

If You Give the Poor Cash, Does it Help?



PHOTO: WILL BOSE

Giving poor people money gives them tools to invest in their job prospects, their future, and a more industry and service-oriented local economy.

Policymakers throughout the world struggle to boost employment. In poorer countries, development organizations and governments have traditionally relied on solutions like training vouchers or microfinance tools. These programs often involve extensive organization and monitoring to run effectively, all of which require additional money, resources and time.

An alternative is putting cash directly in the hands of the poor themselves, leaving them to decide how best to spend the money. While simpler to implement, development groups and governments are concerned that the programs won't work. Will recipients use cash grants as promised? On their own, can they generate successful businesses? And, assuming they do, can this sort of growth be sustained over time? We have almost no evidence on the effectiveness of unconditional cash transfers to the poor and unemployed to judge.

Researchers and Innovations for Poverty Action have evaluated a Government of Uganda program, one that gave young men and women cash grants to start skilled trades outside of agriculture. Based on final results four years after the intervention, the Ugandan cash transfers achieved nearly all its goals. Beneficiaries invested most of the cash in building business opportunities. While they still did agricultural work,

they spent more time working in skilled industry and services and their incomes rose.

The results have broad implications for development policies and underscore the importance of financing when it comes to employment creation, training and incomes. In the constrained credit markets of many developing countries, where available financing is often short-term and carries an annual interest rate up to 200 percent, the poor have few viable options for getting the start-up money they need for skills training or small business development. At the same time, it may not be feasible for governments to set up grant making or voucher programs that require extensive oversight.

Long-term solutions should address the root problem— inadequate access to cheap finance for small business development. In the interim, however, this impact evaluation shows there are viable options for boosting non-agricultural employment and reducing poverty.

In certain circumstances, unsupervised cash grants can be used successfully with poor entrepreneurs, something policymakers will want to consider when looking to boost employment and income among young adults.

Context

The gradual end of civil war in Uganda over the last decade and the weakening of armed conflicts in neighboring countries allowed the Ugandan government to increase its reach and work to develop the regional economy in the north. The Northern Uganda Social Action Fund (NUSAF), created in 2003 with World Bank funding, distributed grants for infrastructure construction, income support and livestock.

NUSAF was expanded in 2006 through a new Youth Opportunities Program, which offered cash grants to young adults for income-generating projects in an attempt to help them find

work outside of the informal farming sector.

This program sought to offset difficulties young adults faced finding credit in northern Uganda. Many of the poor have good business and investment opportunities, but need capital to start. Loans from non-profit microfinance associations and moneylenders can carry an annual interest rate of 100 to 200 percent, however, and rarely extend beyond three months. As a result, many good business opportunities are missed.

Evaluation

Researchers partnered with the Ugandan government to evaluate the effectiveness of the Youth Opportunities Program, targeting young adults aged 16 to 35 in the country's northern region. To qualify for the cash grants, young adults had to organize in small groups and submit a proposal for a grant to cover training programs and what tools and materials they needed to run a business, either together or on their own. While facilitators were available to help youth organize into groups, build budgets and apply, these facilitators played no role after the application phase, and there was no formal mechanism of follow-up or accountability for the funds after the grants were distributed.

Groups were responsible for creating a five-person management committee and doing their own budgeting and allocating. The money was given to the group, and the management committee distributed the money according to the group's plan.

The average grant was \$7,497 per group, or about \$382 for each group member (in 2008 dollars), with the money deposited

in a joint bank account. On a per-person basis, grants generally ranged from \$200 to \$600, or about one year's income for a young adult.

Prior to the evaluation, the Government disbursed hundreds of grants in a first phase. Researchers studied the second and last phase of grant-making, when an additional 265 grants were available for 535 eligible groups. Those not picked were tracked as a control group. Researchers followed a random sample of five individuals in each group, or 2,675 individuals, conducting a baseline survey in early 2008, a second survey between mid-2010 and mid-2011, about 12 to 18 months after most groups had finished their training programs, and the four-year end line survey in mid-2012. Taking into account group disbanding or members moving away, researchers were able to track 91 percent of members after two years and 84 percent after four years.



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Results

- » **Four years later, most grant recipients were practicing skilled trades and earning more money than the control group.** Young adults who had received the grants were earning 41 percent more than peers who didn't receive the grants. One reason may have been that those who received the money were 65 percent more likely to be working in a skilled trade such as carpentry, tailoring, metalworking and hairstyling. Those who received the grants were also 34 percent more likely to register a business and 40 percent more likely to pay business taxes and keep business-related records.
- » **In particular, the cash grants gave women a real boost, underscoring that access for finance is critical to helping women escape poverty.** Incomes for young women who received the grants were 84 percent higher than women in the control group. In contrast, incomes for men who received the grants were 31 percent higher than incomes of those in the control group. One reason is that, in the absence of the grant, young men were able to increase their employment and incomes over time, in part because they had the earnings and access to credit that allowed them to self-employ (albeit with delays and into unskilled jobs). Women, however, tended to stagnate in the absence of a grant, in part because their lower earnings, assets and credit access meant they had more difficulty getting the start-up capital they need.
- » Overall, the evaluation shows that given the resources and opportunity, women in Uganda chose to use the money to create economic opportunities for themselves—and succeed.
- » **Fears that the money would be mismanaged or misappropriated were unfounded. Overall, young adults who received the unsupervised grants stuck to their stated plans, using the majority of the money for vocational training and to acquire materials to run a business.** Among those who received the money, 76 percent enrolled in vocational training, with levels similar for men and women, compared with 15 percent of the control group. In both cases, the most popular training programs were, in descending order of popularity, tailoring, carpentry, metalworking and hairdressing.
- » **In the absence of a grant, youth interested in skilled trades are unable to afford training.** Members of the control group were just as interested in skilled trades, but only pursued training 15 percent of the time. In the majority of these cases, moreover, they received this training (usually a shorter and less formal one) free from a church, NGO, or government office. In the absence of a grant, only 6 percent of the control group self-financed any business or vocational training.
- » **Not only did grant recipients enroll in training programs at a higher rate and earn more money than their peers, but they also accumulated more business assets.** Grant recipients spent 4 to 5 times more than control group members on new acquisitions of business materials—such as tools and goods—in the first two years after the grants were distributed. Four years later, the value of business materials was 51 percent higher among youth in the treatment group.
- » Two years after the grant was given, the average grant recipient valued their stock of business assets at \$448— an increase of \$274 over the control group's \$174.
- » **Recipients used the money well. For every dollar “invested” over a year, these young adults earned \$1.40.** Giving cash grants not only provided young adults with access to capital that they would otherwise have trouble getting, but it made for good business. If we compare these 40 percent returns to the 10 to 20 percent real interest rates that medium-size firms pay for loans, this suggests these new Ugandan enterprises are generating competitive returns on capital and should be self starting and sustaining in economies with accessible finance.
- » An important concern when giving cash grants is that some people will capture the money for themselves, or at least take an unfair share. In this program, 90 percent of group members said the grant was equally shared, and 92 percent said leaders didn't receive more than their share.
- » Cases of misappropriation appeared very small.

» **In a post-conflict environment, reinforcing peace and stability is crucial and economic stability is seen as a route for strengthening social stability. The evaluation didn't find any link between individual economic prosperity and increased social unity and stability.**

» Many governments invest in youth employment programs out of concerns that poor, unemployed youth are more likely to engage in violence, crime and social unrest. We find no evidence that this income and employment boost affected these social behaviors on an individual level.

» Using various measurements, including household in-fighting, family support, participation in community life, disputes with neighbors and others, the evaluation didn't find any impact on behavior four years after the program was launched. There wasn't an increase among participants in support for the government or political participation in general. Nor were recipients less likely to participate in anti-government rallies, even though their incomes had improved thanks to a government program.

Conclusions

Helping young adults find jobs is a goal of policymakers in emerging economies, where high rates of unemployment keep families in poverty. Many countries are working with vouchers, training programs and microfinance to raise employment opportunities.

As this impact evaluation shows, it is important to revisit the bias that many in the development community have against unconditional cash transfers. More studies on unconditional cash transfer programs to the poor and unemployed are needed. But, combined with the growing evidence that unconditional cash transfers boost the profits of small businesses, and the widespread evidence that conditional cash transfers promote education and health, cash transfers to the poor seem to be one of the most promising strategies for large-scale, cost effective poverty alleviation and employment generation.

Indeed, the findings show that the best solutions are sometimes the simplest: giving poor people money gives them tools to invest in their job prospects, their future, and a more industry and service-oriented local economy. These young adults, who

were motivated enough to meet the requirements to apply for a grant, showed more self-discipline and focus than many observers would have predicted. Perhaps poor youth deserve more credit.

The study also illustrates the important weaknesses of microfinance. This impact evaluation and a host of other studies show that many young adults have high returns on investment when they have access to capital. Microloans, as they are currently structured, are poor vehicles for small business growth and the development of cottage industry.

They generally have tight controls, short horizons, low tolerance for risk and default, and high interest rates. In the long run, the young, poor and unemployed need cheap finance, over long horizons, with the understanding and allowance for the fact that some businesses will fail. As governments and the private sector work to develop this financial sophistication, cash transfers are likely to be important drivers of poverty alleviation and development for youth.

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TOPICS

Cash Transfers, Community Participation, Peace & Recovery, Training, Women & Girls

COUNTRY AND TIMELINE

Uganda, 2008-2013

SAMPLE

2675 youth in 535 groups

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