Decentralisation and cash transfer programmes

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Question

What does recent literature tell us about the relationship between provinces or other localised governance units and states in relation to successful cash transfer programmes? Include evidence, if available, on the role of decentralisation for institutionalised policy commitment and sustainable government financing of cash transfer programmes.

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1. Overview

Cash transfers (CTs) 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 (i.e. eligibility requirements, such as age, poverty, and disability) or conditionality (i.e. specific actions required to receive payment, such as requiring children to attend school or a health clinic). In many countries, national governments have delegated the implementation of public programmes, including CTs, to lower levels of the political administration. CTs typically involve co-ordination among actors across several sectors (e.g. social assistance, health, education, planning, finance, auditing) and levels (e.g. federal, state, local, community). Many countries with a CT programme have national co-ordinating structures, and countries where service provision is decentralised usually have local co-ordinating structures (Fiszbein et al. 2009: 98).

Three forms of decentralisation are conventionally distinguished in the literature (UNDP 2014: 8-9):

Administrative decentralisation describes the transfer of authority, resources and responsibilities from central government to local agents or semi-autonomous bodies.
**Political decentralisation** describes the transfer of power to a locally elected body with some degree of autonomy and revenue raising power. Political decentralisation is usually based on a constitutional, legal and regulatory framework in order to ensure accountability and transparency.

**Fiscal decentralisation** describes intergovernmental fiscal transfers, the transfer of tax and revenue-raising powers to lower levels of government and the transfer of decision-making powers in terms of how such fiscal resources are used.

The distinction between these forms of decentralisation is not always clear-cut in practice, with varying levels of local decision-making and central control, degrees of upward and downward accountability, and ranges of functions and resource transfers. In different countries, different powers are delegated across local governments, larger metropolitan municipalities, and provincial governments, and these units differ in size and regulatory authority. ‘Local government’ is generally used to refer to the lowest tier of administration in a given state. Provincial governments vary in size, degrees of autonomy and levels of administrative responsibility. They range from jurisdictions with the size and populace of small countries, to relatively small levels of sub-national government.

**State of the evidence**

This rapid literature review, which surveys recent academic, policy and practitioner literature, found very little research or empirical evidence on the relationship between federal and provincial government in regard to cash transfer programmes. It appears that scholarship has focused on the broader challenges and enabling conditions for successful decentralised service provision. Empirical studies have looked mainly at the experience of municipal governments in the delivery of social protection programmes in Latin America. In the time available for this review, no evidence was found on the role of decentralisation in securing policy commitment and sustainable government financing for cash transfer programmes, and experts who were consulted during the research process were unable to recommend relevant sources.

**Key messages**

- Decentralisation has the potential to **increase citizen participation** in the way cash transfers programmes are delivered, **improve accountability and give greater voice to service users**.
- Local government can play an important role in **raising awareness of, and disseminating, information on CT programmes**. It is often better placed than central government to target beneficiaries for social protection.
- Evidence suggests that a lack of **coherence, co-ordination and information sharing** between federal and provincial authorities is a major impediment to the effective delivery of cash transfer programmes. Although not unique to the country, these problems are acute in Pakistan. The creation of a **national social protection framework, along with co-financing arrangements**, is recommended.
- The successful experience of social protection programmes in Brazil indicates that **municipalities can facilitate the social policy goals established by central government**, if national policies are implemented directly at the municipal level **without being captured by powerful state-based governors**.
- The central government in Argentina has achieved less social policy success through national-local policy collaboration due to **low levels of constitutional autonomy and decision-making authority at the municipal level**.
2. Decentralisation and social protection

The role of local government in facilitating social protection

There is a common expectation that lower tiers of government have advantages in the effective allocation of public resources, such as access to information not available to central authorities (de Janvry et al. 2012). Decentralisation has the potential to increase citizen participation in the way services are prioritised and delivered, improve overall accountability and give greater voice to service users. Local government is also often considered able to provide services in a relatively efficient and cost-effective way, thereby contributing to the administrative sustainability of service delivery (UNDP 2014: 5). While improved service delivery is regarded as a sound reason to embark on decentralisation in many countries, it is also often a highly politicised process that is contested by a variety of stakeholders with conflicting interests (Ibid: 10).

Sensitisation and raising awareness: Local governments can play an important role in raising awareness of, and disseminating information on, CT programmes, including access criteria, size of transfers or payment schedules. This is particularly significant given that in many developing countries officials from central government often have limited knowledge of how CT programmes operate. This lack of information can slow down operational processes and exclude eligible beneficiaries. For example, a UNDP regional review of the delivery of social protection programmes in seven countries in Asia found that with the CT programme Keluarga Harapan in Indonesia, civil servants at the central government level were unaware that beneficiaries eligible for one programme were also eligible for other social assistance schemes.¹ This effectively excluded those individuals from accessing full social protection entitlements (UNDP 2014: 14).

Evidence from the same UNDP study (Ibid: 14) shows that weak communication strategies are also a major challenge, particularly if they are developed at the central government level and do not take into account local realities. For example, the Bantuan Tunai Langsung programme in Indonesia was designed as a temporary unconditional CT for poor households, in order to cope with unprecedented price hikes. As of 2008, it had reached around 18.5 million households. The programme had a positive impact on the expenditure pattern of recipients’ households, leading to greater health, education and labour outcomes. However, the programme design and implementation did not take into account issues of sensitisation at the local level. There was very limited communication between relevant stakeholders at the national and local levels. A lack of community involvement in the design of the programme resulted in high inclusion and exclusion errors, which led to community-wide tensions, allegations of corruption and protests.

Targeting and delivery: Local government has the potential to play a vital role in targeting and identifying beneficiaries for social protection. Local governments are often better placed than central agencies to identify beneficiaries, and can do so at a lower cost and with greater accountability due to their proximity and access to local knowledge. Moreover, in situations where information and data on poverty and other social indicators is limited at the sub-national and local levels, local government stakeholders can provide an additional filter to complement household surveys, means-testing and geographic targeting (Ibid: 15).

Local government officials may also be responsible for delivering social transfers as cash to beneficiaries, particularly in the absence of widely available and accessible banking services. Their presence in most areas and close spatial proximity to beneficiaries makes them cost-effective and relatively reliable

¹ The seven countries reviewed were: Bangladesh, Cambodia, Indonesia, Lao PDR, Mongolia, Nepal and Timor-Leste.
payment agents (Ibid: 17).

Co-ordination of services across sectors: The introduction of cash transfer programmes often leads to a sharp increase in demand for other public services, particularly in the areas of health and education. This is because CT programmes usually require beneficiaries to meet certain requirements in order to receive their transfers, including regular health check-ups or school attendance. To ensure that the increase in demand is met with sufficient supply, local government has a role to play in strengthening co-ordination between stakeholders and providers of different public services (Ibid: 20).

Challenges and enabling conditions

Co-operation across administrative levels: Co-ordination can pose a challenge when several ministries are involved in the management of one social protection programme. Information sharing and the pooling of human and financial resources can be restricted by a tendency for ministries and other agencies to operate independently of each other. In Timor-Leste, the *Bolsa Da Mae* cash transfer programme has tried to overcome this using existing thematic inter-ministerial working groups for monitoring purposes and for the exchange of data and information (Ibid: 23).

Strong leadership and political commitment to social protection is important to facilitate co-operation. Where elected and other officials at the sub-national level have access to significant fiscal resources, there is often a greater incentive to establish and implement local social protection interventions. In the World Food Programme (WFP) school food initiative in Cambodia, for example, variations in programme outcomes have been attributed to the degree of interest and political commitment to the programme shown by different provincial governors (Ibid: 23-24).

Clear mandates and functions: Unclear, poorly defined or loosely regulated assignment of functional responsibilities across central and local governments can impede the delivery of social protection services and leave different tiers of government without a clear mandate to act. A clear definition of responsibilities is essential to establish accountability frameworks and to determine oversight and quality assurance mechanisms (Ibid: 24).

Participation: Evidence from the UNDP review (2014) suggests that the participation of local non-state actors in the implementation of social protection programmes provides opportunities for innovation and experimentation in service delivery, oversight of frontline service providers, and helps to ensure that social protection programmes are responsive to local needs and demands. This is of particular importance in contexts where local level downward accountability mechanisms are weak or underdeveloped.

Accountability: There is evidence that downward accountability mechanisms strengthen the responsiveness of local government in the delivery of social protection services. For example, an impact evaluation of a school stipend programme in Bangladesh showed that fewer transfers went astray when local communities and beneficiaries were provided with more information about the programme (Hossain & Osman 2007).
3. Country case studies: Pakistan, Brazil and Argentina

Pakistan

In a recent World Bank policy note, Malik and Pop (2013: 4) argue that social protection programmes in Pakistan are fragmented and uncoordinated. In the absence of a coherent social protection system, different ministries and departments at the federal and provincial levels operate numerous disparate programmes. The federal and provincial authorities have no shared understanding of their joint roles in policy, design, implementation, or financing for social protection. In addition, many provincial-level programmes suffer from lack of objective and transparent beneficiary targeting and have unreliable and irregular systems for delivering benefits (Kardar 2013).

Malik and Pop (2013) recommend the creation of a national social protection framework in order to clarify the roles and responsibilities of federal and provincial governments and to harmonise their respective policies and programmes. This would help elucidate institutional roles, including the possible sharing of financing responsibilities, and establish a complementary programme of interventions between the two levels (Ibid: 6). They also argue that co-financing arrangements should be established through federal–provincial dialogue. As an example, they suggest that the federal government could contribute a fixed percentage of GDP to the national safety net whilst provincial governments top up the contribution. Co-financing in this way would allow both levels of government to receive public acknowledgment for their efforts and could help to establish shared programme ownership. Finally, they maintain that provincial governments should be given a degree of flexibility in selecting the programme mix, in order to adopt the programmes best suited to their realities.

Brazil

Brazil has a three-tiered government structure that grants municipalities responsibility for social services such as sanitation, health care, and education, and provides them with a large degree of fiscal and administrative autonomy. This decentralised form of governance has provided opportunities for local governments to experiment with social policies (Sugiyama 2011: 25). Since 1995, locally designed anti-poverty programmes and primary health and basic education initiatives have been nationalised in Brazil, but rely on municipal implementation. In these policy areas, successful examples of direct national-local policy collaboration have contributed to the ability of the central government to deliver on their social policy promises.

Alongside strong federalism,2 Brazil is known for having a highly fragmented and weak party system. Fenwick (2010) suggests that direct national-local collaboration has enabled the Brazilian government to bypass governors and spread non-contributory welfare goods evenly across its territory. In the context of a fragmented party system, sub-national political elites have an incentive to pursue social policy goals, making national-local policy collaboration politically feasible as part of a ‘race to the top’. Fenwick’s broader conclusion is that municipalities can facilitate the ability of central governments to achieve their policy goals, particularly in social arenas. However, in order for this to happen the federalisation of national policies must be directly implemented at the municipal level, without being captured by

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2 ‘Strong federalism’ is defined here as the resource base of states, the power of governors, the articulation of sub-national interests within the Brazilian National Congress, and the distribution of government functions across three levels of government (Fenwick 2009: 104).
powerful state-based governors. The contrasting experience of Argentina, discussed below, is used to reinforce this conclusion.

**Bolsa Escola**

*Bolsa Escola* was a conditional cash transfer (CCT) programme that offered mothers in poor households a monthly stipend if their children attended school on a regular basis. The programme was implemented nationwide in Brazil between 2001 and 2003, before being folded into the broader *Bolsa Família* programme, which is discussed below. The programme was decentralised, with municipal authorities responsible for selecting beneficiaries and implementing the transfers.

De Janvry et al. (2012) investigate the extent to which local electoral incentives affected the impact of *Bolsa Escola*. Using a data set that combines a municipal survey with school records for 290,517 children over the period 1999 to 2003, they estimate the programme’s impact on primary and secondary school dropout rates for each of 261 municipalities in the northeast of Brazil. They also identify the impact of municipal electoral incentives on local politicians’ programme performance using the constitutional the constitutional two-term limit for re-election and measuring the difference in achievement between first-and second-term mayors.

The study found considerable variation across municipalities in the procedures used to identify and register potential beneficiaries. These differences related to where the registration of potential beneficiaries took place, whether efforts were made to verify the information given by parents, and whether the municipality had social councils that could engage in deliberating programme implementation. The number of potential beneficiaries largely exceeded the quota of stipends that was allocated to the municipality by the federal government. On average, an estimated 49 per cent of eligible households were left out of the programme, leaving it to the municipality to select the beneficiaries from among the pool of eligible households. There was also variation in implementing conditionalities across municipalities. While most municipalities reported monitoring the school attendance conditionality, this was done more strictly in some municipalities than others.

*Bolsa Escola* had a strong overall impact on beneficiary school attendance, but municipalities governed by mayors with re-election incentives fared much better. De Janvry et al. (2012) found that, although the programme reduced dropout rates during the school year by an average of 8 percentage points, there was considerable variation across municipalities. Municipalities that happened to be governed by a first-term mayor had an estimated 36 per cent higher programme performance compared to municipalities governed by a second-term mayor. This difference persisted when comparing second-term mayors to first-term mayors who were re-elected in the subsequent election, and to mayors with a comparable level of political experience. De Janvry et al. (2012) show that first term mayors had an incentive to ensure good programme performance. The probability of re-election was 28 per cent higher for mayors who were in the top quartile of programme impacts. Mayors with no public denouncements of inclusion errors were also rewarded with a 26 per cent higher probability of re-election.

These findings support the idea that the presence of formal local institutions – particularly electoral rules that enable voters to hold locally elected officials accountable – have a central role to play in the successful decentralised delivery of social protection programmes.
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Bolsa Família

*Bolsa Família* is a health and education co-responsibility CT programme and is regarded as successful in terms of numbers, territory and social groups covered. The programme covers more than 11.2 million households, with 94 per cent of the transfers reaching the two poorest quintiles. The programme is managed at the federal level by the Ministry of Social Development (MDS) and implemented by a number of different agencies at different levels of government. The 5,564 constitutionally independent municipalities in Brazil play various roles in executing the programme, including co-financing, registering potential beneficiaries, monitoring education and health conditions, and prioritising programme beneficiaries for other complementary services. A performance-based management mechanism has been developed to incentivise better quality programme execution at the municipal level (Lindert et al. 2007).

Fenwick (2010) asserts that central-local collaboration has been key to enabling the federal government to achieve its target of providing cash transfers to more than 11 million vulnerable families federation-wide, in fewer than three years (2003–2006). She highlights three institutional factors that provided incentives for successful central-local collaboration with regard to social policy in Brazil: (i) the constitutional autonomy of municipalities; (ii) a non-majoritarian political system; and (iii) the gradual hardening of sub-national budget constraints.

**Constitutionally autonomous municipalities:** The provision of basic health services and primary education in Brazil falls primarily under the jurisdiction of municipalities. In the *Bolsa Família* programme, municipalities are also responsible for providing and co-ordinating the required public services already under their jurisdiction, for registering the targeted low-income families in their territory, and for establishing agreements between non-governmental organisations and various local bodies to provide social control for the programme. Within *Bolsa Família’s* organisation, municipal governments act as the primary agents of the federal government. In the highly decentralised federal structure of government, states have veto power and municipalities have policy opt-out privileges. Municipalities had little to lose by participating and supporting *Bolsa Família*, given that their main responsibility is to be the federation’s primary social service provider and that, after 2000, this responsibility was legally enforceable through fiscal regulation imposed by the federal government.

**Non-majoritarian political system:** In the Brazilian political institutional context, mayors have an incentive to support nationally driven social programmes such as *Bolsa Família*. They participated in implementing it regardless of their partisan affinity to the federal centre and were able to claim some political credit for themselves, while also stimulating their local economy with small cash inflows. A mass poverty-alleviation programme such as *Bolsa Família* is a win-win situation for key actors at both the central and the local level. The federal government’s ability to govern in Brazil depends on its ability to forge broad governing coalitions both within the national legislature and across levels of executive government. The logic of coalition governance means that the ideological or party-based ownership of policy ideas is less significant. This decreases the incentives of locally-based actors to withhold co-operation or to spoil the implementation of national programmes for fear of party-based punishment from upper levels of their party (Fenwick 2009: 119).

Moreover, state-based power brokers make it difficult for the president to claim credit for targeted expenditures that go through the states, and they have few partisan incentives to facilitate the delivery of public goods federation-wide in the name of common interest (Rodden & Arretche 2004). Therefore, there is a political incentive for the central government to bypass intermediate levels of government and deliver broad national goods, such as *Bolsa Família*, for which it can claim credit. This is particularly important in Brazil, where the non-majoritarian political system ensures that all votes matter in all
territories for the President’s success (Ibid: 11). In federal systems such as Mexico and Argentina, where majority-based parties tend to dominate the sub-national level, it is not in the interest of the central government to bypass bureaucratic implementing agencies at the state level (Fenwick 2009: 120).

Brazil’s open-list electoral rules provide further incentives for politicians to favour local and regional demands in social policy. In this system, the political survival of state-based federal deputies and governors depends on their ability to claim credit for successful policy outcomes. Those states which have not been involved in the implementation of federal poverty-alleviation initiatives lost the opportunity to claim political credit for them. This is a significant cost in a political context in which individualism and personalism are important aspects of sub-national election campaigns (Ibid: 117).

**Hard budget constraints** exist when sub-national levels of government do not receive outside support to cover excessive spending and have to terminate spending activities if a deficit persists. According to Fenwick (2010: 161), this approach weakens the interdependent relationship between provincial and local levels of government, and provides a fiscal incentive for sub-national government to implement nationally-financed public policy.

In Brazil, the hardening of budget constraints put in place under the central administration to stabilise macroeconomic performance gave municipalities a new incentive to collaborate with the central government, in order to increase their share of the central government’s earmarked grants (Fenwick 2009: 117). Their collaboration with the federal government also enabled them to meet the one per cent they are legally required to spend on social assistance. As one municipal-level technical adviser in a large city claimed, “Bolsa Familia allows us to work our fiscal accounts — although the money does not go through them, the total amount transferred into our territory is included on our balance sheets.” The broader proposition is that national-local policy collaboration is fiscally encouraged through regulating responsibility for public policy spending and setting sub-national budget targets (Fenwick 2010: 157).

**Challenges and enabling conditions**

In a World Bank Working Paper, Lindert at al. (2007) document the experience of Bolsa Familia, highlighting a series of challenges and enabling conditions related to implementing a large CT programme in a decentralised environment.

**Principal-agent dilemma for “third party implementation”**. Given that municipalities are constitutionally autonomous under Brazil’s federalist structure and therefore not constitutionally obliged to carry out the programme according to federal standards, there is a “principal-agent” dilemma for executing *Bolsa Familia*. The 5,564 municipalities also vary significantly in their administrative and financial capacities.

To meet this issue, MDS has entered into formal joint management agreements with each municipality. These agreements clarify roles and responsibilities for the implementation of the programme and establish minimum institutional standards for programme operation at the municipal level. Specifically, the agreements require that municipalities:

- Maintain a local co-ordinator as a point of contact.

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3 Interview with senior technical assistant (name withheld), Municipal Secretary of Social Assistance and Social Development, Sao Paolo (February 10, 2006); cited in Fenwick (2009: 117).
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- Register potential beneficiaries in Brazil’s main beneficiary registry and selection mechanism, *Cadastro Único*, and prioritise *Bolsa Família* beneficiaries for other complementary services (literacy, professional training, and income-generation programmes).

- Monitor and consolidate information on compliance with health and education conditionalities, and operate social control councils.

In 2006, MDS also established a “Decentralised Management Index” (the IGD index) to monitor and evaluate the quality of implementation in each municipality, alongside a system of formal performance-based financial incentives to promote quality and a tool for monitoring the quality of decentralised implementation.

**Interactions between Bolsa Família and other local programmes.** Given Brazil’s long history with municipal CCTs and other social programmes, *Bolsa Família* faces the additional challenges of:

- avoiding potential duplications with other sub-national CTs;
- promoting cross-fertilisation of local level innovations across municipalities; and
- promoting links between the *Bolsa Família* and other complementary services.

To meet these challenges, MDS has developed mechanisms whereby sub-national programmes can formally merge with *Bolsa Família* in those localities where they exist.

Lindert at al. (2007) concede that further research is needed to evaluate the impact of these management tools on the quality of implementation of *Bolsa Família*. They cite preliminary qualitative evidence from an on-going study of five municipalities in the state of Minas Gerais which suggests that the IGD index and associated financial incentives have had a positive impact in encouraging municipalities to strengthen their administrative capabilities for implementing the programme. On this basis, they suggest that these types of performance-based management tools and incentives should be of interest to other countries operating CTs in decentralised contexts (Lindert at al. 2007: 32).

**Argentina**

*Programa Familias*

In contrast to Brazil, low levels of constitutional autonomy and decision-making authority at the municipal level in Argentina have prevented the central government from achieving the same degree of social policy success through direct national-local policy collaboration (Fenwick 2010: 174). Argentina is a highly decentralised federal country, composed of 23 provinces and one autonomous city, Buenos Aires. Municipalities depend on formal recognition from provinces for their status as an official third tier of government, and have little agency independent of the province to which they are institutionally subordinate. This means that federal politics in Argentina is predominately played out between central and provincial levels of government. These dynamics are highly politicised due to Argentina’s majoritarian political dynamics, which have traditionally been dominated by two parties (Ibid: 167). In contrast to Brazil, the figureheads for public policy-making in Argentina are governors, who are responsible for providing the majority of public social goods. Governors can block national social policy goals and prevent municipalities from having their own agency. Equally, national elites do not always have sufficient political incentive to impose policy at the sub-national level, partly because of the institutional requirement in Argentina to achieve single-party majorities (Ibid: 168).
Fenwick (2010) argues that these institutional dynamics restrict the ability of the national government to federalise social programmes and to motivate municipalities to implement their policy initiatives in a uniform manner throughout the country. In terms of territorial coverage and total distribution, Argentina’s national social protection initiative, *Programa Familias*, has been less successful than Brazil’s social protection programmes. It was intended that *Programa Familias* would bypass provincial intermediation, to reduce the risk of political manipulation. Fenwick argues that the aim of *Familias* to bypass provinces in its implementation runs contrary to the logic of Argentinian federalism. In practice, the majoritarian nature of Argentina’s political system has impeded the national policy goal at the heart of the programme:

- Mayors had no incentive to carry out the policy goal in collaboration with the national government as long as it was not supported by their provincial government, even though the provinces were not officially involved in its design. According to conventional electoral logic, it makes little sense for local governments to participate in the implementation of a national programme if they are not aligned through partisanship with the ruling national elites.

- The rigid design of *Familias*, combined with high levels of voter identification in Argentina, mean that mayors cannot personally claim credit for the successful implementation of the programme within their territory. Within the design of *Familias*, “municipalities just sit back and watch.”

This impedes their political willingness to co-operate with programme implementation. In the context of Argentina’s party-centred political dynamics, mayors are generally more concerned with seeking office than pursuing public policy.

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4 Information obtained from an interview with the ex-Director of Social Development, Municipality of La Matanza. September 29, 2006 [San Justo]; cited in Fenwick (2010: 174).


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