It is Possible to Just Give Money to the Poor

Joseph Hanlon

ABSTRACT

Meghnad Desai of the London School of Economics recently suggested that, rather than 'giving fifty billion dollars of overseas aid', we should simply 'find the poor and give them one dollar a week . . . That would probably do more to relieve poverty than anything else'. Two experiences in Mozambique of simply handing out money show this is possible. Payments to demobilized soldiers over a two year period and single payments to flood victims were of the order of magnitude suggested by Desai. Rural people had no difficulty cashing cheques and used the money prudently. The money stimulated the rural economy and thus had a development impact. Administrative costs were between 5 and 10 per cent, much less than in other aid projects. Using the Mozambique experience, this article concludes by suggesting that Desai's proposed one dollar per person per week could be paid as a family grant bi-monthly, which would keep administrative costs low.

INTRODUCTION

'We are giving fifty billion dollars of overseas aid. There are a billion poor people in the world. Why don't we just find the poor and give them one dollar a week and do nothing else. No questions asked. What they do with the money is not our concern. That would probably do more to relieve poverty than anything else', recently argued Meghnad Desai, director of the London School of Economics Centre for the Study of Global Governance (Desai, 2003b).

The debate set off in this journal by Jan Pronk[1] has stressed conditionality, targeting, selectivity and various other methods of promoting sustainable development or 'fostering a policy environment conducive to development' (see Pronk, 2001, 2003). Pronk and his critics all dream of finding a way of making aid more 'effective' and the result is ever more elaborate and conflicting criteria. 'We impose so many conditions on those countries that receive money: they have to be gender sensitive; poor people must participate directly; they must have sustainability; they must have environmental friendliness; and they must have transparency, accountability, and so on',

1. This refers to a number of papers published in *Development and Change* during 2001–2003, under the heading 'Aid as a Catalyst: Comments and Debate', following an article by Jan Pronk (Pronk, 2001). This article should be seen as a contribution to that debate.

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comments Lord Desai. 'If we think of our own historical development process, or that of any developed country, none of the criteria was fulfilled... Why, just because we give a pittance to other people, do we expect such bossy behaviour to be received properly? I do not understand why we think that it will be effective in removing poverty, whatever desire we have to show that we are virtuous' (Desai, 2003a).

In his comment on the Pronk article, Santosh Mehrotra notes that aid is most effective if it is allocated simply according to poverty (Mehrotra, 2002). Pronk himself points to the 'need for a permanent world system of market corrections, income transfers, social securities and public services, just as with individual national economies' (Pronk, 2003).

Would it be feasible to simply consider aid as an income transfer to the poorest, and just give one dollar a week to poor people, as Desai proposes? In this article, I will point to recent reports which show that this has been done twice in Mozambque in the past decade, and both times has been efficient and successful. The first example is demobilization payments given to former fighters in Mozambique's civil war, in which nearly 93,000 former soldiers were given roughly US$ 2 a week for two-and-a-half years, at an administrative cost of only 5 per cent (Christie and Barnes, 2001). The second example was a payment of US$ 92 to 106,000 families affected by a flood in 2000 (Miller, 2002). Both used cheques which had to be cashed by named individuals, and had administrative and overhead costs of only 5 per cent.

CASH FOR DEMOBILIZED SOLDIERS

Mozambique's decade-long civil war ended with a peace accord in 1992, a United Nations-monitored two-year peace process, and highly praised multi-party elections in 1994 (see Hanlon, 1996 for more details). A total of 92,881 troops from both sides were demobilized. They were given their salary for two years, the first six months paid by the government and the next eighteen months paid by donors through a US$ 35.5 million trust fund administered by the United Nations Development Programme (UNDP). Payments were made from mid-1994 until mid-1996. Ordinary soldiers constituted 51 per cent of the total demobilized and their salary, 75,000 meticais, was the local currency equivalent of US$ 7 per month in 1995 and 1996. Lower level officers constituted another 35 per cent of the demobilized, with salaries worth US$ 10–24. Because of a falling exchange rate, the trust fund had money left over, and in early 1997 each demobilized soldier was given an extra US$ 52, regardless of rank (Christie and Barnes, 2001).

The United Nations Mission in Mozambique (ONUMOZ) set up a special demobilization Technical Unit, which issued all demobilized soldiers with a photo identity card and set up a database. Soldiers could choose to be demobilized anywhere in Mozambique and were provided with transport as part of the demobilization process. The eighteen months of money from the donor trust fund (plus the unexpected additional money) was to be paid to demobilized soldiers every two months at the branch of the People's Development Bank (BPD, Banco Popular de Desenvolvimento), or at a post office which served as a BPD branch, which was nearest to the place the demobilized solider chose to go.

Using the Technical Unit database, UNDP printed books of vouchers or cheques for each soldier, which they presented with their identity card at the branch of the bank every two months. Despite the very low level of education (one-third had no schooling and one-third had only primary schooling) the demobilized soldiers had few difficulties handling cheques; in a follow-up survey fewer than 7 per cent of the demobilized soldiers said they had problems in cashing their cheques (Christie and Barnes, 2001).

Perhaps the biggest difficulty was that, at the time, the BPD had branches or post office branches in only 68 out of 128 districts; this meant that one-third spent US$ 2–4 (a significant part of US$ 14) in order to go to the nearest town with a bank to collect payments. The problem would be worse now, because BPD has since been privatized and many of its rural branches closed as unprofitable.

The administration costs were very low — 2.5 per cent to UNDP's reintegration support unit, 0.5 per cent for UNDP headquarters, and 2.5 per cent for BPD (Christie and Barnes, 2001). So of US$ 35.5 million allocated, only US$ 1.8 million was spent on overheads and US$ 33.7 million went directly to beneficiaries – a far higher percentage than with normal aid projects.

What were the development and economic impacts of these cash payments? By the end of the payment period 86 per cent said they were involved in at least some agricultural activities; thus, the money was not their only means of survival, but rather was important as cash on top of their subsistence. The survey showed that the money was largely used locally to help to sustain their extended families and for basic necessities. For the final lump sum, 46 per cent said some would be spent on school fees for children (Barnes, 1997a). The money seems to have been particularly important in restarting economic activity in war-affected areas. One study showed that these cash payments gave 'a new impetus to social life, especially in rural areas' (Lundin et al., 2000).

Most of the money was used for current expenses and only 21 per cent was used for investment in farms or businesses. This leads one study to conclude that 'the money did not contribute significantly to development', perhaps because it 'was not enough to start a sustainable livelihood' (Lundin et al., 2000). But it is useful to note that the amount of money being distributed was far less than the US$ 1 per week suggested by Desai. The average family size for demobilized soldiers was 7.5 people, and ordinary soldiers were only receiving US$ 7 per month, which per person is one quarter that suggested by Desai.

CASH FOR FLOOD VICTIMS

The worst flood in 150 years hit southern Mozambique in early 2000 (see Christie and Hanlon, 2001 for more details). From December 2000 to April 2001 the United States Agency for International Development (USAID) gave cash grants of 1.5 million meticais (about US$ 92) to each of 106,280 flood-affected rural families, in what its own evaluation called a 'unique' project. It had been hoped to distribute the money between August and October 2000, very quickly after the flood, when it would support resettlement. But this was delayed by several factors, including delays by the US Congress in approving funds and a longer than expected time needed to identify beneficiaries and set up the distribution (Miller, 2002). By the time the money was distributed, most people had already rebuilt their houses, for example. But this makes it a much better test of simply handing out money to poor people under something approaching normal conditions.

'Beneficiary identification was a difficult process', notes the USAID evaluation. Initially 219,083 families were identified, and this was reduced to 106,280 by imposing tighter criteria. It was decided that money would be given only to women heads of households for two reasons: polygamy is common and thus a woman and her children were considered to be a family, and 'additionally, the project managers felt that women might be better than men in making spending decisions reflecting family priorities' (Miller, 2002).

After registration, distribution of the money was done at 167 sites covering 730 villages over a period of 94 days. Advance teams informed villages of the distribution dates and village chiefs and village secretaries were asked to organize registered recipients on that date. A local bank working for USAID, Banco Commercial e de Investimento (BCI), organized the delivery of pre-prepared cash packets and provided tellers at distribution sites. A private security firm was present. Chiefs organized recipients in queues. Each eligible recipient was given an identification ticket and a cheque and dipped their index finger in indelible ink (in a system also used in Mozambique to prevent multiple voting during elections). Recipients then went immediately to the bank teller where they cashed their cheque (Miller, 2002).

The implementation cost was small. The grants programme was one-third of a larger post-flood recovery programme, which had a total administrative cost of 10 per cent, which the evaluation notes is much less than the administrative share of other distributions, such as food aid (Miller, 2002). Probably the largest single cost was the identification and registration of flood victims and exclusion of those not eligible. So the actual cost of simply distributing the money was probably only 5 to 10 per cent of the money distributed.

The distribution of funds was intentionally rural, and recipients were mainly poor subsistence farmers; 96 per cent of recipients earned their income primarily from agriculture. A subsequent survey found most of the money was spent for basic consumption: 18 per cent of the grants was spent on household goods such as dishes and blankets and on consumer products, 12 per cent on clothes, and 7 per cent on food. But some was for investment, including 14 per cent for livestock, 8 per cent for seeds, 4 per cent for equipment and 9 per cent for construction materials, 'suggesting a long-term development consequence of the programme', according to the evaluation (Miller, 2002).

The use of the money was very diverse. Some was used to repay debts, some to make repairs to equipment and machinery, and one woman used the money to repay her bride price (*lobolo*) in order to divorce her husband. The female heads of household surveyed estimated that only 1.5 per cent of the money was spend on alcohol (Miller, 2002).

Of the total amount, 55 per cent was spent in the village, 18 per cent in a nearby town and 14 per cent in the district capital, so that 87 per cent remained within the district. Interviews with retailers suggested that as much as half the money was spent on goods produced within Mozambique. Thus the grants seem to have stimulated both the local and national economy (Miller, 2002).

COULD IT BE DONE MORE WIDELY?

These two examples show that it is possible to issue cheques in the range of US$ 15 to US$ 100 to illiterate and poorly educated rural Mozambicans, that the cheques can be cashed and the money used sensibly, and that the administrative cost can be brought down to just 5 per cent. In both projects, selecting beneficiaries and excluding others increased the set-up costs in ways which would not have been the case had it been a universal benefit.

How might one pay Desai's one dollar per person per week? Probably the simplest way would be as a family credit, paid every two months in the same way as the demobilized soldiers were paid. For an average family of seven people that would be US$ 60 every two months. It might not be unreasonable to give preference to naming a woman as head of household, if possible.

To make the system work would require two things — a proper identification system and an adequate banking system. Mozambique already issues photo electoral registration cards for voters and does an annual re-registration exercise for people who have moved, to add those who have reached 18 years old, and delete those who have died. Mozambique also issues identity cards, which most adults carry. Thus it should not be too difficult or costly to upgrade the population register to ensure its accuracy, and to regularly update the family entitlement cards, perhaps annually. Cheques might be issued at the same time. It would not be unreasonable to ask heads of households to obtain confirmation from a village secretary or chief or local teacher or church leader of any changes in family status — births, deaths, children leaving home — and to ask the heads of households to go to the district capital once a year to update their entitlement record. For the electoral system, Mozambique uses mobile registration brigades which go to every village, and such a system could also be used. The budget for updating the electoral register in 2003 was US$ 13 million for nearly 8 million voters (Fauvet, 2003), so one might estimate that the cost of updating entitlement cards and related records and issuing cheques, perhaps on an annual basis, at US$ 1.50 per person per year, 3 per cent of the money being given.

Cheques were cashed and money was distributed in both exercises by a commercial bank, and it would seem sensible to continue such a system. At the very least this would encourage the expansion of the rural banking system; post offices could also be used, and some sort of mobile banks would probably be required, as they were for distribution of the flood money. BPD was paid 2 per cent to dispense the money for demobilized soldiers and to provide proper accounts, and a similar percentage should be sufficient for this exercise. Thus it does seem possible to keep the costs at under 5 per cent of the money given out.

The one remaining issue is that even in the poorest countries, some people already earn more than US$ 1 per day, and should not be eligible. For Mozambique and indeed for most of Africa, the percentage of people over the threshold is small, and it would cost almost as much to exclude them as to pay them. Perhaps the sensible answer is to make the benefit taxable and adjust the tax rates to claw back most of the family benefit given to people already paying tax.

SOUTH AFRICA AND THE BASIC INCOME GRANT

The only place where across-the-board cash payments is being treated as a serious possibility is Mozambique's neighbour, South Africa. A government commission headed by Professor Vivienne Taylor of the University of the Western Cape in 2002 called for a 'basic income grant' of Rand 100 (then about US$ 10, in mid 2003 about US$ 13) per month to be paid to every South African, unconditionally (Taylor, 2002). Although the government says it is 'philosophically opposed' to making payments to 'able-bodied South Africans', the proposal is gaining support from trades unions as well as economists and poverty researchers (Munusamy, 2002). South Africa is very different from the very poor countries where people would receive Desai's US$ 1 a week, but the debate again shows that it is possible. South Africa is a lower-middle income country (DAC, 2003), with only one quarter of its population on an income of less than US$ 1 a day (Thurlow, 2002) but with 45 per cent living below US$ 2 per day (Taylor, 2002). Mozambique uses a different poverty measure, but the only study done so far shows that more than 70 per cent of the population lives on less than US$ 0.70 per day (MPF et al., 1998).

South Africa's basic income grant would not rely on aid, but would be funded by the government itself, in an attempt to redress the heritage of apartheid. A study by the Economic Policy Research Institute in South Africa showed that although the grant would cost Rand 44 billion per year, half of that would go to the better off and would be recouped by a mix of income tax changes and value added tax. The net cost would be Rand 24 billion, about 2 per cent of GDP. It concludes that 'the basic income grant is feasible, affordable, and supportive of poverty reduction, economic growth, and job creation' (Samson et al., 2002). A new identity card system is being introduced and it is expected that by 2005 all South Africans will have the cards, which would further simplify administration of the grant. A universal basic income grant costs less to administer because it has 'none of the costs associated with a benefit targeted through a means test' and will have a higher takeup rate because it lacks the stigma of a means-tested benefit (Taylor, 2002), while its automatic nature reduces the possibilities for corruption (Samson et al., 2002).

South Africa already operates a state old age pension which is nearly universal, with an 85 per cent take up. Finance Minister Trevor Manual acknowledges the pension as the government's most important poverty alleviation programme. 'The majority of people in poverty who are not white live in three generation households, and the grant is typically turned over for general family use', Manual noted. 'For black South Africans, each pensioner's income helped five other people in the household' (Samson et al., 2002).

Thus South Africa shows it is possible to hand out money to the poor, through a universal benefit to the elderly; a basic income grant for everyone is possible and seems increasingly likely. South Africa can fund such a programme from its own resources, but for poorer countries, there seems no reason not to use donor funds for such a programme.

WHY NOT JUST GIVE MONEY TO THE POOR?

We have shown that it is possible and quite efficient to simply give money to the poor. In the case of Mozambique, the money seems to have been used wisely. Poor people used it mainly to raise their standards of living, but some of the money was spent on productive investment and the money did seem to stimulate the local economy, which suggests it has a developmental impact. The USAID evaluation concluded that 'the fundamental principle of a cash grant program — that without any conditions attached, households would make prudent use of the money — was confirmed' (Miller, 2002).

Meghnad Desai comments that 'I would love to think that if we could give money — perhaps not to governments but directly to the citizens of poor countries — it could somehow enable them to make their own effort to get out of poverty. We are not giving enough attention to how poor people get themselves out of poverty. We always assume that we must do it for them' (Desai, 2003a).

Which leads to the fundamental question that has dogged charity and aid in the West for more than a century: are the poor poor simply because they lack money, or are they poor because of their own stupidity and cupidity? To maintain our own self-respect, we in the North need to believe that we deserve to be rich — that we are rich because we are smarter or harder working or 'better' in some way. Thus we have created an entire 'aid industry' of agencies setting conditions to change behaviour, of development ministries selecting those countries which act as we think they should, of high cost field workers telling peasants how to behave, and so on. We create schools of development studies and journals such as *Development and Change*. But how much development does it accomplish?

We have created an industry with tens of thousands of jobs for people in the North, who receive cash grants not of US$ 1 a week but more than US$ 500 a week. Nor is it just in the North. Aid recipient countries have developed an elite which has become well off through the administration of aid — government officials, consultants, local aid agency staff and workers in non-government organizations which have contracts with international agencies. Jan Pronk notes that despite the best efforts of donors, 'in many instances aid is still serving the interests of a ruling elite rather than those of society as a whole, and particularly the poorest population strata' (Pronk, 2003). So there are a great many people in donor and recipient countries who have a vested interest in continuing the present system, and who will argue that if you simply give poor people money, they will waste it. And it is hardly surprising that, as the USAID evaluation notes, the Mozambique experiment was a 'unique' exercise. But it showed that it is not difficult to simply give people US$ 1 a week if we want to do it.

Perhaps we should at least consider the possibility that the main cause of poverty is simply lack of money, and at least run an experiment of giving poor people US$ 1 a week. Lord Desai comments: 'People often say, "These problems are not solved by throwing money at them". I say, "Just try"' (Desai, 2003a).

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Joseph Hanlon is a senior lecturer in the Development Policy and Practice group of the Open University, Walton Hall, Milton Keynes MK7 6AA, UK. He is the author of five books on Mozambique including *Mozambique: Who Calls the Shots* (James Currey, 1991), *Peace Without Profit: How the IMF Blocks Rebuilding in Mozambique* (James Currey, 1996), and *Mozambique and the Great Flood of 2000* with Frances Christie (James Currey, 2001); he is also the editor of the *Mozambique Political Process Bulletin*.