NOPOOR POLICY BRIEF NR.7: THE POLITICS OF PRO-POOR POLICIES

This document highlights the role of political institutions for the adoption and design of pro-poor policies on the basis of cross-country comparisons. Understanding the potential of specific features of political institutions to interfere with social policy and its objectives needs to be taken into account when designing and supporting anti-poverty programs in developing country contexts.

DATE: March 2016

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INTRODUCTION

Social policies are admitted to be an effective tool in the fight against poverty and different kinds of poverty-targeted social programs have been increasingly adopted in the developing world in the past 20 years. However, the effectiveness and efficiency of these programs may be hampered by the political process, for example by political motivations to choose specific pro-poor policies to please certain groups instead of directing funds towards the poorest and most vulnerable.

Political motives influence social policy decisions. In particular, it has been shown that voters reward politicians for higher government spending, generous social policy or improved public service delivery¹. Consequently, politicians may use pro-poor polices to gain votes in the next election². In addition, there is increasing evidence that the allocation of social funds and the selection of beneficiaries into social programs in developing countries are based not only on pure redistributive motives but also on reciprocity and support buying mechanisms. Politicians thus target and reward the citizens who vote for them, or, oftentimes, politicians reward citizens on

ethnic, kinship or other ties. However, these studies focus rather on how politics distort the implementation of pro-poor policies. We enrich these findings by exploring the politics of social policy formulation in developing countries context.

EVIDENCE AND ANALYSIS

We collect the data on non-contributory pro-poor transfers in all developing countries for 1960-2014. Our analysis comprises transfers that are rolled out on a large scale at the national level and that are independent of recipients’ employment. This excludes programs targeted exclusively to certain ethnicities, occupational groups or regions as well as programs with a negligible beneficiary base or transfer level. It includes social pensions, universal child benefits, public works programs and (conditional) cash transfers. The data include the type, duration, eligibility, selection, cost and coverage details. Exploiting these cross-country panel data we show that the probability of having a transfer program is higher in democracies than in autocracies. This implies that democracies tend to redistribute more than autocracies through pro-poor transfers.

The existing evidence on the relationship between regime type and redistribution was inconclusive. The previous studies typically looked at government expenditure, tax revenue or social spending as proxies for redistribution. However, the redistributive effect of precisely these measures is not a good proxy for redistribution in developing countries where tax-to-GDP ratios are low, levels of tax evasion are high and administrative capacities are weak. The incapacity of developing country tax systems to effectively redistribute is also reflected in the fact that pre- and post-income inequality measures tend to be very close. Hence, our approach is innovative because it uses a direct and more accurate measure of redistribution that overcomes the limitations of the proxies used in earlier studies.

Figure 1 shows the coverage of anti-poverty transfer programs in the developing world. In 2014, more than 65% of all developing countries had at least one social transfer program.

![Figure 1: Coverage of transfer programs in 2014](image)

Note: Countries with at least one transfer program are marked by dark blue (100 countries in total or 65% of all developing countries).

Furthermore, certain types of policies like conditional cash transfers seem to expand faster than others. Figure 2 shows that this particular type of programs has expanded considerably, in particular in Latin America, Southern Africa as well as South and South-East Asia. We find that conditional transfer programs are likely to be chosen under more democratic regimes. One plausible explanation for this finding is that conditional transfers typically link schooling and health interventions to redistributive policy. This means that they include investments in human

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development. Hence, they will only pay off in a relatively distant future, which implies that they are less likely to be chosen out of political motives and aim rather at long-term development.\(^4\)

Figure 2: Coverage of conditional transfer programs in 2014

![Coverage of conditional transfer programs in 2014](image)

Note: Countries with at least one conditional transfer program are marked by dark blue (54 countries in total or 35% of all developing countries).

Our results are in line with a body of research which, albeit with some conflicting results, finds that democracies perform better at improving the welfare of the poor than autocracies. We also find some evidence that autocracies tend to approve more unconditional but targeted schemes of transfers. Since targeting facilitates selection of specific groups, this lends support to the hypothesis that these transfers are used to buy-off opposition and prevent social unrest. However, in all regimes a rationale to choose specific programs and attach conditions may be to facilitate targeting and provide only the “deserving poor” with transfers that ultimately help to buy public support. Figure 3 visualizes the remarkable increase in the number of transfer program by types in democracies and autocracies since the beginning of the 1990s.

Note: The figure includes the information from 143 developing countries.

Finally, we study another aspect of pro-poor policies. We shed light on whether policies are actually “successful” in changing political behaviour.\(^5\) The literature has, for example, discussed the political impacts of conditional cash transfers in Brazil, Colombia, Mexico and Uruguay. Specifically, it has been shown that voters respond to cash transfers by supporting the incumbents in elections. However, these studies mostly focus on electoral returns and do not consider other political impacts. Therefore, in our work, we have further explored the effects of social policies on broad political participation. In particular, using the examples of Mali and Ghana, we find that conditional cash transfers lead to a decrease in non-electoral political participation of citizens, for example engagement in demonstrations, meeting activity or party affiliation. Our basic insight is that in regimes without incumbency advantaged citizens may “support” politicians by participating less in opposition activities and showing less interest in politics after the implementation of the transfer program.

POLICY IMPLICATIONS AND RECOMMENDATIONS

The impact of politics on social policy formulation and implementation has important implications for the assessment of transfer programs as an instrument for poverty reduction. Recent research on the political economy of social policies implies that the effectiveness of these policies can be compromised or even misused in many cases. This should be kept in mind when social assistance programs are considered as a panacea to alleviate poverty. Understanding the specific features of political systems and potential biases due to political motivations needs to be taken into account when designing and supporting such efforts in developing country contexts.

Policy makers and donors should carefully analyse the political institutions at hand and try to anticipate and offset distortive political effects by using the elements of policy design. In particular, ways to prevent misuse can be established in laws, built into the selection process of beneficiary groups and into the delivery process of transfers.

The following tools drawn from successful examples of social policy design and implementation should become standard. They are all aimed at limiting the discretionary power of politically motivated actors:

- **Selection of beneficiaries according to objective criteria** can go a long way to limit discretionary distributional power of politicians. Many current programs do fairly well in this regard by combining categorical targeting with means testing. The Mexican Prospera (formerly known as Progresa/Oportunidades) is paid to families with children that are selected based on measurable conditions of poverty. The South African old age pension is available to all persons who are 60 years of age or older and meet the poverty criteria regardless of prior employment. Self-selection of beneficiaries is another option for certain types of programs (e.g. public works programs). An example of this is the Indian MGNREGA\(^6\) which guarantees 100 days of wage employment per year to every rural household whose adult members are willing to work for the minimum legal wage. The wage is set low enough that only those who cannot find other employment self-select into the program. At the same time it is reliable and high enough to provide substantial poverty relief.

- **Embedding the eligibility criteria in laws will add accountability and transparency.** Making the social transfer a legal entitlement can prevent politicians from abandoning programs or substantially changing the rules for their allocation in order to reward their voters. For example, to avoid political capture of the Familias en Accion program in Colombia, the law prohibits enrolment of new beneficiaries three months prior to elections.

- **Even if not so easy to achieve, establishing an independent, professional bureaucracy** can limit the capacity of politics to distort redistribution policies.

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\(^6\) Mahatma Gandhi National Rural Employment Guarantee Act
Direct electronic delivery of transfers to beneficiaries using debit cards, smart cards, cellphones, ATMs or point-of-sale devices will bypass local politically motivated intermediaries.

RESEARCH PARAMETERS

Our analysis of the effects of political institutions on pro-poor polices is based on both cross-country and within-country evaluations. For the cross-country study, we encode a unique quantitative panel dataset that lists 183 social transfer programs with major characteristics by country and year for 1960-2014. We extract the information on the program type as well as its budget and coverage. In an extensive panel data analysis we contrast pure transfer programs with transfers conditioned on education and health behaviour to reveal the incentives of decision makers in democracies and autocracies.

The within-country studies on Mali and Ghana are based on a difference-in-difference design. We extract the Afrobarometer survey data purposefully before and after the introduction of a conditional transfer program and trace the changes in the respondents' behaviour in treated (regions where the program has been implemented) and non-treated regions. We show that political participation decreases only in regions where social transfer programs have been implemented.

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7 Afrobarometer Data are available at [http://www.afrobarometer.org](http://www.afrobarometer.org)

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<tr>
<td>FUNDING SCHEME</td>
<td>This project is funded by the European Union under the 7th Research Framework Programme (Theme SSH.2011.1) Grant Agreement No.: 290752</td>
</tr>
<tr>
<td>BUDGET</td>
<td>8 000 000 €</td>
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<tr>
<td>DURATION</td>
<td>April 2012 – March 2017 (60 months)</td>
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<tr>
<td>WEBSITE</td>
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