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Mobile Money and Direct Cash Transfers

by Isobel Coleman
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A vendor hawks second-hand mobile phones at the sprawling Kibera slum, one of the largest and poorest slums in Africa, near Kenya's capital Nairobi on August 26, 2011 (Noor Khamis/Courtesy Reuters).

This week on the blog, I'm going to be looking at mobile money again. Today's post examines how a new NGO–enabled by the rapid spread of mobile technology–is experimenting with cash transfers to alleviate poverty. Later in the week I will have a guest post from the Cherie Blair Foundation on new research on the potential of mobile services to benefit women entrepreneurs. I will then do a recap of a meeting I'm hosting on Thursday at CFR on ways to harness mobile technology for global economic growth with speakers Ann Mei Chang, senior adviser for women and technology, Office of Global Women's Issues at the U.S. Department of State; Alex Counts, CEO of the Grameen Foundation; and Scott C. Ratzan, vice president of global health at Johnson & Johnson. Stay tuned!

Mobile money is having a transformative effect on many different aspects of emerging economies. Unbanked entrepreneurs are using mobile money to run their small businesses more efficiently; urban workers are using mobile money to **transfer funds** to their rural families; the working poor are using mobile money to save. NGOs are also using mobile money in a myriad of ways, from providing bus fare to rural women in need of **fistula surgery**, to outright cash transfers. In fact, cash transfers–some conditional on positive behaviors (such as getting your kids immunized or sending them to school), some tied to work programs, and some unconditional–have gained significant traction in recent years, both because they seem to be quite effective in delivering positive results, and because mobile technology has expanded to make cash transfers in places like **Haiti** and Kenya far more feasible than it was just a few years ago.

An emerging body of research indicates that cash transfers could be among the more effective ways to reduce poverty in a sustainable fashion. There is growing evidence that beneficiaries of the transfers continue to experience increased consumption long after the transfer has occurred. In short, cash transfers such as Mexico's **Oportunidades**, "**appear to increase** living standards permanently by facilitating investments in productive activities." Moved by this evidence, and cognizant of the rapid expansion of mobile money (especially in Africa), a group of economists formed an organization called **GiveDirectly** to do just that. They chose to focus on **Kenya**, where over two-thirds of adults now use mobile money, to test their concept.

Last week, I spoke with Paul Niehaus, one of GiveDirectly's founders. Niehaus, who is currently a professor of economics at UC San Diego, explains that as an economist focused on development issues, he was frustrated by seeing programs stymied by corruption and not having an impact. GiveDirectly's approach is to remove the middleman and put power in the hands of the poor through unconditional cash transfers. Families of five receive $1000 over two years (approximately 65 cents per person per day), with no strings attached. GiveDirectly identifies beneficiaries using housing as a simple proxy means test: only those with mud walls and thatched roofs are eligible. If recipients don't already have a mobile phone, they are given a SIM card that they can take to a local mobile money provider to access the cash. Since its founding in 2008, GiveDirectly has distributed close to $600,000 through cash transfers.

The organization closely tracks what recipients do with the cash, using mobile phones to collect feedback. Some recipients report using the cash to buy food–not surprising since only 20 percent say they have enough food for the next day. Niehaus notes that while using cash for food consumption seems like a short-term benefit, there is substantial data showing that improved nutrition has a long-term payoff. Others use the money to replace a thatched roof with a more secure metal one. Again, this hardly seems like a productive use for the cash, but Niehaus points out that since a metal roof lasts for ten years while a thatched one has to be replaced every two, the return on that investment is 15 percent–demonstrating that the poor, as he expected, need no one to tell them how to spend their money effectively. Interestingly, when asked for feedback on the program, recipients are twice as likely to recommend that a neighbor be eligible for a transfer than to ask for a larger amount for themselves.

Niehaus recognizes that GiveDirectly is feeling its way forward through trial and error. They are experimenting with how best to give the money in terms of frequency and amount–are smaller, more frequent payments better or larger, fewer ones? Are there differences between how men and women spend the cash transfers? (They are doing a **randomized control trial** in Kenya with half women and half men, with results expected in 2013.) What impact do cash transfers have on vices like drinking, smoking, and gambling? (So far, GiveDirectly's experience mirrors that of **other studies** indicating that cash transfers do not increase spending on vices.)

GiveDirectly's expense ratio is roughly 7 percent: they spend about 1.5 percent in foreign exchange fees; another 1.5 percent in fees to use mobile money as a transfer mechanism; and about 3 to 4 percent in overhead to identify and track recipients. That's a substantially lower overhead than for most NGOs. If GiveDirectly can sustain its low cost structure as it scales, and demonstrate long-term impact, it could become a new model for poverty alleviation. "We want cash transfers to be the benchmark against which everything else is judged," says Niehaus.

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