ECOSOC

Reviewing direct monetary aid as opposed to conditional aid to people living in poverty

Research Report

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Forum: *ECOSOC*

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Introduction

Globally, 696 million people live in poverty on less than $1.90 per day, unable to meet their basic needs. About 1.3 billion people, on the other hand, live in what is called "multidimensional poverty" which takes into account their standards of living, healthcare, and education measuring poverty levels beyond income. While significant progress was made in eradicating poverty, Covid 19 induced an additional 120 million people into poverty with the World Bank estimating this number to reach 150 million in 2021 due to the convergence of Covid 19, climate change crises, and conflicts.

As the UN aims to lower global absolute poverty to 3% by the year 2030, these statistics have not only ruptured the progress of about 20 years but have also made this Sustainable Development Goal unreachable without swift and significant policy action. Monetary aid is therefore not only one of the most substantial but also a tested policy option to attain this goal.

Definition of Key Terms

Social Protection: The United Nations Research Institute for Social Development defines social protection as "all measures providing benefits in cash or in-kind to guarantee income security, access to health care and other key services like education."

Means Test: A type of test to determine whether a person or household is eligible for a governmental social protection program or assistance by measuring their income (or means) against the federal poverty line.

Conditionality: A pre-requisite or set of obligations to fulfill in order to be eligible for a social protection program.

Cash Based Assistance: A type of social assistance where direct cash or vouchers are given to eligible beneficiaries for them to directly purchase goods or services themselves.

Cash Transfer: A type of social protection program where cash is transferred to an eligible person or household by a government, donor, or developmental organization.

Conditional Cash Transfer (CCT): A type of cash transfer that requires the beneficiaries to complete a set of obligations set by the government, donor, or the developmental organization *before* receiving the assistance. E.g. Cash for Work (CFW), Cash for Training (CFT), and Cash for Assets (CFA) programs.

Unconditional Cash Transfer (UCT): Unlike the CCT programs, Unconditional Cash Transfer does not require the beneficiaries to fulfill obligations for receiving cash assistance.

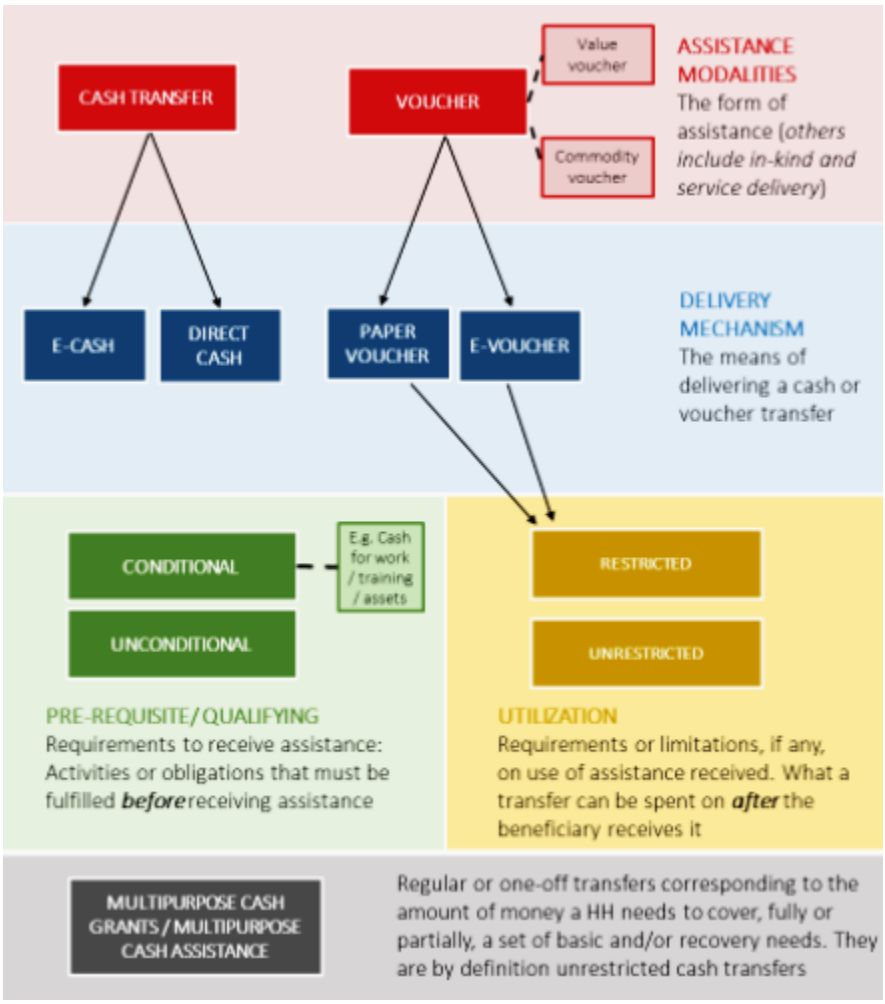

Figure1: Illustrative Diagram of Key Cash Transfer Programming Terminology by United Nations Office for the Coordination of Humanitarian Affairs

General Overview

To implement monetary aid as a policy to alleviate global poverty, it is necessary to review the debate on *conditionality* and analyze the impacts and challenges of monetary or Cash Based Assistance. The debate on conditionality revolves around four important clashes, which are as follows.

- Costs

The first clash is a trade-off around costs of infrastructure and expenditure which stands against the goal of utilitarianism, i.e. greatest happiness for the greatest numbers. Understanding that the money needs to be used rightfully to aid the poor, policymakers often grapple with the question of how to make the best use of their money. In most cases, conditions are an added burden on the infrastructure and bureaucracy of developing countries where the global poor are concentrated, and also incur recurring expenditure costs. If admitting children to schools is a condition, then making sure the schools exist is an infrastructural burden while training teachers and collecting information on student learning at the governmental level are recurring costs.

- Choice of beneficiaries

The second clash revolves around the importance of putting the beneficiaries at the center of monetary aid. Given that the Universal Declaration of Human Rights codified social protection for all in article 22, implementing conditions on the global poor at their most vulnerable condition is at best unethical. It is also important to let the beneficiaries decide how the monetary aid intended for them should get spent and conditions can force them to spend it in a certain way or on specific items. This is important as research suggests that conditions have gendered impacts as seen in the case of Latin America, where female household members were negatively impacted by conditionalities.

- Political will

The last clash revolves around concerns of misuse and complacency from unconditional cash transfers. Proponents of conditionalities stem their arguments from the rights-based approach of development which places an emphasis on the capacity building of institutions in order to empower the beneficiaries. Many governments in the developing world, therefore, do not have social protection or welfare programs as compared to the developed West due to them emphasizing a no-handouts approach. However, there is no evidence of training to be effective and training not to mention can be expensive. Many of such 'myths' have also been refuted by UNICEF through ample evidence.

Potential Advantages	Potential Disadvantages
Cost efficient – lower costs of distributing cash than commodity based alternatives.	*Inflationary risks* – if an injection of cash causes prices for key goods to rise, then recipients will get less for their money and non-recipients will be worse off.
Choice – cash allows recipients to decide what they should spend the money on.	*Anti-social use* – cash can be used to buy anything, including e.g. alcohol.
Multiplier effects – distributing cash can stimulate production and trade in e.g. agriculture.	*Security risks* – moving cash around may be risky for implementing staff and for the recipients.
Avoids disincentive effects – unlike commodities (food, shelter) cash is unlikely to discourage local trade or production.	*More difficult to target* – even the wealthy will want to be included, whereas they may not in food transfers.
Fewer costs for recipients – cash costs less than food to transport from the distribution site to recipients' homes.	*More prone to diversion* – cash may be more easily diverted where corruption is high and prone to seizure by armed groups in conflicts.
	Disadvantages women – women may be less able to keep control of cash than food.
	Less available from donors – who may be more willing to provide commodities than cash.
	Consumption / nutrition – if a transfer has particular food consumption or nutrition objectives then food may be more effective.

Figure 2: Potential advantages and disadvantages of monetary aid to alleviate poverty

- Impacts

When the choice of beneficiaries is upheld in unconditional monetary aid, it can help them save money for their future. Observations from monetary aid in Malawi indicated that beneficiaries saved up money after purchasing basic necessities which enabled them to work on their farms instead of casual laboring giving rise to productive investment.

In Zambia, purchasing power increased stimulating the local economy through the purchase of basic necessities and agricultural inputs in what is known as the "multiplier effect".

In parts of Orissa in India, cash-based assistance remains under-funded but has shown considerable impacts such as reducing hunger-related deaths and less abandoning of the elderly.

Finally, cash transfers targeted at women have shown a rise in child expenditure, their standard of living, a rise in regular meals and improved nutrition, particularly of a girl child. Such aid, be it conditional or unconditional, has an equalizing impact on the bargaining power within households in the developing world.

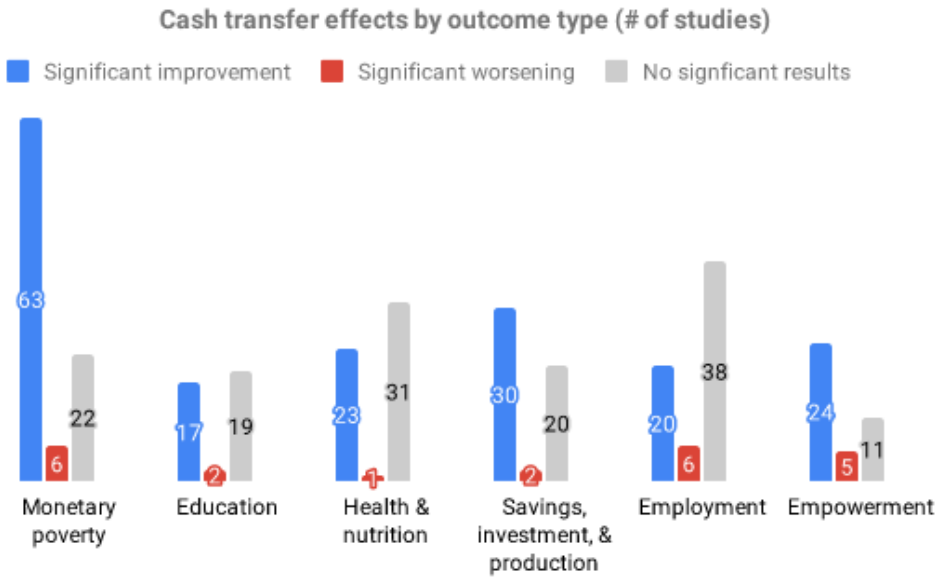

Figure 3: Cash Transfer Effects by Outcome Type - Adapted from Bastagli, Zanker, et al (2016)

- Challenges

There are a few pre-conditions necessary for the success of direct monetary aid especially in the Global South which are highlighted under.

Targeting: Targeting is at the heart of many programs and if done right and accurately can reduce poverty rates, but is often difficult to do for a few reasons. Firstly, good and accurate targeting requires assessment on poverty rates and political acceptability but lack of resources and capacity in developing countries is hard to assess. Secondly, in countries with higher concentrations of poor people and inequality rates, effective selection of the right beneficiaries is difficult. Lastly, evidence from India suggests how politicians can impact targeting negatively in order to 'vote catch'.

Technicalities & Corruption: As compared to the developed West, countries in the South suffer from lack of institutions and capacity. Therefore, institution building and optimal program design are big challenges. However, research suggests that once robust and effective delivery mechanisms are built they can also reduce chances of corruption which are otherwise high. Apart from it, observations from Oxfam's program in Uganda found that beneficiaries appreciate transparency on how much cash they are going to receive which can help trace corruption.

- Free-rider problem

Many governments have demands on people asking for aid in some form or another. Governments often put such restrictions on aid due to the "free-rider problem". The free-rider problem can be a societal issue in which citizens are supposed to do their share and contribute through taxes on collective benefits, such as the police force, infrastructure etc, but some citizens

do not contribute at all. Those citizens are free-riders: they do enjoy the collective benefits, but do not contribute to them.

To combat those free-riders, many governments put conditions on their aid. In Western countries, unemployment benefits can be withdrawn if someone doesn't apply for jobs. Other forms of conditionality include that certain vouchers can only be spent on food or other items deemed necessary. This is to make it harder for someone to be a free-rider. Another motivation behind it is to ensure the aid is used for its intended purpose: the money is used for food/clothing/education, rather than to fuel a drug addiction. Aid is used to start a business, rather than to buy a fancy new TV. Some argue that unconditional aid will motivate people to quit their jobs and to become "free-riders". An example of this argument can be seen recently, where in the USA republicans argued that unconditional benefits discouraged people from finding jobs, whereas supporters of the benefits argued that cutting the benefits would make post-COVID economic recovery less equal. Source.

Major Parties Involved

Governments

States have the responsibility to provide social protection which is funded by national taxes and some support from the donors depending upon the level of national resources available. Tax funding mostly comes from indirect or consumption taxes since in developing countries, a few people are in the formal-sector employment. Poverty can be prevented or reduced in these countries through national social protection systems that are universal in approach and can have a great impact. In this way, the governments using universal social protection strengthen social cohesion, encouraging peaceful, just, and inclusive societies.

NGOs

Several countries are unable to ensure social protection under the ambit of government due to predatory or abusive governments, low administrative capacity, or conflicts and wars. This is where NGOs play their role.

Where social protection is managed and provided by non-state providers, this may risk causing resentment or undermining the state, especially where NGOs divert skills and funding from the government. Some suggest all programs should eventually be transferred to state control and their policies should align with state policies where possible.

ILO

According to the International Labour Organization (ILO), social protection is a human right. Its main focus is on employment, particularly the decent work agenda, which extends from the informal workers to the formally employed. It supports a basic set of social transfers and

universal access to essential social services and co-leads the Social Protection Floor Initiative within the UN. It gives emphasis on the need to implement coherent, coordinated and comprehensive social protection and employment policies to guarantee income security and services across the life cycle, particularly focusing on vulnerable groups.

World Bank

The Bank acts as a bridge in connecting social protection to labor and jobs. The primary objective of the Bank's 2012-2022 Social Protection and Labor strategy is helping countries move from fragmented approaches to harmonized systems. The primary goals of the strategy are to facilitate and help improve resilience, equity, and opportunity for people in both low- and middle-income countries. In the field of basic social protection, the World Bank has been active in 116 countries during the last five years.

UN

The UN has shown support for social protection through the Millenium Development Goals (MDGs) and the Sustainable Development Goals (SDGs) but like UNICEF and UNDP is a strong supporter for the establishment and extension of donor-funded social protection schemes in developing countries. UNDP had supported cash-for-work projects in various affected Asian countries for the first six months following the Tsunami disaster in the past. Similarly, UNICEF also makes no prioritization concerning the different kinds of cash transfer schemes and chooses more in-kind transfers like food rations. Likewise it does not give a categorical answer regarding needs-based or universal cash transfer.

Timeline of Events

2000	The United Nations Millennium Declaration commits world leaders to combat poverty among other pressing world issues under the Millenium Development Goals (MDGs).
2005	The Global Call to Action Against Poverty (GCAP) forms a network of over 11,000 civil society organisations (CSOs).
2008	World Financial Crisis increases the global absolute poverty.
2009	UN Chief Executives Board established the Social Protection Floor Initiative (SPF-I).
2012	The World Bank Group's 10 year social protection and labor strategy (2012-2021) lays out ways to deepen World Bank Group's involvement, capacity, knowledge, and impact in social protection and labor.
2016	The United Nations extends its work on MDGs by committing to Sustainable Development Goals (SDGs) among which eradicating global poverty becomes the first goal.
2019	The percentage of the population participating in programs that provide old age contributory pensions (including survivors and disability) and social security and health insurance benefits (including occupational injury benefits, paid sick leave, maternity and other social insurance) is less than 60%.
2020	Only 46.9% of the global population is effectively covered by at least one social protection cash benefit, leaving as many as 4 billion people without a social safety net amidst Covid-19.
2021	An additional 119-124 million people were pushed back into extreme poverty. The global poverty rate

is projected to be 7% in 2030 as opposed to the goal of 3%, missing the target of eradicating poverty.

Possible Solutions

Soft Conditionality

Soft conditionality, as the name suggests, is more subtle instead of explicit labeling of conditionality on the beneficiaries. A random control trial in Lesotho by FAO utilized techniques like clearly communicating to the beneficiaries and reminding them at every payment that the monetary aid was meant for the welfare of their children and to ensure they had enough food, adequate clothing and shoes which indirectly helped to incentivize actions of the beneficiaries as found through the evidence. However, such programs require a clear communicating strategy for them to be successful.

Partnerships

Governmental partnerships with NGOs, private sector and civil society are extremely important to give momentum to direct monetary aid programs. Many governments in Africa, for instance, have their own unconditional and direct monetary aid programs running for more than two decades and ten times larger and consistent than those of the NGOs. Yet, NGOs like GiveDirectly are more well known and popular when it comes to cash based assistance schemes. Government programs can learn efficiency and marketing from partnerships with NGOs and other important actors to increase their impact.

Basic Services and Institutionalisation

Finally, it is important that in the long run basic services and institutions are available for social protection. Even if these services and institutions are not up to the mark in the initial years, they can still improve the efficiency of delivery mechanisms of monetary aid be it conditional or unconditional.

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