Helpdesk Research Report: Political Economy of Cash Transfers
Date: 13/08/2010

Query: What does the evidence base on the politics and political economy of cash transfer schemes tell us? What do we know about how questions of affordability have been addressed from a political perspective? What is the nature and scope of that evidence base?

Enquirer: Poverty Response Team, Policy Division

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1. Overview

Cash transfers are a form of social assistance in which money or cash-like instruments (e.g. vouchers) are distributed to vulnerable individuals or households. They can vary in targeting (eligibility requirements, such as age, poverty, and disability) or conditionality (specific actions required to receive payment, such as requiring children to attend school or a health clinic).

There is a very limited evidence base on the political economy of cash transfers. Of the empirical evidence that does exist, most focuses on Latin America and the impact of cash transfer programmes on electoral behavior. There is, however, increasing attention in the literature on social protection and cash transfers on issues of politics and political economy.

Much of the literature stresses the importance of differing political contexts and trajectories in understanding social protection policies and programmes. For example, while electoral politics plays an important role in cash transfers in Latin America; this has not been the case in Africa (Hanlon, Barrientos and Hulme, 2010). It is important to determine the incentives of policy-makers and the preferences of key constituencies in order to successfully promote cash transfer programmes, particularly those of a larger scale.

Political will, electoral support and affordability

Studies have found that although fiscal constraints are a key challenge to affordability in low-income countries, political factors and competing domestic policy preferences tend to play a greater role in the degree of governmental support for transfers (Samson, 2009; McCord, 2010). Policy-makers are inclined to adopt social protection measures in response to a major disaster or crisis, to counteract real or perceived opposition to government policy, and the threat of social unrest (Barrientos and Hulme, 2009).

Some studies, particularly on Latin America, have demonstrated that politicians have used transfers for electoral advantages – to reward core supporters and to target swing voters (De La O Torres, 2009).

1 Please note that research on social protection by Sam Hickey is already familiar to the Query Enquirer and has therefore not been included in this response.
Outside of Latin America and parts of South Asia, however, cash transfers have not been an electoral issue. There is not an organised mass popular lobby for social protection and cash transfers in Sub-Saharan Africa, for example, that would push for a reprioritization of policy choices toward transfers (McCord, 2010). In such contexts, poor and marginalised segments of the population are unlikely to be influential in national policy-making or public resource allocation decisions (O’Cleirigh, 2009). At the same time, policy-makers and the non-poor electorate may be opposed to cash transfer programmes for ideological reasons, primarily negative attitudes toward poor people and the notion of welfare; and concerns over fostering dependency. Further, non-poor interest groups may not support social protection provision if it involves higher taxes for programmes that do not benefit them or if it is seen as reducing expenditures in areas that benefit them (O’Cleirigh, 2009).

There are various recommendations in the literature for securing broader political support for cash transfer programmes. They include:

- **The notion of ‘the deserving poor’/a social contract**: establishing conditions and ‘co-responsibility’, whereby cash is transferred while asking beneficiaries to pursue particular actions, primarily investments in child education and health (Desai, 2007; Hanlon, Barrientos and Hulme, 2010; Fiszbein and Schady, 2009). There is some evidence that people are willing to incur financial losses to reward others deemed deserving (Fiszbein and Schady, 2009).
- **Broad-based redistribution**: moving away from pro-poor targeting and including the non-poor as beneficiaries (Desai, 2007; Hanlon, Barrientos and Hulme, 2010; Fiszbein and Schady, N, 2009).
- **An evidence base of positive results**: assessments have shown that poor households have managed small amounts of money wisely. This finding and other evidence of economic benefits of cash transfers could improve public perceptions of such programmes (Farrington, Harvey and Slater, 2007; O’Cleirigh, 2009).
- **Anti-corruption**: corruption can undermine affordability of social protection. Although the risk of corruption in programmes with a large volume of small payments can be high, actual corruption can be limited, as in the case of Zambia. This was due in large part to: operating procedures designed to reduce the risk; the involvement of all actors (including communities) in implementing and monitoring transfers; and the close attention of donors and NGOs (O’Cleirigh, 2009).

### The impact of cash transfers on the electorate

Recent studies, focused on Latin America, have sought to determine the effect of large-scale cash transfer programmes on voting behaviour. They demonstrate that conditional cash transfer schemes in Mexico, Brazil, Uruguay and elsewhere have resulted in electoral support for politicians and parties that propose and retain the programme. This suggests that households’ political views are very responsive to the receipt of government transfers. (De La O Torres, 2010; Manacorda, Miguel and Vigorito, 2009; Zucco, 2010). In a study on the *Bolsa Familia* programme in Brazil, Zucco finds that electoral support of non-beneficiaries in poor municipalities also increased; the programme served as an economic stimulus in these areas and thus also benefited non-recipients.

There are some concerns in the literature that cash transfer programmes can be manipulated for political ends. Many analysts stress the need to distinguish between engaging in clientelism or opportunism on the one hand and promoting prior successes and crediting a president or party for an improvement in well-being on the other hand (Sewall, 2009). Conditional cash transfer programmes in Mexico, for example, have been protected from politicalisation; electoral advantages gained from the programmes have been due to satisfaction with them and related investments in human welfare, rather than clientelism (De La O Torres, 2010; Sewall, 2009). Conditional cash-transfers have thus been effective not only in poverty reduction but in influencing electoral politics in a non-clientelistic manner (Zucco, 2010).

Another potential positive effect of conditional cash transfer programmes is an increase in social capital. A recent study on the programme in Columbia, *Familias en Acción*, found that requirements that women beneficiaries engage in social activities, such as attending meetings and visiting health centres, have improved cooperation and trust in beneficiary communities.
2. Political economy, social protection and cash transfers

Journal article

http://www.informaworld.com/smpp/content~db=all~content=a916446424

This article stresses the importance of politics and regional trajectories (context, capacity and institutional setting) in understanding social protection policies and programmes. It provides an overview of regional and national social protection trajectories, focusing on Latin America, South Asia, Sub-Saharan Africa and Southeast and East Asia; and discusses the political conditions necessary for the adoption and sustainability of social protection programmes. The authors note that there is very little research concerning programme adoption for developing countries. In low-income countries, in particular, voters are often poorly informed about policy options and politicians’ policy promises have minimal credibility. The political system is geared largely toward patron-client relationships. Policy-makers are inclined to adopt social protection measures in response to a major disaster or crisis, to counteract real or perceived opposition to government policy, and the threat of social unrest. The article notes Bolivia as an example, where the government adopted a non-contributory pension scheme as a means of ensuring political support for the privatisation of utilities. Once privatisation was complete, the government suspended the programme, but subsequently reinstated it due to public pressure. The political conditions required for sustainability of social protection programmes are less daunting than for initial adoption, as coalitions of support for adopted programmes and political pressure can build quickly.

Research report


This paper looks at the challenges of ‘scaling up’ (expanding coverage of) anti-poverty programmes, focusing on unconditional and conditional cash transfers, in-kind transfers, public works and asset improvement and accumulation. It stresses the importance of understanding the incentives of policy-makers and preferences of important constituencies in order to successfully promote scaling up.

The paper stresses that developing countries that are democratic tend to have greater anti-poverty spending. This could be due to greater mobilisation of the poor in democratic environments, for example in Latin America. The paper emphasises, however, that in order to ensure broader support for anti-poverty programmes (and prevent ‘backlash’ by the middle class), non-poor segments of society may also need to be targeted. Some literature advocates explicitly for allowing ‘leakages’ to the non-poor in order to build political support for scaling up. Profiling examples from Latin America, the paper also discusses how large-scale anti-poverty programmes have been adopted by various politicians in order to secure electoral advantages. While some electorally-driven transfers may be necessary to secure public support for scaling up programmes, as noted, there is a danger that such programmes may become an instrument of partisanship. Partisanship, while not hindering scaling up, can limit the sustainability of programmes as they are unlikely to survive political transitions.
3. Political will and public support for cash transfers

**Book**


A limited preview of this book is available from Google Books: [http://books.google.com/books?id=M2WWH1zQONoC&printsec=frontcover](http://books.google.com/books?id=M2WWH1zQON0C&printsec=frontcover)

This book from the Chronic Poverty Research Centre argues in favour of cash transfers as enabling people in poverty to escape from ‘poverty traps’. It argues against concerns that cash transfers will foster a culture of dependency and laziness, stressing instead evidence that people on average tend to work harder as the cash helps them out of the poverty trap. Chapter 6 discusses targeting and emphasises that politics significantly affects the selection of the target group. Judgement will be based on what will gain support from the electorate and the taxpayers (and in the case of externally dependent countries, donors). While smaller amounts of money may be more effective if well targeted, voters may be more supportive of broader-based transfers that include the middle class. Further, precise targeting is difficult and contentious; and can result in charges of unfairness. For example, a programme that targets the poor who are ‘bad parents’ may be criticised for excluding those considered ‘good parents’.

The chapter profiles the importance of differing political contexts. In Latin America, electoral politics has played an important role in cash transfers; programmes are seen to contribute to winning or retaining political support, whereas this has not been the case in Africa. Targeting decisions are controversial and will likely vary across countries and regions.

Chapter 8 discusses conditions and ‘co-responsibility’, whereby cash is transferred while asking beneficiaries to make pre-specified investments in child education and health. The imposition of conditions can address lack of political support for redistribution. The electorate and taxpayers may be more willing to support redistribution if it goes to the ‘deserving poor’, who engage in ‘good behaviour’.

**Journal article**


This article introduces the special issue on cash transfers. It discusses the arguments offered against cash transfers, including a reluctance of governments, donors and NGOs to hand over control and decision-making power to beneficiaries; issues of corruption; and dependency. In such cases, the adoption of targeting and conditionality may render cash transfers more publicly acceptable. Context is important, however. While conditional cash transfers have been successful in Latin America, it may not be appropriate in Africa.


**Research report**


This extensive report discusses conditional cash transfers in a range of low- and middle-income countries that require investments in child education and health. The two key arguments for attaching
conditions to cash transfers are (i.) to strengthen children’s human capital where investment is considered low; and (ii.) to counter a lack of political support for redistribution.

Under the latter political economy argument, redistribution may not be popular among taxpayers and voters who do not benefit from targeted assistance. One solution is to establish broad-based redistribution that includes the middle class. The alternative is to maintain pro-poor targeting, but to increase public support by shifting from ‘pure handouts’ and plain social assistance to a concept of ‘social contract’. Recipients here have to engage in concrete steps to improve their lives or those of their children (‘the deserving poor’). The paper provides evidence from behavioural literature that suggests that people are willing to incur financial losses to reward others deemed deserving. The movement toward a social contract between the state and beneficiaries is apparent in the use of the term ‘co-responsibilities’ (rather than ‘conditions’) in programmes, particularly in Latin America.

Literature review


This literature review has a brief section on the political economy of cash transfers (pp. 10-11). It highlights the following findings:

- Cash transfer programmes are often resisted for ideological reasons, primarily negative attitudes toward poor people and the notion of welfare; and concerns over fostering dependency.
- Assessments have demonstrated that poor households have managed small amounts of money wisely, which improves wider public perceptions of government cash transfer programmes.
- Strong monitoring and evaluation of cash transfer programmes has been effective in securing support for such programmes in Latin America.
- Pilot programmes can be used as a means of building political awareness and interest, as in the case of several African countries.

Working papers


This paper discusses cash transfers programmes in Sub-Saharan Africa, drawing on case studies of Kenya, Malawi and Zambia. These three countries have a number of cash transfer programmes that are in pilot or initial roll-out stages and target transfers to the ‘ultra-poor’. All but one of the programmes were initiated by the donor community. Low levels of domestic contribution indicate weak governmental support for such programmes. The extent of governmental support may be contingent on the following financial and political economy factors:

- ‘Affordability’: the binding fiscal constraints faced by low-income countries with low domestic resource bases, combined with competing domestic policy preferences, limit support for transfers.
- Popular support: unlike in Latin America, there is not an organised mass popular lobby for social protection and cash transfers in Sub-Saharan Africa that would push for a reprioritization of policy choices toward transfers; cash transfers are not an electoral issue.
- Perceived political need: cash transfers can play a role in legitimizing the state and strengthening state-citizen relations, particularly in fragile and post-conflict contexts; government commitment can be contingent on whether a government needs, for stability or political survival, to reach specific groups.
- Donor commitment: concerns over unpredictable donor funding may render governments reluctant to commit resources to pilots in order to safeguard public finance management
credibility and avoid setting up public expectations; in contrast, stable, long-term external funding can promote government commitment, as in the recent case of Zambia.

See also the research reports from the Overseas Development Institute, on which this paper is based:


This paper looks at the use of cash transfer programmes as a means of conducting electoral politics. Recent studies, particularly on Latin America, have demonstrated that politicians have used transfers to reward core supporters, to target swing voters and to punish opposition voters. The paper focuses on the cash transfer programme, Bono de Desarrollo Humano (BDH), in Ecuador that transferred cash to mothers with the condition that beneficiaries promote child education and health. In 2006, presidential candidate Rafael Correa made a campaign promise to double the size of the BDH benefit, which he did once elected, in addition to expanding the overall size of the programme. The paper finds that in the year subsequent to the election of Correa, cantons that voted for Correa received substantially larger increases in transfers. In 2009, these same cantons saw significantly smaller increases. This could be due to a later correction in order to average out the distribution of benefits; or due to greater knowledge of people in these cantons to Correa’s campaign promise, which motivated them to apply for entitlements. Regardless of the explanation, the paper stresses that the fact that the pro-Correa cantons demonstrate a different pattern from the other cantons in both periods indicates that electoral politics and cash transfers in Ecuador are linked.

Affordability

Research report


This report argues that affordability of social protection measures is not solely a question of available financing, but also concerns prioritization between alternative uses. This requires a system to assess relative benefits. Political economy issues may limit the adoption of social protection measures as the beneficiaries – poor and marginalised segments of the population – are unlikely to be influential in national policy-making or public resource allocation decision. Further, non-poor interest groups may not support social protection provision if it is seen as reducing expenditures in areas that benefit them or if it involves higher taxes. The report suggests ways in which to overcome these constraints and to facilitate affordability:

- Develop an evidence base of economic benefits of social protection.
- Demonstrate how social protection can be effective as a means of implementing national poverty reduction policies.
- Promote broad-based dialogue on financing social protection.
Link specific sources of revenue to social protection measures. In Brazil, for example, funds from the sale of illegally logged timber, seized by the state, are used to finance the country’s large-scale cash transfer programme.

Corruption can also undermine affordability of social protection by reducing the effectiveness and efficiency of social protection. A review of small-scale pilot cash transfer schemes in Zambia involving a large volume of small payments found that petty corruption is the most significant risk. Nonetheless, actual corruption was minimal due in large part to: operating procedures designed to reduce the risk; the involvement of all actors (including communities) in implementing and monitoring transfers; and the close attention of donors and NGOs. Large-scale, national social protection schemes will face even greater risks and challenges to affordability. It is important that effective measures to improve public financial management are put in place.


This chapter has a brief section on affordability (pp. 47-48). It discusses the costliness of cash transfer programmes and the real fiscal constraints that many countries face in financing such programmes. It argues, however, that affordability is multi-dimensional, and that the strongest factor is not economic fiscal constraints but political will. Studies seeking to measure fiscal capacity have found that differences across countries are explained largely by political factors, rather than economic.

Working paper


This paper explores the implications of external financing of social transfers, focusing on Sub-Saharan Africa where a large share of public spending is comprised of foreign aid. It stresses the following points:

- **Donors need domestic support**: donors must gain support from domestic constituencies for the idea of financing social transfers.
- **A credible aid contract**: the aid contract must be structured such that both partners are confident that the other will deliver. It should also include a formula for burden sharing over time that is predictable but allows for flexibility in the case of unforeseen events.
- **Political sustainability**: long-term social transfers require sustained political support in the host country. It is important for donors to recognize that although they can promote a push toward the development of a social contract, they are limited in their ability to reshape a political economy that is not conducive for the introduction of social transfers.
- **Government involvement**: although some political economies may not be ready for social transfers, it is important not to ‘bypass’ government. Other preliminary steps may be taken, such as engaging in dialogues, evidence building, sharing of experiences, etc.
- **Building on existing national programmes**: a number of middle-income African countries have independently institutionalized ambitious social transfer programmes and some low-income countries, such as Lesotho, Malawi and Mozambique. Cross-country learning throughout the continent should be promoted, in addition to efforts to build upon their initiatives.
4. Impact of cash transfers on the electorate

Voting behavior

*Book chapter draft*

http://mexicanstudies.uchicago.edu/DeLaO_intro.pdf

The introductory chapter outlines the study on the effects of the large-scale education, health and nutrition conditional cash transfer programme, *Progresa*, on electoral behavior in Mexico. It states that literature on the political economy of conditional cash programmes is in the early stages: while some believe that such programmes can alter relationships between the poor and politicians, others consider that regardless of the characteristics of the programme, targeting the poor is a strategy to win votes. Under such a view, programmes are seen as a part of clientelism: an exchange of material favours in return for political support.

This study finds that *Progresa* has resulted in electoral support for parties that propose and retain the programme, but that this is due to satisfaction with the programme and not to clientelism. The programme was introduced by a new political class that sought to distinguish itself from prior elites that had relied on patronage and clientelist networks. In addition, there was a congressional decision that made attempts the use of *Progresa* to proselytize a federal offence; and beneficiaries were informed of the non-political nature of the transfers. The study concludes that such programmes can be politically sustainable in a democratic system as they are non-clientelistic yet appealing for politicians.

See also:
De La O., A. L., ‘Do Conditional Cash Transfers Affect Electoral Behavior? Evidence from a Randomized Experiment in Mexico’
http://www.yale.edu/leitner/resources/PMF-papers/delao_progresase_fina.pdf

*Journal article*

http://muse.jhu.edu/journals/sais_review/v028/28.2.sewall.html

This paper discusses the nature and political impact of two conditional cash transfer programmes, *Bolsa Familia* in Brazil and *Oportunidades* in Mexico. Under these schemes, cash is given by the government to poor households in exchange for beneficiaries fulfilling certain conditions concerning child health and education. The study finds that in both cases, the programmes have influenced the voting decisions of beneficiaries in presidential elections. They have both also been successful in alleviating poverty in the short-run. The study argues, however, that the programme in Mexico appears to be more committed to achieving long-term goals, evident in its emphasis on evaluation and supply-side investment (absent in the case of Brazil). This may be an indication of a greater focus on short-term political goals in the case of Brazil rather than long-term structural reform.

The paper emphasises the view stressed by many analysts that it is necessary to distinguish between engaging in clientelism or opportunism on the one hand and promoting prior successes and crediting a president or party for an improvement in well-being on the other hand. There is nothing inherently wrong with the influence of conditional cash transfer programmes on voting so long as such programmes are not manipulated for political ends.

*Working papers*

http://eprints.lse.ac.uk/28519/1/dp0912.pdf
This paper estimates the causal effect of government transfers on political support, drawing on individual level data from Uruguay. It states that to date, there is minimal empirical evidence on the impact of transfers on individual voting behaviour. The study finds that households that benefited from the government's conditional cash transfer programme were more likely to be pro-government. This suggests that households’ political views are very responsive to the receipt of government transfers. This effect persisted even some time after the cut-off for transfers (evident from a follow up survey). It is unclear, however, whether the divergence in support could also be attributable to bitterness on the part of households deemed ineligible for transfers.


This paper estimates the effect of the Brazilian federal government's massive conditional cash transfer programme, Bolsa Familia, on voting behavior. It finds that the programme had a considerable impact on individual voting decisions, swaying close to 5 million votes in favour of President Lula de Silva. Specifically, it finds that the programme was successful in gaining new political supporters -- poor voters in more developed areas; and non-beneficiaries of programmes in less developed regions of the country. These non-beneficiaries also benefited indirectly from Bolsa Familia, as it served as an economic stimulus in poor municipalities. The paper concludes that such conditional cash-transfers are effective not only in reducing poverty but also in influencing electoral politics in a non-clientelistic manner.

Social capital

Journal article


Many conditional cash transfer programmes target women and specify as a condition social activities, such as attending meetings and visiting a health centre. This provides an opportunity for women to socialise regularly with women in similar situations. Drawing on the case of the conditional cash programme in Columbia, Familias en Acción, this study finds quantitative and qualitative evidence of positive impact of the programme on social capital. It finds that the socialising conditions in such programmes can have the effect of improving cooperation and trust in beneficiary communities. The authors caution, however, that in other situations where benefits are only offered to a subset of households in a small locality, there is a potential for conflict that threatens pre-existing relationships.

5. Additional information

This query response was prepared by Huma Haider: huma@gsdrc.org

Experts consulted
Armando Barrientos, University of Manchester
Frank Ellis, University of East Anglia
Fernanda Estevan, University of Ottawa
Göran Holmqvist, The Nordic Africa Institute
Marco Manacorda, London School of Economics and Political Science
Anna McCord, Overseas Development Institute
Matthew Winters, University of Illinois

Selected websites visited
Chronic Poverty Research Centre, Eldis, European University Institute, Google, Google Scholar, GSDRC, Human Security Gateway, Ingenta journals, London School of Economics and Political Science, OECD, Overseas Development Institute, The World Bank
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