

Just give money to the poor

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Cash transfers are sweeping through the Global South. In the past 15 years, 45 countries have introduced guaranteed cash transfer programmes for more than 110 million families. These are a mix of child benefits, non-contributory pensions, family grants, and guaranteed labour schemes. Because they do not go to everyone, they are not yet a Basic Income Grant. But they are guaranteed, long term, broadly-based, and seen as a right, which represents a radical change of thinking. These are not charity or safety nets, and they are not aimed at only the poorest of the poor.

Cash transfers are rights-based in two senses. First, they explicitly recognise the Universal Declaration of Human Rights (article 25) right to an “adequate” standard of living, and are designed to at least help to satisfy that right. Second, they are presented as a right of every citizen, and not as charity. Thus they are seen as part of a programmes to ensure a basic income, while assuming that most people will be able to earn an income sufficient to provide an “adequate” standard of living.

In the Global South, cash transfers are explicitly linked to both short term and longer term poverty reduction. They deal with short term poverty and the recognition that what poor people need most is money. In that, they are similar to safety net and “social protection” programmes.

But the key change has been the understanding that cash transfers contribute to longer term poverty reduction, in three ways:

- By providing guaranteed extra money, cash transfers allow people to invest, for example by purchasing fertiliser and better seeds, or by going further afield to look for work. Transfers also provide a form of insurance which allows people to take more risks in an effort to increase their income.
- The additional money is spent locally, particularly on food, which stimulates the local economy. Increasing local demand promotes an upward growth spiral.
- Whatever the form of the cash transfer, most of the money is spent on children. This encourages school attendance and improves performance, and thus reduces the intergenerational transmission of poverty.

This is part of a new thinking on development is sweeping across the Global South. Instead of maintaining a huge aid industry to find ways to “help the poor”, it is better to give money to poor people directly, on a long-term basis, so that they can find effective ways to escape from poverty. This responds to the little understood reality of the developing world – the biggest problem for those below the poverty line is a basic lack of cash. Many people have so little money that they cannot afford small expenditures on better food, sending children to school, or searching for work. It is not a lack of motivation – people with little money spend their days actively trying to find a way out of poverty. It is not a lack of knowledge – they know what they need and manage their money extremely well.

The first comprehensive survey of cash transfers, *Just Give Money to the Poor*, by Joseph Hanlon, Armando Barrientos, and David Hulme. has just been published by

Kumarian.¹ This paper sets out the basic conclusions of the study: these programmes are affordable, recipients use the money well and do not waste it, cash grants are an efficient way to directly reduce current poverty, and they have the potential to prevent future poverty by facilitating economic growth and promoting human development.

Wide range of programmes

Every programme is different and there are huge variations, from universal child benefits in Mongolia to pensions in Africa to family grants in Latin America. Some grants are tiny – only \$3 per month – while others give families more than \$100 per month; some cover more than one-third of the population, while others aim only for poorer people. The size of public spending also varies enormously, from as little as 0.1% of GDP up to 4% of GDP, although most are in the range of 0.4% to 1.5%. Six countries took the lead and still have the biggest programmes – Brazil, Mexico, South Africa, India, Indonesia and China – but several countries including Mongolia, Ecuador, Peru and Ghana are introducing cash transfers that will reach a large portion of their population.

The five largest programmes show the range:

- **South Africa.** Social (non-contributory) pension to 85% of those aged 63 and older; 2.3 million people; all elderly not receiving another pension are eligible. Child support grant to 55% of children under 15, 8.5 million children; to children in families with income below \$120 per month (except \$90 in urban areas with formal dwellings). Disability grant to 1.2 million people. Total cost is 3.5% of GDP. Unconditional.
- **Brazil.** Social pensions to 8 million people (R\$31 bn in 2007). Bolsa Família to 11 million families with per capita income less than 30% of minimum wage (50 million people, 26% of the population, R\$8 bn in 2007). Total cost is 1.5% of GDP. Effectively unconditional.
- **Mexico.** Oportunidades (previously Progresá) is a family grant which by 2004 had reached 5 million families (24 million people, 22% of the population, 48 bn pesos (\$4 bn) in 2008). Total cost is 0.3% of GDP. Uses a proxy means test and is conditional on school and clinic attendance. Some money goes directly to secondary school pupils.
- **India.** National Rural Employment Guarantee scheme guarantees 100 days of unskilled wage labour per family per year at a wage of at least Rs 60 (\$1.25) per day. Sometimes called “workfare”, it is available as a right and on short notice. Involved 44 million households in 2009; average \$1.70 per day and 40 days of work per family per year. Total cost is 0.3% of GDP.
- **Indonesia.** Programmes in 2005-6 and 2008-9 reached 19 million families (40% of population). Being redesigned with help of Mexico, aiming to reach 6.5 million poor families.

Other large programmes include **Mongolia's** universal child benefit (3.9% of GDP, funded from mineral revenues), **Ecuador's** Bono de Desarrollo Humano (family grant) covering more than 1 million households (40% of the population; 0.6% of GDP), **Peru's** Programa Junto aiming to reach 1.5 million households (28% of the population; 2% of GDP), and **Ethiopia's** programme of workfare and grants for those who cannot work, which reached 7 million people (2% of GDP). A wide range of countries have social (non-contributory) pensions, including Bolivia (universal, funded from a gas export tax), India, Nepal, Namibia, Botswana, Lesotho, Mauritius, Uruguay and Ecuador.

In the North, cash transfers have been much more common. In OECD countries cash transfers average 12% of GDP (and reduce poverty from what would be 25% without cash transfers to 11% with cash transfers). One of the largest cash transfers, however, is aimed at

¹ For more details: <http://www.kpbooks.com/Books/BookDetail.aspx?productID=234740> or <http://tinyurl.com/justgivemoney>

redistribution and not poverty reduction. The US state of Alaska gives part of its oil revenues to each resident of the state, unconditionally and without asking how the money is used; more than \$3000 to each resident in 2008.

Studies and attitudes

Cash transfers may be little more than a decade old, but they are extensively studied. Some countries such as Mexico and South Africa have their own monitoring programmes. But an important factor is that northern aid agencies and international financial institutions have been hugely sceptical and have commissioned many studies – and often when the study finds that cash transfers work, the commissioner says this is the “wrong” answer and commissions another study.

So far, most programmes have been created by southern governments and funded from their own resources – taxes and mineral incomes. But the process challenges the very core assumptions of the aid and development industry, which are that poor people and poor countries are responsible for their own poverty, either because they misuse the money or do not know how to make good use of it – cupidity and stupidity. The World Bank’s Norman Schady told a London meeting (26 May 2009) that there is a problem with “persistently misguided beliefs” on the part of the poor that causes their children to remain poor, which means that sometimes “we must compel the [poor] family to make the necessary investment in human capital that they would not otherwise make.” It is, he admits, “old school paternalism”, but he argues that governments do know better than low income people how to raise children.

The Washington-based World Bank is influenced by United States attitudes, which differ from those of Europe and the Global South. In a range of surveys, people were asked “Why, in your opinion, are there people in your country who live in need?” In the United States 61% blamed poor people themselves for laziness and lack of will, and only 39% said it was due to an unfair society. By contrast, in Sweden 78% blamed an unfair society and in Germany 87% blamed an unfair society. It is not surprising, then, that cash transfers are smaller and poverty is greater in the United States than in Europe. And in the Global South, the countries that have taken a lead on cash transfers are less likely to blame the poor; in Brazil 78% blame an unfair society for poverty, in Mexico 75%, and in South Africa 66%.

Another issue is that there are an estimated 500,000 people employed in the aid industry, and many of those jobs depend on projects to show the poor how to live better or on monitoring to ensure that poor people and governments do not waste aid money. Assuming that the main problem of poverty is lack of money, and trusting poor people to use small amounts of money wisely, challenges an entire industry and puts many jobs at risk. And it would reflect a major change in power relations.

How the money is used

The extensive studies make it possible to look in some detail at how cash transfers are used. Broadly, they are well used and little is wasted. Whatever the grant, the money is used for the whole family, but with an emphasis on children – thus children are an important beneficiary of pensions. Typically half the grant is spent on more and better food – more fruit and vegetables and meat and other animal products – and the results are visible: children are taller and healthier. Cash transfers improve nutrition, particularly in the critical first two years of a child’s life when key mental and physical development takes place. All cash transfers increase school attendance, whether or not it is a condition. Thus cash transfers help to meet two important goals, first the immediate reduction of poverty and the improvement of health and nutrition standards, and second, reducing the intergenerational transmission of poverty, by helping to ensure children are healthier and better educated than their parents.

All cash transfers reduce inequality, whether or not it is a goal of the programme.

But cash transfers may be most important for the way they stimulate the economy and trigger a positive growth spiral. This happens in two ways. First, money is spent locally, which helps to build the local economy. In Malawi, for example, 90% of the grant is spent locally and has a local multiplier of more than 2. This is not unexpected. The UN Conference on Trade and Development *Least Developed Countries Report 2006* stressed that the lack of demand in rural areas is the biggest constraint on economic growth.

Second, grant recipients invest some of the money in practical ways to increase their income. Poor people are caught in a “poverty trap” which has two components. First, life is relatively more expensive than for someone better off. They sell in smaller quantities and thus earn lower prices – a trader will pay less per kilo for a few kg of maize than for a sack of maize, but a farmer must pay proportionately more for a small quantity of fertiliser than an entire sack. Travel to town costs a high proportion of income. The earnings of a child selling a few oranges beside the road is worth enough to keep the child out of school if the family is poor. The second component of the poverty trap is risk – if a crop fails then a family could starve, and if money was borrowed, even on micro-credit to buy seed, then that loan must be repaid even though there was no crop. Therefore, poor people must act very conservatively to reduce risk. Cash transfers provide extra cash which is not a loan and which can be risked without putting the family at risk; furthermore, because cash transfers are guaranteed, they provide a form of insurance. All studies show that some of the money from a cash transfer is used for productive investment. Grants are used for more fertiliser and higher yielding (but less drought resistant and thus riskier) seed in Ethiopia and India, and travelling longer distances to look for work in Mexico and South Africa. A World Bank study in Mexico found that households invested 12% of their Oportunidades grant in agriculture, trading or micro-enterprises, and generated an income with a rate of return of 18% – far above Bank expectations. This shows clearly that people know how to invest profitably – what they need is cash and insurance, not advice from aid agencies or non-government organisations (NGOs).

After generations of surviving on little money, the poor are wise economists, but caught in a poverty trap. They know how to get out of the trap, but lack the cash. All of the studies show that the poor use cash transfers well, and that extra money does not make poor people lazy.

It is practical

The poorest countries often have weak civil services, so questions are sometimes raised about the practicality of cash transfers. New technology is making cash transfers easier, even in so-called fragile states. Some countries already have identity card systems which can be used as a basis for registering recipients. But if a new registration is required, it would be possible to use the system that is now common for electoral registration, in which mobile brigades with briefcase computers issue identify cards with photos and fingerprints and a machine readable barcode and sealed in plastic, and which cost \$4 each to issue. Unicef is already promoting birth registration, which can be linked to child benefit. Lists can be updated annually or every two years, to add new people and eliminate those who have died.

Various methods are used for distributing the money. In urban areas or near towns, people can go to banks or post offices to collect their money. Several countries use point-of-sale terminals in shops – the recipient puts their card in a reader and keys in a PIN number, and the shopkeeper gives the person the cash. Lottery sales offices are used in some countries. Mobile telephones are increasingly used for banking. In Namibia and some other countries, mobile cash machines (ATMs) – often just a strongbox mounted on the back of a pick-up truck – tour the country, arriving in a village on the same day each month. These systems will cover most people. But in the most remote areas which can only be reached by canoe or donkey, it may be necessary to use village heads, elders, priests or other respected figures to distribute the money.

A key point is that new computer, internet, and mobile telephone technology makes it easier to definitively identify recipients, authorise payments and keep records. That, in turn, makes independent audit and corruption control possible.

Many of the processes can be given to an independent agency or even contracted out. For example, it may make sense to contract a private bank or the post office to distribute the money, and an independent international firm to do the audit.

A cash transfer programme can be established in most countries for as little as 0.5% of GDP, which is affordable everywhere. A full programme may require more funding, especially in the poorest countries. Initial money can come from taxes and mineral revenues. In poor countries, however, money may have to come from aid. This could come from expansion of budget support, where donors simply put aid money into the government budget, or it might come by a direct payment to the agency responsible for the cash transfer programme, or even directly to a bank contracted to make payments.

There is increasing discussion of taxes on bank transactions or currency trading (the Tobin or Robin Hood tax) and for payments to the Global South relating to climate change. This money could sensibly be distributed through cash transfers.

Guidelines for success

So far, cash transfers are not a basic income grant. They are smaller than a basic income and are not universal (although child benefit and non-contributory pensions often go to everyone in the category). But they represent a major step forward, and a radical change in thinking. The study finds that there is no single “best” cash transfer programme, but it is possible to outline five overriding principles: cash transfers work when they are fair, assured, practical, large enough to impact on household income, and popular.

Grants must be seen to be **FAIR** in that most citizens agree on the choice of who receives money and who does not. The choice is likely to be political as much as technical. Administrators and technicians will want to target the most money on the poorest people, but if a community says “we are all poor here” but some people are receiving money and others are not, it will be seen as unfair. Categorical grants – giving to all or nearly all children or elderly – are usually seen as fair, but may not always target the most needy. A strategy of excluding the better off rather than targeting the poorest, as in Brazil and South Africa, is sometimes seen as fairer than trying to distinguish between shades of poverty.

ASSURED means recipients must be convinced that every month the money will really arrive and families can depend on it. That means creating a system to distribute the money which works consistently.

PRACTICAL means that government must develop a system to fairly identify recipients and ensure they regularly receive their grant. Sophisticated proxy means tests and complex conditions are of no use if they cannot be applied correctly and consistently. For example, imposing a school attendance condition is pointless if there are not enough school places, or there is a danger that poorly paid teachers will ask for bribes to sign the attendance forms, or there are not enough inspectors to check that the condition has been satisfied.

Grants must be **LARGE ENOUGH** to cause a real change in behaviour, such as growing new crops or sending children to school. If money is only enough to let one extra child in the family go to school, for example, it is not sufficient. Most grants are not enough to lift families out of poverty, but to be effective they must raise family income by at least 10-20%.

Finally, to be sustainable, any grant programme must be politically acceptable and hopefully **POPULAR** and a vote winner. A programme may be technically good at identifying the poorest, but if it is not popular a new government can abolish it. In particular, it seems important that the middle class should identify with the programme – either because they receive the grant, such as a child benefit, or at least that the grant does not carry a stigma; it needs to be seen as rights-based and available to everyone who needs it. Programmes in New York City and Nicaragua which were presented primarily as buying behaviour change by the undeserving poor never gained political acceptance and were cancelled.

All of these involve trade-offs which are political and practical and reflect national history. Ensuring that a programme is seen as fair, runs smoothly, and is politically popular usually means giving less money each to more people. So far, each programme has been designed differently; there is no model which can be used everywhere.

All five guidelines need to be kept in mind when starting up the system. It is often necessary to start small. Instead of opting for a grant which is too small to be meaningful, successful programmes often start with a smaller group of recipients. But that, too, needs to be seen to be fair and broadly based. One option is geographic, to start in the poorest district and then expand – which works if there is agreement on which districts are poorest – or where a local government introduces the programme first in one city or state, as happened in India and Brazil. Another option is to do a small but universal group. South Africa started its child benefit only for children under 7 years old (and with roughly the lower half of family income) and then expanded slowly to older children. Either route allows administrative systems to be established slowly and keeps down the initial cost, and later expansion tends to come from domestic political pressure, ensuring the popularity of the programme.

A paradigmatic shift

Cash transfers represent a paradigmatic shift in poverty reduction. These grants are not short-term, emergency, “safety nets” or charitable donations; they do not assume poor people are poor because of stupidity and cupidity. Instead they are long term and often broadly based, covering a significant part of the population in poverty. They are rights-based and are seen as contributing to satisfying the right to an adequate standard of living. Although the cash clearly reduces immediate poverty, these are not seen just as palliatives for current poverty, but also as building productive capacity among those in poverty and promoting development programmes. This is the southern challenge to an aid and development industry built up over half a century in the belief that development and the eradication of poverty depended solely on what international agencies and consultants could do for the poor, while discounting what the citizens of developing countries, and the poor among them, could do for themselves. The response has been an exceptional amount of research on southern cash transfer programmes. And researchers have been surprised to find that, by and large, families with little money have honed their survival skills over generations and use a little extra money wisely and creatively – without armies of aid workers telling “the poor” how to improve themselves.

A quiet revolution is taking place based on the realisation that you cannot pull yourself up by your bootstraps if you have no boots. And giving “boots” to a person with little money does not make them lazy or work-shy – rather, just the opposite happens. A small guaranteed income provides a foundation which allows people to transform their own lives. In development jargon, this is the “poverty trap” model – that many people are trapped in poverty because they have so little money that they cannot buy things they know they need, such as medicines or schoolbooks or food or fertiliser. They are in a hole with no way to climb out; cash transfers provide a ladder.

References

All references to the material cited here are in Joseph Hanlon, Armando Barrientos and David Hulme, 2010, *Just Give Money to the Poor: The Development Revolution from the Global South*, Sterling, VA, USA: Kumarian Press. For more details: <http://www.kpbooks.com/Books/BookDetail.aspx?productID=234740>
The book can be read, on line, on <http://tinyurl.com/justgivemoney>

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