THE PEOPLE’S BUDGET?
POLITICS, POWER, POPULAR PARTICIPATION AND PRO-POOR ECONOMIC POLICY

Deborah A. Bräutigam
International Development Program
School of International Service
American University
Washington, DC 20016
dbrauti@american.edu

February 2, 2004

Abstract: People’s budgets, alternative budgets, women’s budgets, and participatory budgeting have raised hopes and expectations that spending and revenue generation can be made “pro-poor” by increasing the participation of citizens, NGOs, and other civil society organizations. In some instances, these hopes appear to be borne out. Panel data from the participatory budgeting experiment in the city of Porto Alegre suggests that spending after participatory budgeting was initiated did become substantially more “pro-poor”. This paper reviews the Porto Alegre experience, and other examples of participatory economic policy-making and pro-poor economic policy-making in Ireland, Chile, Mauritius, and Costa Rica. This review raises four issues: Who participates? What impact does the more direct democracy of participation have on the consolidation of representative democracy? What kind of institutional framework is necessary for participation to be pro-poor and for it to support other aspects of better governance? And what role has the private sector been given in a budgeting process that might require its acquiescence in pro-poor taxation? It concludes by pointing out that making spending and taxation more “pro-poor” has historically depended on pro-poor political parties gaining political power.
THE PEOPLE’S BUDGET?
POLITICS, POWER, POPULAR PARTICIPATION AND PRO-POOR ECONOMIC POLICY

“the budget is the skeleton of the state stripped of all misleading ideologies”

Joseph Schumpeter, citing Goldscheid.¹

I. INTRODUCTION

Participation is a central element of democracy, and increasingly, citizen participation in economic policy is advocated as a way to make government spending more “pro-poor”. People’s budgets, alternative budgets, women’s budgets, and participatory budgeting have raised hopes and expectations that greater participation by ordinary citizens, NGOs, and other civil society organizations in spending and revenue generation can lead to better outcomes for the poor. Cases of participatory budgeting on the municipal level, as in Porto Alegre in Brazil, support this hope. But does participatory budgeting offer hope for a substantial positive impact on fiscal policy at the national level in developing countries? This paper can’t answer that question definitively, but it does review some selective examples of participation in economic policy-making and budgeting (in Brazil, Chile, Costa Rica, Mauritius, and Ireland) in order to shed some light on this question. Many reviews of the new participation have asked “who participates?” But this review suggest that insufficient attention has been paid to several other aspects of participation. What happens when NGO participation substitutes for the participation of parliament? Does effective pro-poor policy making require complementary institutions, such as pro-poor political parties, a strong and independent auditor general, and a free media? Does a sustainable pro-poor economic strategy require the inclusion of the business sector as a partner in participation – and in providing the revenues necessary for the pro-poor spending?

II. THE NEW EMPHASIS ON CITIZEN PARTICIPATION IN ECONOMIC POLICY

Over the past fifteen years, the idea that development requires “good governance” has gained considerable momentum. Good governance is variously described as governance that is accountable, transparent, follows the rule of law, and allows for participation, or citizen voice. The rising emphasis on participation as a core component of good governance has many

sources, among them the “Third Wave” of democratization, and a parallel increase in the power and influence of local and global civil society organizations. And, it has led to changes in development practice, from the level of macroeconomic policy, to the level of municipal budgeting. At the same time, it raises a number of issues: who participates? When and how? What is required in order for participation to make economic policy more “pro-poor”? And, what unintended consequences might this move have?


A decade ago, the reigning assumption among academics and many development policy advisers was that macroeconomic policy-making, and indeed, many areas of revenue and expenditure management, needed to be somewhat exclusionary in order to allow technical considerations, and not “politics” to dominate. Studies of development performance in East Asia pointed out that both growth and social improvements for the poor in the region were put in place during an earlier period of exclusionary policy-making, where business was consulted in “deliberation councils” but labor was largely controlled, and opposition parties absent or impotent. A World Bank study edited by Stephan Haggard and Steven Webb found that "in every successful reform effort, politicians delegated decision making authority to units within the government who were insulated from routine bureaucratic processes, from legislative and interest group pressures, and even from executive pressures." It was thus assumed by many that (even in democracies), difficult policy reforms needed to be undertaken by decree, through insulated technocracies, or in secret negotiations with international banks.3

Concern with making macroeconomic policy processes more open, transparent, and participatory rose as a reaction to this exclusion. Many believed that this non-transparent, closed style of policy making could threaten the consolidation of the new democracies of the developing world. Former Brazilian finance minister Luiz Carlos Bresser Pereira and his co-authors warned: "if democracy is not to be undermined as a consequence of economic reforms, the representative organisations and institutions must participate actively in the formulation and implementation of the reform program, even if this participation weakens the logic of the economic program or increases its cost."4 Furthermore, a more inclusionary approach involving, at a minimum, consultation with affected groups was thought to affect the sustainability of policies and improve the prospects for their design and implementation. Jeffry Frieden's 1991 analysis of the economic reform in Latin America pointed out that when "important interest groups were left out of negotiations, they disrupted the implementation of whatever decisions were made."5

Researchers at the World Bank found that greater participation by affected social groups in policy formation and implementation was likely to boost two elements found to be associated with successful management of economic policy: ownership and credibility. Research by

---

3 This paragraph and the next draw on my article, Deborah Bräutigam, "Foreign Aid and the Politics of Participation in Economic Policy Reform," Public Administration and Development v. 20 (October 2002), pp. 253-264.
John Johnson and Sulaiman Wasty (1993) found that "borrower ownership" of economic policy was strongly associated with the success of structural adjustment programs, and that the most significant factor influencing the degree of borrower ownership was the nature of public-sector/private-sector relations and the political influence of interest groups.

B. Participation and Poverty Reduction Strategy Papers

The move toward participation now marks even the World Bank and the International Monetary Fund’s approaches to economic strategy, at least on the surface. For the poorest countries, the centerpiece of this new approach is the Poverty Reduction Strategy Paper (PRSP) process. These policy strategy papers are required for highly indebted poor countries (HIPC) to gain access to substantial reductions on debt owed to the international financial institutions (the World Bank and the IMF). Guidelines for these papers stress that they should focus on assessments of current poverty problems, and recommendations for strategic improvements, including those in macroeconomic policy. The studies are supposed to be “locally generated” and “owned” by the country: carried out by a partnership of government working together with civil society organizations.

The experience of the PRSPs is recent, and it hasn’t been possible in most cases to measure the actual impact of greater participation on the design and implementation of actual (as opposed to proposed) economic policies, and their impact on poverty reduction. Some aspects of the PRSP process have raised questions. For example, although civil society (both local and international) has gained entry into the PRSP processes, the PRSPs have not emphasized the inclusion of representative institutions in the process. A 2002 review by the World Bank and the IMF of the PRSPs noted that “the role of Parliaments in the preparation, approval, and monitoring of country strategies has generally been limited and is a concern that has been expressed by a number of development partners.”

III. BRIEF CASE STUDIES

Participation in economic policy making raises a number of issues, and faces a number of challenges. The challenges are illustrated by the following quotation from Kenya, where civil society organizations were attempting to influence the budget process, something that “was shrouded in mystery,” as Achim Chiaji, from the Kenya Christian Partners Development Agency explains:

Technocrats at the Treasury monopolised the entire process of formulation and implementation of Kenya's Budget with disastrous consequences. The budget is not sufficiently debated before presentation and non-state participation results in too many donor-generated proposals. There has been considerable concern following revelations that the donor organisations led by the IMF are playing a major role in determining the 2001/2002 Budget proposals. Another weakness is that budget debate is neither integrated nor systematic hence it is often inexhaustive. Parliamentarians see the

---

proposals for the first time when the Minister for Finance presents it for debate in parliament. The period allowed for debate is also too short considering the fact that the report is usually broad and over 400 pages. Furthermore, the budget is crafted in a technical language that makes it difficult for ordinary 

_Language_. 

How have other countries dealt with these challenges? The following case studies illustrate several examples of participation in economic policy making. They range from the national level (for example, the Irish National Economic and Social Forum), to the municipal level (Porto Alegre’s participatory budgeting). These examples confirm that participation is something of growing interest, that it is taking new and often innovative forms, and that it sometimes, but not always, leads to shifts toward more pro-poor policies.

A  **Ireland National Economic and Social Forum**

In Ireland, economic difficulties in the early 1970s led to the formation of a corporatist National Economic and Social Council (NESC) along the lines of models current in the UK, and also in France. The members of the Council were originally drawn from the traditional tripartite social partners: the government, the trade unions, and producer organizations. Although the NESC did not play much of a prominent role in its first decade-plus of existence, in the context of economic recession in the mid-1980s, it began to institutionalize a process of lengthy consultations among the partners, in order to put together an agreement on economic strategy that embedded mutual compromises and the trade-offs painstakingly worked out over a process that lasts more than a year. The partners negotiate changes in tax policy, as well as expenditures.

The overall goal is not explicitly “pro-poor” and indeed, the outcomes of this process have been lauded more for their impact on growth and macroeconomic stability, than for their success in addressing problems of social exclusion. In 1996, the list of civil society partners was expanded to include eight community and voluntary organizations, and since then, it is said, the focus of the agreements has shifted to include a greater emphasis on battling exclusion and poverty.

Two other aspects of the Irish experience are likely to be important. First, as one analysis noted, participation in this process is shaped by the “‘shadow of the future’ – the fact that the

---

9 Today, “[t]here are 19 social partners in total, who were selected by the government to broadly represent the four ‘pillars’ of Irish society as follows. **Employer and Business Organizations**: Irish Business and Employers Confederation, Small Firm’s Association, Chambers of Commerce of Ireland, Construction Industry Federation, Irish Exporter’s Association, Irish Tourist Industry Confederation; **Trade Unions**: Irish Congress of Trade Unions; **Farm Organizations**: Irish Farmer’s Association, Irish Creamery Milk Suppliers Association, Irish Cooperative Organization Society, Macra na Fierme; **Community and Voluntary Organizations**: Irish National Organization of the Unemployed, Congress Centers for the Unemployed, The Community Platform 1, Conference of Religious Ireland, National Women’s Council of Ireland, National Youth Council of Ireland, Society of Saint Vincent de Paul, Protestant Aid.” World Bank, “Ireland: Participation.”
parties know they will meet again - has generated an environment of patience and trust, which, as has been argued by Robert Putnam and others, ‘nurtures reciprocity, facilitates communication, improves flow of trustworthy information and increases cost of defection.’  

Second, as suggested above, there is as yet little evidence that a pro-poor agenda has resulted from this participation. As a study of the Irish experience points out, progress on social issues is not impressive. The Gender Development Index in Ireland, for example, remains the lowest of the EU countries. A final point: in Ireland, some have critiqued the NESC process as “extra-constitutional” influence, weakening a democratically-elected government. Others counter that all of the “four major parties in parliament have participated in government and operated the agreements with undeterred enthusiasm.”

B. Participatory Budgeting and Activism in Porto Alegre

More recently, a number of interesting experiments on the municipal level seem to suggest that participation by poor citizens in budgetary decision-making can lead to sharp increases in the reach and coverage of essential services, particularly to the poor. The most well-known case of participatory budgeting is probably that of Brazil’s southern city of Porto Alegre. In 1989, the Brazilian Workers Party (PT) won municipal elections in Porto Alegre, and proceeded to implement an experiment of decentralized decision-making in the city. Brazilian cities are governed by mayors, and include a legislative branch (the Chamber of Deputies). Cities have a fair degree of local control over revenues, whether federal transfers or local taxes and fees.

In Porto Alegre, the participatory budgeting process began with the PT organizing two rounds of assemblies, “to gather demands of individual citizens and mobilize the community to select regional delegates.” These delegates eventually hash out – in debates with the mayor’s technical offices – decisions over investment spending for the municipality, and these are embedded in the budget that the mayor’s office presents to the Chamber. The outcome in Porto Alegre has been impressive. As the World Bank reported, “Between 1989 and 1996, the number of households with access to water services rose from 80% to 98%; percentage of the population served by the municipal sewage system rose from 46% to 85%; number of children enrolled in public schools doubled; in the poorer neighborhoods, 30 kilometers of roads were paved annually since 1989; and because of transparency affecting motivation to pay taxes, revenue increased by nearly 50.”

Participatory budgeting (PB) has since spread to some 140 of the smaller of the 5500 Brazilian municipalities, and recently the PT, which won the governorship of the State of Rio Grande do Sul (where Porto Alegre is the capitol), instituted participatory budgeting at the

---

10 World Bank, “Ireland: Participation.”
11 Ibid. See also UNDP, Human Development Report.
12 World Bank, “Ireland: Participation.”
14 Wagle and Shah, “Case Study 2.” Souza points out that this revenue figure may not reflect the impact of the constitutional changes that gave cities like Porto Allegre increased revenues. These changes were phased in gradually. Souza, “Participatory Budgeting in Brazilian Cities.”
state level. Although other efforts to try PB in larger cities, or at the state level have failed (in Brasília, São Paolo, or Vitória, for example) the Rio Grande do Sul seems to be working successfully in much the same way that the system works in Porto Alegre. Still, participatory budgeting has limits. It seems to require a partnership between the executive branch, and an activist civil society. It doesn’t seem to reach the “poorest of the poor”, whose priorities are more likely to be survival issues such as income generation and jobs, than sewage systems and services, and the amount of the budget that is typically available for discussion – after fixed expenses such as salaries, debt payments, and maintenance on earlier investments – may only be five percent of the total. And some have argued that by preempting one of the legislature’s key functions, and also eliminating the incentive for civil society groups to interact with the legislative branch, PB fails to build the institutions of representative democracy at a time when they are fairly new and fragile.

C. Costa Rica: Pro-poor Spending, Low Participation?

Like Mauritius below, Costa Rica has justly earned credit for its pursuit of social inclusion and its welfare state (see Table 1). In the UNDP’s new Human Poverty Index (an index that includes only developing countries), Costa Rica ranks fourth from the top (Mauritius is ranked 17th). A social democracy since 1948, Costa Rica (also like Mauritius) has abolished its army, and spending on security is consequently relatively low. And yet it appears that Costa Rica does not rank well on indicators of budgetary participation and budget transparency.

In 2003, the Center on Budget and Policy Priorities, a Washington DC-based think tank, conducted a study of ten Latin American countries, seeking to discover their degree of budgetary transparency and citizen participation in the budget. The Center asked panels of country experts to give their opinion on a number of different aspects of transparency and participation; these were aggregated into rankings. The published report, Latin American Index of Budget Transparency 2003, does not give high ratings to Costa Rica (indeed, none of the countries come out especially high). And yet two of these countries (Chile, and Costa Rica) rank 3rd, and 4th from the top in the UNDP’s human poverty index. Figure 1 above shows the relationship between the human poverty index rank and budget participation. Although Costa Rica is a bit of an outlier, there does seem to be a positive association between citizen participation in the budget (measured by the rising line) and human poverty index rank (measured by the bars; lower is better).

A better measure, which we do not have, would be whether or not spending became more pro-poor when participation increased. Nonetheless, the results of the budget transparency study are interesting. Citizen participation in the budget, said by the project to be “indispensable

15 See the study by Aaron Schneider and Ben Goldfrank.
17 The Human Poverty Index is a composite measure of the “probability at birth of not surviving to age 40, the adult illiteracy rate, the population without sustainable access to an improved water source, and children under weight for age.” United Nations Development Program, Human Development Indicators 2003.
18 Per capita incomes in Chile, Costa Rica, Colombia, Mexico, and Brazil are decidedly higher also, and it could be that this is a more significant factor.
not only to strengthen democracy in a country, but as an effective way to assure that the most pressing needs of the population are reflected in the governmental budget,\textsuperscript{19} was low in Costa Rica, with only 8 percent of those interviewed affirming that there was citizen participation at the time of the study. This low score indicates that there were few if any mechanisms for citizens to give input as the budget was being formulated or approved, little in the way of a reporting mechanism, and little transparency on changes in the budget after it has been approved, or the actual impact of spending decisions. On the other hand, Costa Rica scored well (although it was not the highest) in perceptions of the ability of the legislative branch to participate in analyzing, debating, and modifying the budget proposal of the executive branch. It also scored well (and highest of the ten countries) in the degree to which the executive branch reports to the legislature on the changes it makes in the budget as it is executed.

\textbf{Figure 1: Citizen Participation in the Budget And Human Poverty Index}

Costa Rica also scores highest among the ten countries in the “degree of trustworthiness around the auditing of public spending.”20 The report notes that the office of General Comptroller of the Republic has been in place for more than 50 years, and is responsible for supervising public funds. Attached to the Legislative Assembly, it is fully independent and has a high degree of public trust.21 Although the report on Costa Rica recommended that there be more opportunities for civil society groups to participate in the budget cycle (health sector unions and other organized groups were specifically mentioned), it did not consider the possibility that Costa Rica has evolved a system that works to reduce poverty, as well as maintain fiscal stability. Nicaragua ranks more highly than Costa Rica on citizen participation in the budget. So does Brazil. Yet neither has apparently been as effective as Costa Rica over time, in putting together pro-poor budgets.22

D. The Case of Mauritius23

Mauritius is a small island nation of some 1.2 million people, located off the coast of Southern Africa, in the Indian Ocean. The country has impressive development indicators, particularly when seen in comparison with other African countries (Table 1). It has been a parliamentary democracy since independence in 1968, and is also frequently lauded for its economic competitiveness and growth performance. We thus have (with Costa Rica, above) an example of a country that, in its region, seems to do well at constructing budgets that that have relatively pro-poor results. To what extent is this due to innovative mechanisms of participation in economic policy-making?

Mauritius does, in fact, practice a form of participatory budgeting, but it leans more toward the Irish corporatist than the Brazilian activist model. In the late 1970s, the country lurched through a series of economic crises that were only ended when the government managed to devalue the rupee (twice), cut spending, and attract investment into the export processing zone. As part of the political handling of the crisis, the government began to consult more openly with the main “social partners” on economic and social policy, and, in particular, on the budget, which in Mauritius, as in many countries, encapsulates the major policy intentions for the coming fiscal year. This process was initiated with the election in 1982 of a progressive political party, the Mouvement Militant Mauricien, led by Paul Bérenger, who is now the Prime Minister of Mauritius.24 Bérenger’s first budget as Finance Minister vowed

---

20 Lavielle, et al, p. 22. This refers, actually, to “public spending destined to government-owned or semi-official enterprises, decentralized entities, defense, and the contracting of foreign debt.”
22 I say this based on the human poverty index, which of course does not take into account factors such as the long war in Nicaragua.
24 At the time of the 1982 election, the MMM stood A. Jugnauth as its prime ministerial candidate, believing that Bérenger, a Franco-Mauritian of European ancestry, would not be electable by the largely South Asian population.
explicitly to break away “from the secretive practices of the past.” The government was in the midst of very contentious negotiations with the World Bank and the IMF, and the MMM decided that transparency and openness would benefit their efforts to build support for reform – or at least understanding and tolerance – from the Mauritian people. Bérenger announced in the speech that:

Ministers have invited everyone with an interest and involvement in the affairs of their ministry to participate in preparing and implementing policy… In my own case, since assuming office, I have met as many organizations and persons as I could to discuss the economic situation… Every section of society has been invited to participate in the preparation of this Budget… trade unions, employers, taxpayers, parastatal bodies, banks… To make these consultations as fruitful as possible, the Government has published all documents necessary for a full understanding of the economic situation.

Although the MMM lost power in a no-confidence vote about eight months after this budget, the consultations they initiated were institutionalized. For the past two decades, all governments have practiced consultation. Each year in the spring, the Minister of Finance makes the rounds of the country’s major stakeholders, listening to their views, exchanging comments, accepting their written analyses. Each evening, the television news is full of brief reports of these consultations: union members meet the Minister one day; business associations another, the major social welfare NGOs and other groups have their days. When the budget is finally presented to Parliament, the details are splashed across the major newspapers. Almost instantly (since 1996/97), the budget speech and the entire budget (including all loans) are accessible on the Ministry of Finance’s website on the internet. It is difficult to know just how much the pre-budgetary consultations actually affect the budget. As far as participation goes, this is not anything like the long period of work that goes into participatory budgeting in Porto Alegre, for example. Compared with the Irish example, the consultation and negotiations are much more one-sided. And yet it does have benefits.

Participatory budgeting and a visible link between taxation and spending in Mauritius forced groups outside the government to enhance their own capacity, in order to interact with the government as credible peers, and gain an audience for their analyses. It also allows Mauritians to challenge their government through their lively press, as happened not long ago with the Minister of Education concerning a proposed education project. An open letter in the

25 This and the other quotations in this section come from Paul Bérenger, “Budget Speech,” Ministry of Finance, Government of Mauritius, Port Louis, July 30, 1982. In a 1999 interview, Bérenger told me: “We were real radicals. We wanted direct democracy!”

26 Interestingly, saying that “This Government attaches prime importance to the development of structures and procedures which will ensure a continuing dialogue between the Government and the different sectors of the economy” the Speech announced the formation of a National Economic and Social Council (as in Ireland) which would “provide the government with the administrative machinery for consultation with the major sections of public opinion and with organised institutions” (p. 19). The NESC remained moribund until very recently.

27 Interviews suggest, however, that many people in Mauritius believe the pre-budgetary consultations to be a “mere formality.” As a newspaper editor said to me, “This is part of the national folklore. But in reality, some private sector people have privileged channels. In any case, deep discussion of reorganizing the workplace can’t be done in two days with journalists present.” Gilbert Ahnee, editor, Le Mauricien May 3, 1999, Port Louis.
country’s major newspaper pointed out that the project was flawed, and reminded the Minister: “If the government borrows millions of rupees from the World Bank for your project, it is done in the name of All the Mauritian people . . . If it is necessary to repay this debt of millions of rupees for a project, it is each one of us . . . who are going to pay by our taxes.”

Here, we see a strong link between borrowing, expenditures, and repayment. That link is through the understanding that ordinary citizens must pay taxes -- “each one of us” -- and therefore, that ordinary citizens because of their revenue role, not just their citizen role, have right to hold the government accountable for its spending, and in particular, for its borrowing.

E. Raising Pro-Poor Spending in Post-Transition Chile

In post-democratic transition Chile, the business class agreed to a temporary increase in taxation in order to remedy the “social deficit” resulting from the policies of the Pinochet regime. Delia Boylan recounts how this pro-poor spending shift came about. Chile’s democratic transition brought to power a Center-Left coalition which quickly negotiated the tax increases. The number of income tax payers paying the highest marginal rate was increased; the corporate income-tax rate went up temporarily from 10 to 15 percent; the VAT was raised from 16 to 18 percent, and all of the new revenue was all earmarked for social spending, including higher family allowances and nutritional supplements for the poor.

To what extent was the tax reform done in a genuinely participatory manner? Chile’s new leaders had stressed that public policy-making would now be participatory. Opinion polls among citizens confirmed their expectations of consultation: “70 to 80 percent of the public felt that it was important or very important that the government consult the opposition, the banks, the unions, and business groups when making decisions regarding the political economy.” Did this in fact happen? Boylan asked this question, and found that the proposed reforms were “broadly discussed with various interest groups that included labor, business, and agriculture.”

The major negotiations, however, were with the more right-wing opposition, the Renovación Nacional party: “beyond the details worked out in discussions with the RN, it is not clear that the other social and political actors involved had much voice in this reform. . . In the end, the participatory rhetoric was much more symbolic than real in value.”

Obviously, the Chile case reinforces the earlier concern with pro-poor political parties. But this case also emphasizes the importance of considering taxation as well as spending, when focusing on pro-poor policy. It brings the business sector back in, and the importance of getting agreement from the business sector about that taxation. And it also suggests that at the national level, we should perhaps be looking at least as

28 “Lettre Ouverte à M. le Ministre de l’Education et à ses Conseillers,” Le Mauricien (Port Louis), 14 April, 1999, p. 11 (my translation).
32 Ibid.
much at the involvement of political parties, and negotiations among parties, in order to understand sustainable pro-poor policy shifts.

IV. ISSUES RAISED BY THESE CASES

These cases raise a number of interesting issues regarding participation and economic policy. Who participates? What impact does the more direct democracy of participation have on the consolidation of representative democracy? What kind of institutional framework is necessary for participation to be pro-poor and for it to support other aspects of better governance? And what role has the private sector been given in a budgeting process that might require its acquiescence in pro-poor taxation?

A. Who Participates?

This is one of the most commonly raised issues whenever the talk turns to civic engagement in economic policy. Bresser Pereira suggested that participants in economic policy should be (at the least, perhaps) “representative”, which suggests that he is thinking of parliament. Frieden notes that it is “interest groups” that need to be involved in negotiations over policy – and although he doesn’t specify which interest groups he means, the rest of the book suggests that these are generally those whose interests are most at risk in policy changes: labor unions, and producer groups. The World Bank focused more on the role of private sector interest groups in its study of ownership, suggesting that in that instance at least they saw business associations and economic sector groups as key in participation and ownership. The Porto Allegre experiment seems to involve “lay citizens” organized by the Workers Party (PT), and its community activist allies, and so we have “citizens” and a “party” participating. In Ireland, the initial work of participation included the “social partners”: trade unions and producer groups. Only late in the game was the table enlarged to include civil society organizations.

Two issues are raised by the question: who participates? When participants are elected, citizen volunteers, as in Porto Alegre, their opportunity costs are high, and there may be systematic self-selection. For example, women may not participate as much, due to their multiple responsibilities. The poorest may not have the resources to participate, and may be at a disadvantage. When participants are not elected, but rather come from civil society organizations, their representativeness is more questionable, particularly when they are actually making budget decisions that traditionally are the purview of parliaments. In these cases, lobbying, providing information, being consulted, all can serve to enhance the government’s effort to spend the people’s resources wisely, as in Ireland. But it may not make the process pro-poor.

B. Parliament and Representative Democracy

In theory, parliaments are established partly in order to scrutinize development strategies through the budgets prepared by the executive branch, and to give their approval to expenditure and revenue plans. Indeed, the budgetary function of parliament was said to be
instrumental in the early moves toward power-sharing in European monarchies. Today, parliaments are elected through constitutionally mandated procedures, and represent particular districts and constituents. How does participatory budgeting and the civil society role in planning instruments such as PRSPs affect this historic role of Parliament?

In Port Alegre, some municipal city council members (legislators) resent a system that allows the Council of Participatory Budgeting (COP -- a 44 member council which includes representatives from the different neighborhoods, as well as from the civil servants trade-union and community organizations) to exercise more influence over the budget details than does the elected city council. For example, the COP can debate specific projects or public works, while the council cannot. This in effect allows the executive to interact directly with the neighborhood representatives, by-passing the council, whose participation is limited to voting yes or no to the budget package. These legislators contend that the COP has not got the constitutional legitimacy of the parliament, and that elections for the COP involve a minority of voters, unlike the elections for the city council.

From South Africa, we also hear concerns that civic engagement with the budget is not enough, without involving the legislature. As the note prepared by the South African Council of Churches pointed out, although governance has become more transparent with majority rule, the executive branch still controls the budget tightly. “Parliament still cannot amend the budget, but only vote it up or down... Limiting opportunities for Parliamentary comment also reduces the role of civil society, which would normally seek to influence the process principally through interactions with Parliament” (emphasis added).

The World Bank’s experience in developing the Comprehensive Development Framework with developing countries, a process that has also focused on civil society-donor-executive branch interaction, also notes that some groups are being left out: “Parliaments are mostly absent from the debate, thus omitting a central actor from political discourse.” The successful example of Ireland has also raised similar criticisms: that the process is “extra-constitutional”, and that it “undermines democratic processes”.

There is no easy answer to this dilemma. In many instances, participatory “end runs” around the legislature were necessary to end clientelist practices that had weakened its legitimacy, and made pro-poor spending difficult or impossible. Yet when resources are scarce, there is much to be said for efforts to strengthen the traditional institutions of representative democracy and the party system, for some of the more successful efforts at pro-poor spending rely on strong democratic institutions, and in particular, on strong and ideological parties.

---

33 In this paragraph, I draw on Waglé and Shah, (March 2003), p. 4.
36 Ireland case study.
C. The Institutional Framework for Pro-Poor Spending and Good Governance

What kind of institutional framework is necessary for participation to be pro-poor and for it to support other aspects of better governance? Several institutional features seem to be shared by the cases of pro-poor spending, whether they involved participatory budgeting, or not. Pro-poor spending was initiated by strong, democratic, and ideologically left-of-center political parties. These governments had strong and independent auditing arms. They had institutions (media, internet, pamphlets, public meetings) that enabled information about spending to be shared with the public, and problems to be aired, all essential for building accountability.

1. A left-of-center political party

Many of the successful examples of pro-poor spending mentioned in this paper took place under the direction of a left-of-center political party. In some, such as Costa Rica, there was very low institutionalization of participation by civic groups. In Mauritius, although consultation with civic groups does occur as the budget is being prepared, the degree to which this is seen as substantive as opposed to pro forma varies depending on the political party or coalition of parties that hold power. These have been almost invariable parties that describe themselves as “social democratic.” Chile’s pro-poor budget reforms were spearheaded by a left-of-center coalition. In Porto Alegre, a key actor was again a left-of-center political party, the Workers’ Party. To what extent does participatory budgeting need direction and commitment from a left-of-center political party in order to make it genuinely pro-poor? And if the party in power is genuinely pro-poor, is extensive civil society participation in budgeting and economic policy still necessary?

This question is difficult to answer (and it would be quite interesting to conduct an experiment among the some 140 municipalities now practicing participatory budgeting in Brazil – dividing them into PT and non-PT government). I suspect that participation can, at the least, provide information and an extra mechanism for accountability, which should help a committed and pro-poor democratic municipal government to improve its ability to reach the poor.

2. Effective auditing and transparency

Mauritius and Costa Rica both have very respected, fully independent Government Audit Offices (GAO). In Mauritius, the annual audits carefully point out, in considerable detail, what actually happened with expenditures, and put special focus on the “value for money” of public spending; this includes loans from organizations such as the World Bank, or grants from the UNDP. The publication of these reports is also announced with great publicity by the press, and the reports themselves are easily available to the public from the website of the GAO.

37 Costa Rica does have examples of civic groups (often, producer groups such as farmers) being consulted about policy changes.
The cases of Costa Rica and Mauritius bring up another institutional issue: does pro-poor policy require transparency, in particular, the marriage of a robust independent government auditor, and a media to keep the public informed about the impact of spending decisions? Transparency is necessary for accountability – for ensuring that expenditures are having their desired impact. The World Bank echoes this, in its admonition that public expenditure systems need “a transparent process of formulation, approval, implementation and reporting among the formal institutions – the cabinet, finance ministry, line ministries, office of the auditor generals – is a primary requirement. This should be complemented by information disclosure and press freedom laws.”\textsuperscript{38} A system of auditing is necessary to close the circle between participatory budgeting, and accountability. Some degree of capacity is probably necessary in both civil society and the media in order to make sense of auditing reports, but governments themselves can go a long wait toward meeting this need by making budgets and audits easier to understand.

Transparency (as the case of Porto Alegre suggests) might also help in increasing tax collections, even without tax reform. When citizens can see what their tax money is being used for, and when they have greater confidence that it is being used for public services, and that an effective audit office will monitor that spending, they may be more likely to pay their taxes. And taxes are an important and overlooked side of budgeting reforms.

D. What About the Private Sector and Revenues?

Chile’s tax reform reminds us that budgets are about taxation, as well as about spending. This simple fact is not always appreciated. When new forms of participation strongly emphasize the role of NGOs and civil society associations, the private sector sometimes takes a very back seat. A review of the participatory processes underpinning the World Bank’s Comprehensive Development Framework suggests that the private sector and its associations may not be very involved in the process of developing the long-term development agenda.\textsuperscript{39} By 2001, in two-thirds of the countries that had developed CDFs, the private sector did not participate in the process at all. As the review pointed out, being left out meant that “private sector commitment to the national strategy, a key pillar of any long-term development agenda, is therefore generally weak.”\textsuperscript{40}

The weak commitment of the private sector is not a feature of the Irish model, but as the case study on that model noted, spending has not been notably “pro-poor” in Ireland. There is very little information about the role of the business sector in Porto Alegre, but it does not feature as a prominent part of the discussions. Mauritius does have strong commitment from the private sector in its development agenda, but most of the private sector’s participation takes place in bilateral discussions between the government and the apex business federation, the Joint Economic Committee (JEC), a part of civil society with greater access to policy-makers.


\textsuperscript{40} Ibid, p. 4.
than the unions or the community-based NGOs. The budgetary consultations are only one of many meetings between the JEC and the government over policy.

The role of the business sector becomes particularly important when we remember that budgets include not only expenditures, but revenues. It is frequently the business class that will be taxed in order to fund expenditures. As the Chile case points out, their negotiated agreement to support pro-poor budgets may be an important part of a sustainable pro-poor spending agenda in a democracy.

V. CONCLUSION

As Joseph Schumpeter pointed out, “the budget is the skeleton of the state stripped of all misleading ideologies.” When the misleading ideologies are stripped away, what is left is the actual ideology of those who hold power. The successful cases of pro-poor spending that I outlined above were put in place when a pro-poor, left-of-center political party won power, and when it then used that power to negotiate a shift in priorities. Participation in the absence of the combined power and agenda of a committed political party may, as in the Irish case, have little impact on pro-poor spending. Participation can have other benefits. Increases in information and greater transparency may make it easier to pressure and embarrass a government that is not pro-poor. Participatory budgeting can serve an important public education function. Combined with a strong auditor general, informed media, and civil society organizations with the capacity to deconstruct current spending patterns, it may yet be a novel pathway to make economic policy more pro-poor. However, a sustainable shift in pro-poor spending, taxation, and macroeconomic policy is likely going to require the old fashioned tools of partisan politics, and the difficult negotiations over a sustainable, democratic, development strategy will require the inclusion, not the exclusion, of the business sector as well as the poor.

42 In Brazil, much of the municipal budget is made up of transfers from the federal government. Check percentages.
44 The inclusion of NGOs and community groups in the Irish process may yet lead to more pro-poor policy shifts; this is a natural experiment that should be watched closely.
Table 1

Pro-Poor Government Spending in Comparative Perspective
(most recent year)

<table>
<thead>
<tr>
<th>Mauritius</th>
<th>Sub-S. Africa</th>
<th>Costa Rica</th>
<th>Latin America &amp; Caribbean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiteracy Rate, Adult Female</td>
<td>18</td>
<td>45</td>
<td>4</td>
</tr>
<tr>
<td>Improved Sanitation, % of Pop. with access</td>
<td>99</td>
<td>53</td>
<td>93</td>
</tr>
<tr>
<td>Improved Water Source, Rural % of population with access</td>
<td>100</td>
<td>46</td>
<td>92</td>
</tr>
<tr>
<td>Under-5 Mortality Rate (per 1000 live births)</td>
<td>19</td>
<td>164</td>
<td>11</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>73</td>
<td>46</td>
<td>78</td>
</tr>
<tr>
<td>Human Development Index (value)</td>
<td>.779</td>
<td>.468</td>
<td>.832</td>
</tr>
</tbody>
</table>

REFERENCES


Souza, Celina. n.d. “Participatory Budgeting in Brazilian Cities: Limits and Possibilities in Building Democratic Institutions,” Paper commissioned by the International Development Department of the School of Public Policy, University of Birmingham (UK).
