

# SOLUTIONS FOR SHARED PROSPERITY

# THE POWER OF DIRECT CASH ASSISTANCE



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**Direct cash payments that reach people in moments of financial hardship are a much-needed alternative to loans and credit, borrowing from friends and family, and crowdfunding. Behavioral design strategies can make these programs even more effective and affirming to provide relief for people who need it most.**

Families living in the U.S with low-to-moderate incomes have limited options when faced with financial hardship. As of November 2020, 36% of families could not cover an unexpected \$400 expense with cash on hand.<sup>1</sup> While many end up borrowing from financial institutions to make ends meet, for some this is not an option. An estimated 45 million individuals either have an insufficient credit history or are “credit invisible,” meaning they have no credit record whatsoever.<sup>2</sup>

When traditional financial products aren’t available, many people in need borrow funds from friends and family, resort to alternative high-interest lending such as payday loans, or turn to crowdfunding platforms. GoFundMe, for instance, the leading crowdfunding site, raised over \$9 billion globally in 2019.<sup>3</sup> Unfortunately, these funding options can be problematic in a variety of ways, as predatory loans trap people in cycles of debt, and crowdfunding platforms often undermine dignity and threaten people’s privacy.

But there is reason for optimism: alternatives are emerging that better support those experiencing financial hardships by centering on the user and meeting people where they are. Getting people the right help in moments of financial hardships not only impacts their immediate lives but also helps people secure a more stable financial future. As part of [Shared Prosperity Catalyst](#), ideas42 has been researching direct cash assistance solutions—informed by behavioral science—that seek to support people in managing financial difficulties while restoring equity and dignity.

## THE CONTEXT OF SCARCITY

Families with low-to-moderate incomes often live under conditions of scarcity, meaning a relative lack of key resources (time, money, etc). When people experience scarcity of a key resource, their attention becomes narrowly focused on solving the immediate problems in front of them to the exclusion of less urgent priorities.<sup>16</sup>

For example, when under a tight deadline at work, one’s focus is devoted to getting that project done while the laundry and mail pile up. This narrowing of attention, called “tunneling,” can be adaptive in the short term since it lets us focus on addressing urgent matters. But when experienced over the long run, it costs us: we neglect other concerns and become less effective in our broader lives.

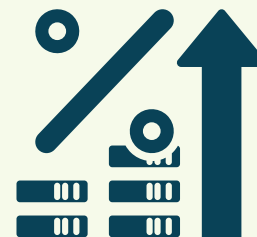
For many people living in poverty, the scarcity-induced tunnel vision is a constant, leaving them with little space to plan for the future or weigh longer-term consequences. In this context, it makes sense that people may make financial decisions that address their immediate needs, despite perhaps making them worse off in the long term.

## Shortcomings of Current Cash Assistance Options

### Loans and Credit

**Borrowing through loans and credit is costly and can trap people in cycles of debt.** Individuals who have had to overcome financial issues in the past can have lower credit scores, which means they pay higher interest rates and fees when borrowing from formal institutions. It is also well-documented that there are significant racial disparities in credit scores.<sup>4</sup> Many individuals who lack access to affordable credit end up relying on payday loans. Payday lending is an \$18.2 billion industry in the United States<sup>5</sup>—there are more than 23,000 lenders with rates that can push past 600% APR (annual percentage rate).<sup>6</sup> These kinds of predatory loans can become unmanageably large and end up trapping them in a long-term cycle of debt.

**Some payday lenders have rates as high as 600%**



### Borrowing from Family and Friends

**Borrowing from family and friends can increase financial stress, undermine individual privacy, and perpetuate the racial wealth gap.** People may avoid the negative consequences of predatory lending by borrowing from friends and family during moments of financial scarcity. But borrowing from friends and family comes with its own set of limitations and consequences that can perpetuate financial hardship and further entrench racial wealth disparities. The Panel Survey on Income Dynamics (PSID), studying data from 1984-2011, found that approximately one-third of households received financial transfers from extended family.<sup>7</sup> However, Black and low-income households had more limited networks of wealth to draw from. White households also received larger financial transfers than Black households, which in turn allowed them to build more wealth.<sup>8</sup> In this way, a lack of alternatives to relying on friends and family for borrowing could further perpetuate racial disparities in wealth.

**People who borrowed funds from friends and family during the COVID-19 pandemic experienced higher levels of financial stress.**



Borrowing from family and friends can also have a psychological impact on the borrower. Having to disclose financial needs to one's own network may undercut people's privacy and dignity and impact their reputation or image in their communities. Research from the Financial Health Network on emergency borrowing during the COVID-19 pandemic showed that people who borrowed funds from friends and family experienced higher levels of financial stress compared to those who did not borrow.<sup>9</sup> Furthermore, when an entire community is experiencing the same shock, such as during the pandemic, relying entirely on friends and family can be untenable due to limited resources.

## Crowdfunding

**Crowdfunding can threaten people’s dignity and is filled with hassles.** People in need of emergency cash already face stigma and feelings of shame brought on by false narratives about poverty.<sup>10</sup> Crowdfunding can exacerbate those feelings and further threaten dignity and privacy, as recipients have to provide substantial evidence of their financial need and disclose private information about their lives. There have been many documented examples of crowdfunding causing significant harm from people having to advertise traumatic emergencies in the hopes of getting funded.<sup>11</sup> Additionally, because crowdfunding is so public, it is susceptible to bias—including racial bias—as donors decide who specifically to give their funds to.<sup>12</sup>

**Crowdfunding exacerbates feelings of stigma and shame brought on by false narratives about poverty.**



There are also significant hassles involved with crowdfunding. Putting together a “winning” crowd-funding campaign requires crafting a compelling online story and spending time promoting the page, which may not be viable for many in a true financial emergency. People who are living under chronic scarcity already have limited bandwidth, making these hassle factors even harder to overcome.

## Innovative Solutions for Direct Cash Assistance

Luckily, there are both public and private sector actors looking for better ways to provide people with cash assistance while protecting their dignity and promoting their long-term financial health. **WellMoney, Canary,** and **In Her Hands** are three innovative initiatives seeking to get cash to those who need it most. These three initiatives have important features that employ behavioral science principles and are designed with an understanding of the context of financial scarcity that their clients face.<sup>13</sup>

### Giving People Financial Slack

Direct cash assistance initiatives support people in moments of scarcity and help them solve immediate needs without jeopardizing their long-term financial health. **WellMoney, Canary,** and **In Her Hands** do this by giving people money when they need it, without the obligation to repay. Importantly, people receiving funds can use the money for whatever they need. These kinds of unconditional cash transfers create the slack, or “cushion,” that people need to better respond to unanticipated financial emergencies or volatility.

### Promoting Dignity, Privacy, and Equity

In moments of financial need, all people should be able to secure funds without having to compromise their dignity.

**WellMoney** seeks to preserve individuals’ dignity by keeping users anonymous and not requiring members to “prove” their need or advertise the details of their emergencies. No documentation, receipts, or explanations are required to request funds. This directly promotes the view that people experiencing financial stress are to

be trusted and able to navigate their financial situations without justifications required. Lastly, because anyone in the WellMoney community can receive funds, the types of biases normally seen in crowdfunding are mitigated, since members are contributing to a collective pool of funds, not choosing to fund some people over others.

**Canary** ensures that employees' grant requests are kept confidential from their employers unless employees provide prior consent. The only time data is shared in a personally identifying manner is when Canary needs to verify information related to identity, employment, or loss of wages. As a third party, Canary reviews requests without seeing the people requesting funds, allowing for a more impartial review process with less room for biased decision-making. This also means that employees can receive funds without anyone in their personal or professional networks ever knowing.

**In Her Hands** raises funds from the public through online donations but does not disclose any details about the recipients, nor are donors allowed to "choose" who they fund. By fundraising for an entire community as a group, individuals' privacy is protected, and In Her Hands uses an anonymized enrollment model to keep women's participation in the program confidential. Additionally, transparency is also embedded into all steps of the application. For example, when applicants are asked to provide financial information to determine their eligibility, In Her Hands gives clear explanations of why they need the information and how it will be used. This transparency gives applicants a full view of the program and respects their agency in determining if they wish to participate. Lastly, In Her Hands works to include equity in their dispersion of funds by selecting program participants randomly from the pool of eligible applicants, rather than making value judgments on which women to fund.

### WellMoney

WellMoney is a membership-based money-sharing community. Through low monthly membership fees (\$1-\$5) and other member contributions, WellMoney provides a safety net for members as well as a platform for direct giving. WellMoney pools member contributions and distributes funds to members who request help for emergencies—no justification needed and no strings attached—to help fill the gaps between charitable, governmental, religious, and even other crowdfunding options for people in need. WellMoney is supported by the [ideas42 Venture Studio](#), an initiative of the Shared Prosperity Catalyst that helps motivated individuals build companies that solve social challenges.

### Canary

Canary helps organizations set up emergency relief funds for their employees. With employer-sponsored Grant Circles, colleagues can give and receive emergency support efficiently, quickly, and with dignity. While many businesses offer and manage emergency relief funds for their employees, the challenges inherent in management overhead and tax consequences are significant. Canary designs the program and automates the process for employers, providing third party grant decisioning, grant disbursement, and impact reporting.



In Her Hands is a guaranteed income initiative launched by [GiveDirectly](#) and the [Georgia Resilience and Opportunity \(GRO\) Fund](#), which aims to provide 650 women in three communities across Georgia an average of \$850 monthly for two years. This is the largest guaranteed income project in the South to date, and one of the only projects nationwide that spans urban, suburban, and rural communities. Launching first in Atlanta's historic Old 4th Ward in May 2022, the project will expand to two additional sites in southwest Georgia and a suburban community. In Her Hands is raising the necessary funds through [GiveDirectly's fundraising page](#).

## Reducing Hassles and Stress

Instead of making people jump through multiple hoops or lean on social networks when financial scarcity has already put their attention in short supply, cash assistance platforms make it as easy and quick as possible for people to get assistance.

**WellMoney** members do not have to spend any time justifying, explaining, or proving their need, contrary to many crowdfunding pages. Once approved, WellMoney commits to delivering funds within 48 hours of a request. Additionally, the platform is designed to have simple processes—including a basic sign-up form and seamless integration to payment options, so that people can get straight to requesting funds. Once someone becomes a member, they can choose a category for their required expenses (medical, food, etc.), and efficiently request the needed funds.

Through **Canary**, employees have a reliable source of funds to help cover unanticipated needs, without needing to worry about whether their personal networks can cover those costs or dealing with the financial stress of having to repay members of their own network.

Many financial services place unnecessary and undue administrative burdens on clients, requiring people to fill out long and cumbersome documents. **In Her Hands** makes a point of reducing the burden on the applicant. The initial online application, which takes about 15-20 minutes to complete, asks for minimal documentation and has built-in tools that help verify eligibility quickly. Moreover, the online application and participant materials use simplified language and videos in order to convey information clearly and efficiently, thereby reducing the time and effort required of participants.

## A Growing Recognition of the Importance of Cash Assistance

Platforms like **WellMoney**, **Canary**, and **In Her Hands** that help people access no-strings-attached funds when they need it most represent a new path forward for people in need of cash assistance. The popularization of guaranteed income programs, both in the U.S. and globally, has set the stage to make these kinds of solutions more feasible. At least 20 guaranteed income pilots have launched in the U.S. since 2018, effectively delivering a financial cushion to thousands of families.<sup>14</sup> In Washington, D.C, the THRIVE guaranteed income pilot launched during the COVID-19 pandemic was found to reduce food insecurity, increase savings capacity, and boost investments in small businesses.<sup>15</sup> Direct cash transfers give people the support they need at the right moments, without having to navigate hassle-filled processes or compromise their dignity, driving equitable prosperity for all families across the U.S.

*Shared Prosperity Catalyst is a multi-year initiative focusing on creating more equitable prosperity across the U.S.. This initiative applies a behavioral lens to financial health, as well as the physical and mental health impacts of experiencing poverty, driven by an experienced team of behavioral designers, policy experts, and business builders and powered by a diverse network of academics, practitioners, and entrepreneurs with experience in the communities we aim to serve.*

*ideas42 is a non-profit behavioral design firm that uses behavioral science to help solve difficult social problems and achieve impact at scale.*

## Endnotes

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