in terms of coverage and value the CO-G is overwhelmingly a transfer to households in the poorer deciles.

Figure 3 demonstrates how coverage of households reliant on informal sector income under the CSG (blue and red on the bars) declines precipitously as we move up through the income deciles. By the time we get to the 7th decile – again these are still vulnerable households – coverage has more than halved. By contrast the proportion of households covered by the CO-G (green and red) remains much more stable across the income deciles, and has an equivalent or greater coverage in deciles 5, 6 and 7. It should also be noted that although there is overlap in coverage between the two interventions, the CO-G always covers some households that the CSG does not.

Figure 3: Coverage of households by intervention (with Co-G group 1)



Note that in **Figure 3**, the red bar represents households in which a CSG recipient is co-resident with someone in the informal sector. These are households that would receive a significant shock from loss of informal sector income, even though they receive the CSG.

Figure 3 also illustrates the sharp decline in the efficacy of the increase in the CSG as we move up through the income deciles, in both absolute and proportional terms, while the proportion of those in green – which are households with no current support – increases. As a consequence, as complementary policies they offer a combined effect that more effectively supports the full spectrum of vulnerable households reliant on informal sector work: with a cut-off excluding the deciles 8-10 ensuring effective targeting.

Note the numbers of individuals reflected in the bars are the total number of people in the households in which there is a grant recipient, not the numbers of recipients themselves.

The introduction, consequently, of a CO-G at an equivalent value to the increase in the CSG (set at

R375 for modeling purposes) presents an effective complementary intervention for both the poorest households at risk of falling into extreme poverty and households at and just above the poverty line that are at risk of falling deeper into poverty. An increase in the Child Support Grant and the introduction of an equivalently valued Special Covid-19 Grant, while individually both go a long way to cushioning the impact of the income shock, used in tandem they present an effective way to support the broadest coverage of the poorest households reliant on informal sector work.

4. The Special Covid-19 Grant as a Vehicle for General Fiscal Stimulus

The global economy will face an unprecedentedly steep recession over the coming months as a consequence of the first-round effects of the lockdown and quarantine measures, and the second-round effects of the concomitant collapse in consumption and investment expenditure. As a consequence, while the immediate priority is to support the most vulnerable against the shock to their income from the lockdown measures, **the state may shortly be facing more complex and substantial questions around how best to implement large scale expansionary fiscal policy in the face of a major economic crisis.**

This proposal follows the introduction of a suite of similar policies in other emerging market economies that have announced targeted support for informal workers and other vulnerable groups. Thailand, for example, has announced a 5,000 Baht (USD 152) grant for its 3 million temporary employees, contract employees and self-employed individuals who aren't covered by the social security system. These transfers will be made directly or through e-wallets. In addition, the government has offered a 10,000 Baht (USD 3000) loan at 0.10% interest that can be taken for up to two years and which does not need a guarantee (Bangkok Post, 2020).

Morocco too has announced relief for informal workers, that it will deliver to recipients through mobile payments. A number of states in India have developed their own relief measures for informal sector workers – the state of Punjab declared an immediate relief of Rs 3,000 (USD 30) to each registered construction worker in the state, and Uttar Pradesh and Kerala are providing a Rs 1,000 (USD 15) transfer to individuals below the poverty line (Business Standard, 2020).

The introduction of a Special Covid-19 Grant presents a useful and flexible vehicle for expansionary fiscal policy in the face of an economic crisis. There is very recent robust evidence for the stimulus effects of these kinds of small transfers to individuals and households in the informal sector and otherwise. One-time cash transfers to 10,500 poor households in rural Kenyan villages generated a fiscal multiplier of 2.6, **i.e. every $1 spent generated $2.6 in economic gains** (Egger, et al, 2019). This result is backed up by research from the World Bank on quasi-cash transfers in the United States **where every dollar spent generated 1.79 dollars in gains** (Oliveira et al, 2017). Finally, a more comprehensive survey by the *World Bank Research Observer* on research on unconditional cash transfers in Sub-Saharan Africa found that **there is little evidence that such transfers lead to negative community-level economic impacts like price distortion and inflation**, and that in general these transfers are not only spent on consumption but a not insignificant proportion is invested (Handa, et al., 2018).

These insights should not be surprising. Cash transfers to the poorest should intuitively be one of the most effective ways of stimulating an economy as their savings rates are by necessity lower than higher income individuals. As a result, the per-Rand-spent increase in consumption and direct investment is likely to be very high for these kinds of transfers, and consequently induce rapid knock-on effects in both the formal and informal economies. To quote Ugo Gentilini, *Global Lead for Social Security Safety Nets* at the World Bank, "… it has become clear that cash injections can spark wider knock-on benefits.”

As a consequence, implementing a Special Covid-19 Grant with a broad rather than narrow group of recipients, in addition to being the only technically feasible option, presents an important policy lever for the state in response to what is likely to be a severe global economic downturn.

5. Operationalising a Special Covid Grant

5.1. Narrowing the target group

Fiscal constraints mean that at the upper level of 15 million potential beneficiaries, there is limited fiscal appetite to proceed and the grant amount is likely to be small. The design team has for this reason looked at how the universe of beneficiaries might be limited, to focus the benefits where they are needed most. Table 3 below illustrates the numbers of potential beneficiaries by age range and decile.

Table 3: Number of potential Special Covid Grant recipients by household income per capita, by age range and by decile

HH income pc decile	**Individual Special Covid Grant recipients**			**HH income pc (R)**	
	(Age 18-59)	(Age 21-59)	(Age 25-59)	(decile min)	(decile max)
1	1,390,849	1,104,197	872,753	56	492
2	1,332,701	1,088,026	818,693	493	710
3	1,361,278	1,103,169	877,203	710	957
4	1,429,819	1,187,912	931,830	957	1,298
5	1,530,509	1,237,649	957,912	1,298	1,698
6	1,574,202	1,328,349	1,049,559	1,699	2,322
7	1,606,244	1,353,902	1,140,689	2,322	3,281
8	1,660,352	1,513,681	1,231,625	3,282	5,216
9	1,571,823	1,389,835	1,179,465	5,216	11,036
10	1,655,460	1,451,310	1,304,473	11,044	682,543
Totals	15,100,000	12,800,000	10,400,000		

Calculated from NIDS 2017 by Bassier, Budlendar, Leibbrandt, Ranchod and Zizzamia

Table 3 illustrates that the total size of this group is 15,1 million people - including many in the upper deciles, who are not the intended beneficiaries. Table 3 also illustrates that a total of 5,5 million people who are not formally employed and who are not receiving any social grant have incomes below R1,298 per month – more or less at the poverty line.

The first option in limiting the range of beneficiaries is to limit the age-range. Limiting it to 21-59 years instead of 18-59 reduces the initial universe of beneficiaries to 12,8 million. While any such limit reduces the poverty impacts, most people in this age-range are still attached to a household rather than having formed their own household and could be deemed to benefit from an intervention that reaches vulnerable households.

The second key area of opportunity in this regard relates to the upper deciles. Using the criteria of

SASSA and other state grants, UIF eligibility and PAYE payment to exclude applicants, not insignificant numbers of people would still be eligible for the grant in the upper deciles. If the grant targets those in deciles 1-6, then some 7 million people are eligible, rising to 8,4 million if decile 7 is included. The top per capita income in decile 7 is only R3,281 – below the level of the minimum wage. However, as a per capita income, this means that a sole earner in the household may earn more than this, while several members of the household may earn less. This creates difficulties in establishing the exact universe of potential beneficiaries under different scenarios. Similarly, someone who is not economically active but co-resident with a formal worker may be in decile 9 of household income per capita (averaged across the household) but will still qualify for the grant because they do not earn. Yet despite the relatively high proportion of people in the upper deciles that report ‘no income’ in the NIDS survey, we doubt that this translates into no access to funds or no bank account, which means an income threshold would effectively exclude them. It would however be critical to test the impact of an income threshold on the universe of beneficiaries with the banks, in order to move from survey-based assumptions to actual numbers of eligible beneficiaries at different threshold levels.

A further mechanism for limiting the universe of beneficiaries is to utiise geo-spatial targeting that uses mobile phone data to prioritise applicants from deprived wards, using the South African indices of multiple deprivation. This has limitations – including that not all poor people live in poor areas - but the design could allow for such anomalies and it is nevertheless an option for enhanced targeting.

Another mechanism of limiting the beneficiaries that has been proposed is to use gender and target only women. **This approach is strongly discouraged.** At present, the CSG has a strong gender bias and this has contributed to good outcomes for children. It has also, however, contributed to a context in which unemployed men without access to UIF and who are not eligible for the Old Age Pension or the disability grant are least likely to receive any form of social support. Despite the evidence that funds in the hands of women contribute optimally to child welfare, there is also evidence that conflict over household finances are a significant cause of domestic violence, with a debate to be had over whether such targeting might contribute to perverse social outcomes, including in relation to gender-based violence, gangsterism, crime and substance abuse. Such targeting could have profound unanticipated consequences.

In sum, however, there are a number of ways in which the universe of beneficiaries can be reduced, and while each one involves its own trade-offs, it is possible to do so in ways that continue to prioritise vulnerable households. If there is an appetite in National Treasury to pursue this grant design further, these numbers need to be run across all the data sets as well as with the banks, to identify the actual universe of beneficiaries based on different assumptions. This will enable the process to transition from estimates based on survey data (with their inevitable limitations) to one based on ‘actuals’ as part of final feasibility stress-testing and grant design.

For the purposes of costing, we have used 8 million as an indicative target universe.

5.2. Costings

The costings are a rough estimate of the fiscal impact including an 8 percent administration fee to disburse the grant.

Table 5: Indicative assumptions and costs

Total beneficiaries (estimate) (millions)	Grant amount p/m	Total Budget plus admin @ 8% for 3 months	Total Budget plus admin @ 8% for 4 months
8	R375	**R9,7 billion**	**R12,9 billion**
8	R500	**R 12,7 billion**	**R 17,0 billion**
8	R700	**R17,5 billion**	**R23,4 billion**

5.3. Grant onboarding and payment

Any grant application comprises two distinct parts, namely: the grant management or onboarding process and the grant distribution or disbursement and payout process.

The on-boarding process comprises registration, verification (which includes authentication) and approval. The disbursement and pay-out process comprises: payment funding, value stores (namely whether it's a bank account, a cash wallet for e-vouchers or food vouchers etc.), disbursement, pay-out and usage of the funds and the back-end administration management which addresses auditability, traceability, transparency and integrity of the end-to-end offering.

Under the Presidency's Project Management Office (PMO), a task team was convened as part of this grant proposal process to look at technical options for platforms and payment systems. The head of the National Payments System at the South African Reserve Bank, Tim Masela, established the task team, which was then convened by the Payments Association of South Africa (PASA), coupled with a smaller Expert Working Group to assess and peer review a spectrum of onboarding and disbursement and payment processes.[3] Their full report is available separately but with key elements summarized here.

The group tested systems able to provide end-to-end solutions that addresses identification, registration, authentication, data warehousing, payment funding, disbursement and payout, against the following criteria:

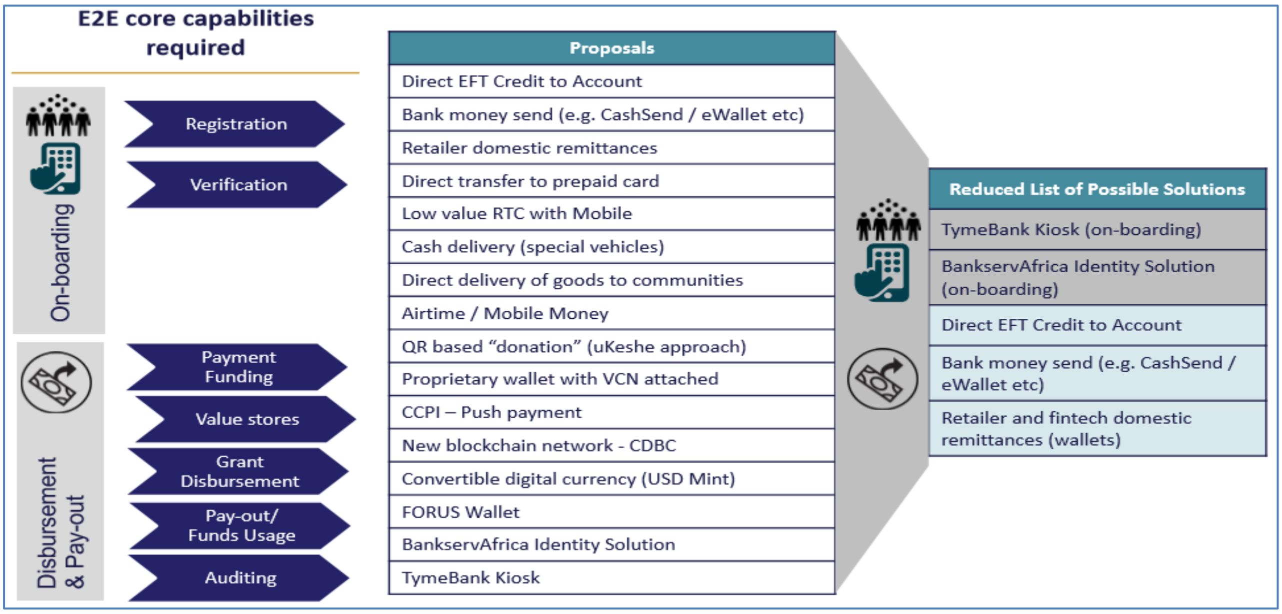
- Ability to make payment to the banked and the unbanked
- Simple and convenient to use
- Ease of access to funds
- Proven and reliable
- Able to address bulk transactions and be scalable
- Safe and secure
- Easy pay-out or access to funds
- Rapid time to market.

Figure 4 illustrates the end-to-end capabilities required coupled with the proposals evaluated and

[3] The broader group was led by Pierre Coetzee (Payments Association of South Africa (PASA). The Expert Working Group comprised the following: Maurits Pretorius (PASA), Vinu Thomas (PASA), Chris Hamilton (Bankserv), Kumaran Selvarajalu (BASA), Aldo Laubsher (Visa), Gabriel Swanepoel (Mastercard), Arif Ismail (SARB Fintech), and Ayn DuBazane (SARB).

the reduced list of possible solutions base don the criteria.

Figure 4: End-to-End Capabilities, Proposals Evaluated and Solutions for Covid-19 Special Grant



5.3.1. Beneficiary Application and Registration Process

The mechanisms to operationalise the grant assume that any grant would need to rely *on mobile, digital platforms for grant application processes*. This would require negotiation with mobile networks to ensure free data access. Once a beneficiary has been approved, the grant distribution or payments process kicks in. In many instances, the information necessary for payments needs to be captured in the registration or application process.

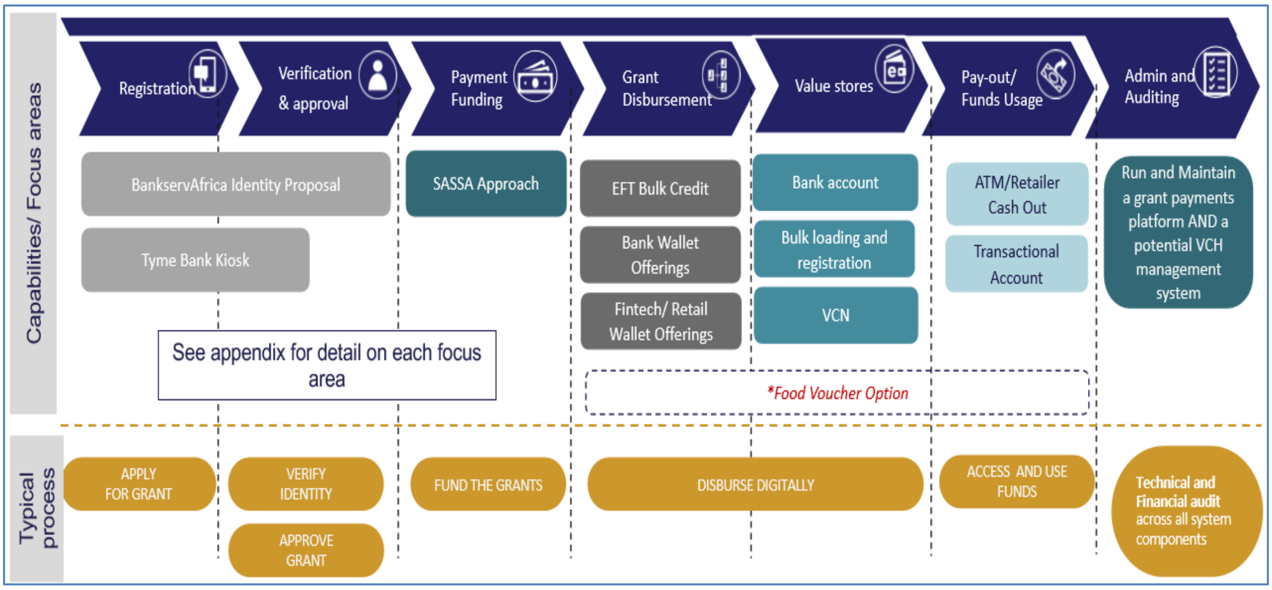
Thus, onboarding can be managed through an online platform that is linked to a back-end platform able to verify and test the ID in real time against the specified data sets, including Home Affairs, SASSA, UIF, SARS as well as against banking information, as per the filters set out above.

The proposal is for the relevant data sets to be used in advance to exclude people who would not be eligible for the grant, to create a pre-approved list of IDs against which applicants can be easily vetted, allowing for rapid, automated approvals for a majority of applicants, with back-up systems to address anomalies. This could significantly speed up the on-boarding process.

5.3.2. Beneficiary Disbursement and Payment Process

The Expert Working Group identified multiple options for the payments system, to be facilitated by a single platform manager and administrator that can be utilized across the value chain to establish a minimum viable product within a short time frame. In order to effectively deliver a solution within a 30 day period, it was considered desirable to build on existing systems with a track record of operating at scale. Seven distinct capabilities were identified, reflected below.

Figure 5: Payment Capabilities



Note VCN stands for a virtual closed network that includes any e-voucher, food voucher, cryptopayment, or mobile payment voucher (like MPesa), or Ukeshe or Flash.

5.4. Form of value transfer: money vs food vouchers

Whether the grant takes the form of a cash transfer or a food voucher, all of the above issues remain broadly the same. Both approaches assume a largely digital registration process, and a largely mobile-based payment method. Both can accommodate exceptions, but the pragmatic solution for the majority of beneficiaries involves mobile-based options in both cases.

There is then a question of the form the transfer takes: as 'cash' (or more accurately, mobile money) or food vouchers, with advantages and disadvantages to each:

- **Food vouchers are certainly preferable to food baskets:**
    - They give people more choice
    - They avoid the need for complex logistics
    - They allow people to buy food when convenient, avoiding gatherings at food distribution depots
    - They are more discrete and afford people more dignity
    - They can allow for distribution in places where implementation capacity is weak
    - They are less open to capture and patronage
    - They reduce disbursement costs.

However, challenges remain in making food vouchers available at all spazas, and in creating interoperable systems across all the retailers. It also requires relatively complex processes of aligning inventory with allowable categories on the voucher and limits choice.

- **Food vouchers vs money transfers:**

    - Money gives people more choice. Their most urgent need may be for data, medicine, feminine hygiene products, warm clothes for a child, money for rent to prevent homelessness or a taxi fare to secure a casual job.
    - There is extensive evidence that if people need money more than food, vouchers are traded – but for a reduced value for the beneficiary, reducing the intended impact.
    - Mobile money means a transfer does not have be converted to 'cash' so concerns about cash as a disease vector do not necessarily apply.
    - Even where food vouchers can now be used at spazas, this still cuts out street traders, food preparation facilities and small farmers, also limiting the approved goods to branded products, re-inforcing concentration and structural inequality.
    - Food vouchers add a layer of complexity to the transfer process, requiring buy-in from retailers and mechanisms for redeeming the funds. Without confidence in the efficiency of such payment processes, retailers can be reluctant to buy in, limiting the reach of the voucher system.
    - The idea that funds – public or private – are being directed at addressing hunger through the provision of a food voucher can however assist in mobilizing support for an income transfer. **If this is a necessary condition** for securing such support, and if the alternative is no income transfer, then the advantages of food vouchers certainly outweigh these factors.
