

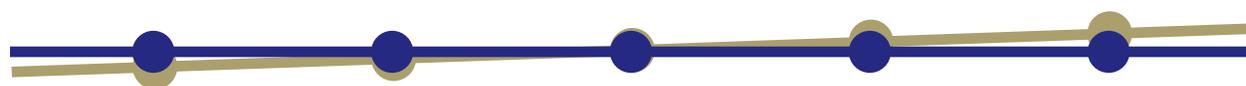


Ending Poverty with Electronic Payments

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Technological innovation, regulatory disruption, and a rapidly globalizing economy are driving one of the most profound changes in global payments history. The shift towards a frictionless and global payment network promises transformative change for many industries and the lives of millions, if not billions, of people—and especially those most in need, who will no longer be financially isolated from global networks.

The implications for the extreme poor and for global development are profound and wide-ranging. Lower transaction costs will open new markets serving the “base of the pyramid”; opportunities to digitally audit payment flows will **reduce the costly corruption that plagues social programs**; and **reductions in transfer time and improved ease will continue to expand the remittance market**.

Perhaps most fundamentally, the spread of low-cost digital payments will make it possible—for the first time in history—to send money directly to the extreme poor in the most remote corners of the world securely, efficiently, and in a scalable way. This is what we did in co-founding GiveDirectly in 2009, sending our first cash transfers to internally displaced persons in Kenya through mobile money. While Kenya is of course an advanced case, it foreshadows changes that will affect the whole development sector.

Let us then imagine a world of completely ubiquitous electronic payments. A world where a few clicks of the mouse could send digital cash to all 2 billion of the world’s extreme poor. A world where we didn’t need to wait for humanitarian cargo planes, but could deliver electronic money directly to beneficiaries minutes after a disaster. Would we still send shelter kits, food baskets and other in-kind transfers instead of digital cash payments? Would we still organize our development and humanitarian system around sectoral clusters (e.g., education, food security) as opposed to



providing choice to the beneficiary? And most importantly, could we eliminate poverty with existing aid resources?

How far from ubiquitous payments are we?

We should stop imagining, and start preparing.

Financial connectivity is rapidly becoming the norm rather than the exception. In some cases (e.g., India) this has been driven by public-sector efforts to extend the reach of traditional financial institutions into the countryside. In many others the driver has been the spread of mobile telephony. Here the figures are striking. Less than 10 years ago, in 2008, the median percentage of households with landline phone across 23 sub-Saharan African countries was only 2 percent, compared to nearly 80 percent of households in the United States. Today, approximately two-thirds of sub-Saharan African households have at least one mobile phone, with a **majority of even the poorest 20 percent holding a phone**. More broadly, we can now reach nearly half of the world's unbanked by mobile phone.

The opportunity that ubiquitous mobile presents has not been lost on corporations, governments, or the broader social sector. Concerted efforts—including organizations like the Better Than Cash Alliance, GSMA, and many others—have helped to globalize the existence of mobile money services. Eighty-five developing countries now **have at least one mobile money service**, with only 13 large (more than 10 million people) developing countries remaining without. In other words, we now have the foundational architecture—technology and policy—to connect nearly all of the world's poor to the financial network.

Growth in use has been correspondingly steep. In Kenya, for example, **access to the formal financial sector has more than doubled since 2006**, largely owing to M-Pesa. Globally, the number of mobile money accounts doubled in just two years from 2012 to 2014, increasing from 155 million to 299 million.

We do not mean to suggest that global access to digital payments has already been achieved—merely that it will be. Today, for example, only 8 percent of mobile connections have an associated financial account; in other words, while the foundation is there, widespread usage is not. We believe that the cash transfer programs we discuss below can themselves drive the adoption of digital payments, as well as benefiting from them. This twin hypothesis has motivated and been borne out by our experience at GiveDirectly. Use of digital payments infrastructure has allowed us to deliver over **90 percent of each donation into the hands of the poor** with near complete digital auditability; at the same time, accessing that infrastructure has required us to register up to 1,200 households per week with local financial institutions.



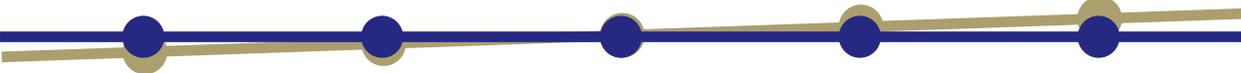
It is often debated how the growth of digital payments will or should be affected by regulatory oversight (e.g., know your customer, or KYC, compliance). In our view there is a fruitful debate to be had, but often a meaningful gap between the conversation and the reality on the ground, especially in relation to the shift towards cash transfers. Many implementing organizations (governments, NGOs) currently struggle to answer even the most basic questions about their programs (e.g., number of beneficiaries), whether they distribute cash or other goods and services. In this context, we would argue the question is less whether cash transfers specifically should be held to the higher standards expected of private sector financial services, and rather whether aid in general should not be held to a higher standard. Certainly cash transfers should not be penalized relative to in-kind ones for the very fact that digital cash transfers allow for better auditing. Instead, all programs should meet basic requirements around beneficiary identification (e.g., mandated digital identification), secure digital storage of beneficiary information, and auditability of program decisions (e.g., beneficiary approval and payment). This approach is both more balanced, and recognizes the reality that it will be infeasible to meet full KYC requirements globally in the short term.

Should we shift in-kind assistance to cash?

Of course, we should not send money to the extreme poor simply because it is possible. We should do it if it works, and in particular if it works better than other available uses of anti-poverty funds.

Until recently we had very little idea what worked or didn't in development programming because we did not conduct experimental tests. Experimental tests are the standard tool for rigorous impact assessment in many fields (e.g., the clinical trials used to measure the efficacy of drugs, or the "a/b" tests used to measure how technology affects user behavior), but did not find their way into development policymaking until the early 2000s. Since then their use has blossomed, championed by research hubs like J-PAL at the Massachusetts Institute of Technology, IPA at Yale, and CEQA at University of California, Berkeley. And with the rise of rigorous testing have come, predictably, surprising results. Some things that were assumed to work have performed poorly, and some things that were assumed not to work have performed well.

Cash transfers are arguably the leading example of an intervention that, against expectations and across many tests, has performed well. They have been tested experimentally throughout the developing world—in Latin America, Africa, South Asia, and East Asia. They have been tested with and without "conditions" (things recipients have to do before they can receive the money), on men and women, on young and old, and in large and small installments. Looking across these studies, there is no one answer to the question "what happens when we give money to the poor." Part of the point, after all, is to give recipients flexibility. But we would argue that three generalizations hold true:

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- **Poor people use money responsibly.** Studies consistently find positive impacts on “goods” (assets, income, health, education, etc.) and no evidence of systematic abuse or increased conflict. In particular, transfers appear to, if anything, **reduce the use of tobacco, alcohol, and conflict.**
 - **The uses and impacts of transfers vary widely.** Some studies find impacts on education, others on earnings, others on health, and so on. There is no uniform outcome, reflecting the fact that cash transfers give maximum flexibility to recipients to set their own priorities.
 - **Cash transfers have long-term impacts.** While cash transfers are already widely accepted as a tool for “social protection” (e.g., alleviating present suffering, hunger, etc.), they are also one of the few interventions that have been shown to have positive impacts years after delivery. Studies in Uganda and Sri Lanka, for example, have found earnings increases of \$0.40 to \$0.80 per \$1 delivered after 4–5 years.

To our knowledge, no other intervention has an evidence base that is as comparably broad in its number of tests and deep in its consistently positive results. In short, the data say that giving money to poor people is a good idea. To be clear, it may not always be the very best idea. There are “public goods” needed; roads will not build themselves and vaccines will not discover themselves if only the poor had more money. But compared to the direct provision of other goods and services, cash is compelling.

Cash is also cheaper and easier to deliver at scale than in-kind transfers—and would obviously be even more so in a world with ubiquitous payments. Cost data on aid programs is scandalously hard to find, but where it is available it consistently indicates that cash is cheap to deliver. In a development context, well-run cash programs spend around \$0.10 per \$1 of cash delivered to recipients, **while well-run in-kind transfer programs spend \$2.13 per \$1 of commodities.**

Finally, cash transfers are increasingly good politics as well as good policy. This is important as anti-poverty budgets are ultimately controlled by elected politicians whose incentives are to seek popular support. Among beneficiaries, studies that give program recipients a choice between cash or in-kind have consistently found majorities preferring cash (75 percent chose cash over food in Bihar, India, for example).¹ Among taxpayers in the emerging markets, cash transfers have had to overcome distaste for “handouts,” but this has been done successfully by making the transfers conditional on some form of “good behavior”—to the tune of **1 percent of GDP in India**, for example, and **0.5 percent of GDP in Brazil**. Even donor government administrations are starting to shift support towards cash transfers. The Tory party’s 2015 manifesto, for example, promises to “help people in the United Kingdom give or lend money directly to individuals and entrepreneurs around the world.”



What does this mean for the structure of the aid sector?

Yet support for cash is far from universal. The very effectiveness of direct cash transfers challenges many of the underlying principles, incentives, and structures of the development sector itself. We have long trusted the opinion of experts over the choices of the poor, building an industry organized around mandated sectors or clusters and not the individual beneficiary. Cash transfers fit everywhere and nowhere in this structure. Consequently, attempts to shoehorn them in have generated a potpourri of small, poorly coordinated programs, many of which reach the same beneficiaries. Syrian refugees, for example, benefit from 30 distinct cash programs each with its own hoped-for outcome, including cash for children's winter clothes, legal assistance, and hygiene kits. Most agencies have issued cards for their respective programs, with the result that households often have multiple cards, each for a different purpose. Such examples of lacking coordination beg the question how, in a world of ubiquitous payments, the development and humanitarian sectors should be (re-)organized?

We see this questioning as healthy: a rare opportunity for reform and innovation in the sector. Here we highlight three specific changes that should accompany increased use of cash transfers—some of which may appear innocuous on the surface, but each of which has deep structural implications:

- **Increase the role of the private sector in delivering aid.** Unlike the infrastructure for delivering bulk in-kind transfers, the best infrastructure for delivering cash has largely been built or is in development by the private sector. Increased use of cash will thus drive an increased reliance on public-sector partners. We see this as broadly positive. Despite skepticism of private sector fees, the invisible costs of inefficient service provision often far exceed them.
- **Define performance standards, and align procurement around these standards.** The current system for allocating resources, anchored in organizational mandates, legacy partners, and distribution requirements is sub-optimal at best and anti-competitive at worst. New entrants cannot easily demonstrate better performance and win market share, because performance is generally not measured. The shift to cash transfers will facilitate apples-to-apples comparisons on common dimensions like speed, efficiency, and security. Funders should capitalize by providing clear product requirements, and metrics of success on which providers can compete.
- **Prioritize beneficiary choice over sector divisions.** Organizing programming and funding by distinct sectors or clusters—food, shelter, health care, etc.—often comes into direct conflict with beneficiary choice, and ultimately their best interests. The Syrian example



above is a vivid one. An aid sector organized around the assumption that a large share of assistance will be delivered as cash would look radically different. There would be fewer organizations focused on specific outcomes, and more organizations focused on the provision of public goods that cash transfers cannot address (e.g., infrastructure, infectious disease prevention). There would be fewer jobs allocating capital on behalf of the poor, and more jobs delivering capital to the poor.

What is at stake?

Is it worth undertaking such a sweeping overhaul? We believe that the stakes clearly justify it. In fact, from a purely fiscal perspective cash transfers could end extreme poverty today.

In a world with ubiquitous payments, the amount of money needed to end extreme poverty would be within reach even under conservative assumptions. Specifically, consider the amount of money we would need to give to each person currently living on less than \$1.25 per day today to raise their income up to \$1.25 per day (the “aggregate poverty gap”). Laurence Chandy and co-authors at the Brookings Institution estimate that this figure is roughly \$55 billion per year in nominal dollars. More realistically, suppose we cannot measure exactly how much each person is earning and instead assume that half of \$1.25 will be sufficient to raise everyone above the line; then we would need \$114 billion per year. These calculations are conservative in the sense that they assume money transferred today has no effect on poverty tomorrow; in practice, the evidence says that poor people often use cash transfers to make investments that raise their future standards of living.

This level of funding is moderate compared to current anti-poverty spending, and especially compared to spending that has been committed but not yet delivered. Emerging market governments are estimated to spend \$100 billion on cash transfer programs each year. **Official development assistance flows are in the range of \$130 billion per year.** And if those donors who have pledged to devote 0.7 percent of GDP to foreign aid followed through on those commitments, we would have an additional \$183 billion per year.²

We find these figures focusing. In a world with ubiquitous payments, we could end extreme poverty not by setting development goals, signing declarations, establishing multilateral frameworks, and so on—but simply by doing it, directly.

¹ Statistic taken from ongoing, as-yet-unpublished research.

² Authors calculations based on ODA and GNI income data from the OECD’s Development Assistance Committee.