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# **Toward a More Inclusive and Effective Participatory Budget in Porto Alegre**

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**Brazil - Country Management Unit  
Sustainable Development Unit  
Latin America and the Caribbean Region**



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## List of Acronyms and Currency Equivalents

CAR	Centro Administrativo Regional (Regional Administration Center)
CMAA	Conselho Municipal de Agricultura e Abastecimento (Municipal Council on Agriculture and Supply)
CMAS	Conselho Municipal de Assistência Social (Municipal Council on Social Assistance)
CMC	Conselho Municipal de Cultura (Municipal Council on Culture)
CMD	Conselho Municipal de Desporto (Municipal Council on Sports)
CMDCA	Conselho Municipal dos Direitos da Criança e do Adolescente (Municipal Council on Children's Rights)
CMDH	Conselho Municipal dos Direitos Humanos (Municipal Council on Human Rights)
CMDUA	Conselho Municipal de Desenvolvimento Urbano e Ambiental (Municipal Council on Urban and Environmental Development)
CME	Conselho Municipal de Educação (Municipal Council on Education)
CMS	Conselho Municipal de Saúde (Municipal Council on Health)
COMAM	Conselho Municipal de Meio Ambiente (Municipal Council on Environment)
COMATHAB	Conselho Municipal de Acesso a Terra e Habitação (Municipal Council on Access to Land and Housing)
COMPHAC	Conselho Municipal de Patrimônio Histórico e Cultural (Municipal Council on Historical, Artistic and Cultural Heritage)
COMTU	Conselho Municipal de Transportes Urbano (Municipal Council on Urban Transportation)
COMUI	Conselho Municipal do Idoso (Municipal Council on Senior Citizenry)
CONCET	Conselho Municipal de Ciência e Tecnologia (Municipal Council on Science and Technology)
CONCONT	Conselho dos Contribuintes (Municipal Council on Taxpayers)
CONDIM	Conselho Municipal dos Direitos da Mulher (Municipal Council on Women's Rights)
CONEN	Conselho Municipal de Entorpecentes (Municipal Council on Drugs)
CONTUR	Conselho Municipal de Turismo (Municipal Council on Tourism)
COP	Conselho do Orçamento Participativo (Participatory Budgeting Council)
CROP	Coordenador Regional do Orçamento Participativo (Regional Coordinator of Participatory Budgeting)
DMAE	Departamento Municipal de Água e Esgotos (Municipal Department of Water and Sewage)
DEMHAB	Departamento Municipal de Habitação (Municipal Department of Housing)
DEP	Departamento de Esgotos Pluviais (Municipal Department of Sewage)
DMLU	Departamento Municipal de Limpeza Urbana (Municipal Department of Urban Sanitation)
ESW	Economic Sector Work, World Bank
FEU	Finance Economics and Urban Department, World Bank
FASC	Fundação de Assistência Social e Cidadania (Foundation for Social and Citizen Assistance)
FRACAB	Federação Rio-Grandense de Associações Comunitárias e de Moradores de Bairros (Federation of Community and Neighborhood Associations of Rio Grande do Sul)
GLP	Gross Local Product
GPO	Gabinete de Planejamento Orçamentário (Cabinet of Budgetary Planning)
IBGE	Instituto Brasileiro de Geografia e Estatística (Brazilian Institute of Geography and Statistics)
ICMS	Imposto Sobre a Circulação de Mercadorias e Serviços (Tax on the Circulation of Merchandise and Services), a Brazilian state tax
IDB	Inter-American Development Bank

IGP-DI	Índice Geral de Preços - Disponibilidade Interna (General Price Index-Internal Liquidity)
IP	Investment Plan (Plano de Investimentos)
IPI	Imposto sobre Produto Industrializado (Tax on Industrial Production, a Brazilian federal tax)
IPTU	Imposto Predial e Territorial Urbano (Brazilian local taxes on real state)
IPVA	Imposto sobre a Propriedade de Veículos Automotores Imposto (Brazilian state vehicle property tax)
LAC	Latin America and Caribbean Region, World Bank
LCC5C	World Bank Office in Brasilia, Brazil, World Bank
LCSPÉ	Economic Policy Sector, World Bank
LCSPS	Public Sector, World Bank
LCSSD	Sustainable Development Department, World Bank
LCSSO	Social Development Unit of the Latin America and Caribbean Region, World Bank
LDO	Lei de Diretrizes Orçamentárias (Law on Budgetary Guidelines)
LOA	Lei Orçamentária Anual (Annual Budget Law)
NA	Neighborhood Assembly
NCR	Net Current Revenue
ObservaPoA	Observatório de Porto Alegre (Observatory of Porto Alegre)
OP	Orçamento Participativo (Participatory Budget)
PDDUA	Plano Diretor de Desenvolvimento Urbano e Ambiental (Urban and Environmental Development Directive Plan, the Master Plan of Porto Alegre)
PLOA	Projeto de Lei do Orçamento (Draft Budget Law)
PPA	Plano Plurianual (Multi-Annual Plan or Multi-Year Plan)
PPS	Partido Popular Socialista (Popular Socialist Party)
PT	Partido dos Trabalhadores (Workers' Party)
R\$	Real (Brazil's currency)
RGF	Relatório de Gestão de Fundos (Fiscal Management Reports)
RREO	Relatório Resumido da Execução Orçamentária (Summary Budget Execution Report)
SDV	Social Development Department, World Bank
SMA	Secretaria Municipal de Administração (Municipal Secretariat of Administration)
SMF	Secretaria Municipal da Fazenda (Municipal Secretariat of Finance)
SMCPGL	Secretaria Municipal de Coordenação Política e Governança Local (Municipal Secretariat of Political Coordination and Local Governance)
SMOV	Secretaria Municipal de Obras e Viação (Municipal Secretariat of Works and Roadways)
SMS	Secretaria Municipal de Saúde (Municipal Secretariat of Health)
SMT	Secretaria Municipal de Transporte (Municipal Secretariat of Transport)
SPM	Secretaria do Planejamento Municipal (Secretariat of Municipal Planning)
UP	Unidade de Planejamento (Planning Unit)

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## Executive Summary

### Background

**The Municipality of Porto Alegre, capital city of the southern Brazilian state of Rio Grande do Sul, requested World Bank assistance to improve its Participatory Budget (*Orçamento Participativo*, or OP) process.** Participatory budgeting is a process by which citizens and/or civil society organizations participate directly in different phases of the preparation and monitoring of public budgets. More specifically, the municipality asked the Bank to focus on five key concerns:

- How can the “quality of participation” in the OP be improved?
- How can the interface between the OP and municipal fiscal management be strengthened?
- How can the capacity of the OP to monitor budget execution be improved?
- How can a more coherent system of social accountability in the city be established, improving the articulation between the OP and different participatory fora?
- What are the social and fiscal impacts of the OP?

This report examines these five critical concerns and proposes recommendations to address them.

**Participatory budgeting in Porto Alegre originated in an experimental, consultative process driven by the municipal government and new social movements in the late 1980s.** The process was initiated during the early years of re-democratization and decentralization in Brazil, following the end of the military dictatorship in 1985. The 1988 constitution initiated a process of decentralization and tax reforms that created the fiscal space for municipalities to make more significant public investment decisions. A plethora of participatory governance institutions have since proliferated in Brazil, most importantly, municipal policy councils and participatory budgeting bodies. The OP was formally introduced in Porto Alegre under the leadership of the Workers’ Party (*Partido dos Trabalhadores*, or PT) in coalition with pro-democracy social movements. Although initially fraught with difficulties due to fiscal constraints, the OP in Porto Alegre became gradually more systematized over time. Today, the OP has a complex methodology for organizing participation in a city of over 1.4 million inhabitants, as well as for prioritizing public investments based on three main criteria: unmet basic needs, population, and citizen preferences. However, the OP constitutes one element in a broader complex system of participatory governance in Porto Alegre.

### Conceptual Framework and Methodology

**This study draws on the conceptual underpinnings of the 2004 World Development Report, which identifies participation as a central element in the practice of social accountability,** defined as the range of efforts by which citizens express their voice, engage in direct management or monitoring of public services, and/ or participate in service delivery (Goetz 2003). Several interrelated arguments underscore the importance of voice in achieving better accountability and

governance: voice is a central element of control of bureaucratic performance and contributes to ownership, empowerment, civic learning, and democratic legitimacy. Furthermore, participatory mechanisms (like the OP) can break inefficient equilibria in the structure of a state and potentially bring about efficiency gains in terms of fiscal and social outcomes. The assumption is that the OP may contribute to municipal revenue enhancement because where citizens have voice in budgetary decisions they will be more willing to pay local taxes. A related assumption is that participation by the poor may bring about Pareto-efficient reallocations, which governments would not be able to identify without “directly asking” citizens. In the context of mechanisms for social accountability and voice, the OP is a means to inform budget formulation. Its effectiveness will depend on the *quality of voice*. The success of all participatory accountability mechanisms, however, hinges on an enabling environment for civic engagement.

**The methodology of this report draws on recent work on social accountability and governance to focus on five key dimensions of the OP:** (i) the participatory process and conditions that determine the quality and inclusiveness of citizen voice; (ii) the upstream interface between the OP and fiscal management; (iii) the downstream capacity of OP as an oversight mechanism in budget execution; (iv) the limits and potential of the OP within the broader system of social accountability and participatory governance; and finally, (v) its social and fiscal impacts. The report uses a combination of qualitative and quantitative methods, including econometric modeling, data analysis, representative surveys of Porto Alegre households, semi-structured interviews, organized focus groups, and an examination of the annual city budgets and minutes of OP meetings at which public works investments are decided. The research for this Economic Sector Work (ESW) has benefited from an iterative process of dialogue with key stakeholders, who have been involved from the design phase through the presentation of research findings.

## **Main Findings**

*What is the quality of participation in the OP?*

**Participation in the OP is substantial in Porto Alegre, but certain social groups suffer from a lack of incentives to participate.** Around one-fifth of the population reports having participated in the OP at some point in their lives. Women and low-income groups show high percentages of representation. Ethnic minorities and people with disabilities are also well represented. Under-represented groups include the extremely poor, youth, middle- and high-income groups, as well as certain professional groups, such as entrepreneurs. Time requirements, the use of complex language, and a limited understanding of the OP process present a barrier to participation, especially at higher levels of representation. For the very poor, the opportunity cost and expense of participation is quite high. Higher-income groups lack incentives to participate because the OP has a narrow focus on infrastructure provision to the poor and participation is time consuming.

**The OP enjoys credibility among participants and the population of Porto Alegre as a whole, despite certain shortcomings regarding its internal upstream and downstream accountability.** There is an uneven playing field for OP participants in delegating to upper levels of representation. Participants with more years of experience, available time, and knowledge of the complex procedural rules of the OP are more likely to be elected as regional delegates and councilors, which has led to low levels of rotation among delegates. Additionally, reporting mechanisms between delegates and their constituencies are unsystematic and characterized by the

absence of records. The prevalence of a verbal culture among OP constituencies, which demands and expects less accuracy, and the fact that the OP is itself perceived as a net gain in public accountability, may explain the existing mismatch between OP credibility and the shortcomings in its internal accountability.

*What is the quality of the interface between the OP and the municipal fiscal management?*

**Despite enjoying high levels of participation and credibility, analysis of the interface between the OP and municipal fiscal management yields mixed results.** Contrary to popular belief, the OP in Porto Alegre does not lead to suboptimal resource allocation or investment fragmentation. When it comes to the risk of investment fragmentation (posed by regional pressures to allocate resources to small public works), the OP performs quite well: although the number of demands for small investments has increased in recent years, it has not affected the overall share of resources allocated to satisfy those demands. There is no evidence, however, that the OP has played a positive role in contributing to fiscal balance in Porto Alegre. In different years, expenditure and revenue forecasts did not match actual values. This fiscal gap was usually covered by generating current deficits and/or postponing capital investments. Inconsistencies between the OP cycle and the actual budget calendar have also contributed to the formulation of capital investment plans based on weak fiscal data. These plans ended up creating a backlog of non-implemented OP demands and consequently generated strong public discontent.

**The OP in Porto Alegre has worked mainly as an instrument for interested citizens to voice their preferences regarding capital investments, rather than a space of public debate where municipal fiscal policy and revenue and expenditure management as a whole can be discussed.** An analysis of the minutes of key meetings of the Participatory Budgeting Council (COP) showed that it has not undertaken substantive assessment of municipal fiscal policies and revenue capacity, particularly at critical moments. This behavior of the COP can be attributed to the absence of clear motivation among its members to give fiscal oversight priority over ensuring that the demands of their respective communities are included in the current Investment Plan. The lack of regular training for COP members can be also a possible explanation, as the Law on Budgetary Guidelines (LDO), Law on Federal Budget (LOA), and Multi-Annual Plan or Multi-Year Plan (PPA) are of a technical complexity that laymen can find difficult to understand.

*What is the capacity of the OP to monitor budget execution?*

**There is room to improve the potential of the OP to contribute to downstream accountability of public expenditure.** Although the OP in Porto Alegre has contributed to a greater understanding of pro-poor public spending, and to directly engaging ordinary citizens in voicing their priorities for capital expenditure planning, it has not fulfilled its potential to improve budget literacy. It has also paid scant attention to budget oversight. The municipality offers positive conditions for budget oversight: it presents accounts through varied processes, has a sophisticated e-government system, and provides updated information related to budget planning, public expenditure, local government programs, and detailed socioeconomic data on its Website. In 2007, it launched a new publication, “*Caderno de Prestação de Contas*,” reporting on key fiscal and budgetary issues and presenting for the first time the implementation of OP demands in a consolidated manner. However, oversight is still neither well codified nor supported by

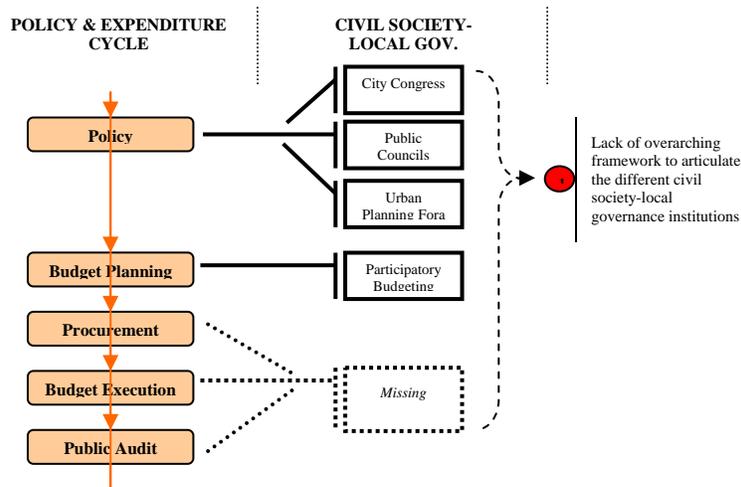
sustained efforts on the part of COP members and municipality officials, and thus takes place mainly in an ad-hoc manner.

*What is the relationship of the OP to other social accountability initiatives?*

**Although participatory budgeting in Porto Alegre is probably the most well-known mechanism for direct participation in Brazil, there are many other spaces for participation in local governance.** As is the case in many other cities, the multiplicity of spheres of interaction between the local government and civil society lends itself to overlapping roles, competition, and undesirable tension between different venues. At the same time, the absence of an overarching framework leads to functional gaps in the current constellation of participatory mechanisms, such as revenue and expenditure tracking, procurement oversight, and performance monitoring and evaluation.

**It is important to recognize, therefore, the limits of the OP within the complex network of citizen participation in Porto Alegre.** Since its inception, the main objective of the OP has been the inclusion of citizen input into capital investment planning. Over time, and as a result of its success and permanence, but also as a response to its need to understand and scrutinize the municipal budget, the OP has developed some capacity to monitor the execution of prioritized public works. However, this capacity is weak and needs to be strengthened. On the other hand, other spaces of participation were created as major spaces for civic engagement before and after the establishment of the OP. Although these other channels have specific purposes, such as the Public Policy Councils (which focus mainly on sectoral policy making) and the *Programa de Governança Solidaria Local* (Solidarity in Local Governance Program, which has a more holistic approach to local governance), there are clearly many overlaps and conflicts. It must therefore be recognized that the OP in Porto Alegre may be limited in its ability to expand into other areas of participatory local governance, given that it needs to focus on strengthening its current role. However, the municipality and different non-governmental stakeholders that have an active role in other various channels of participation have yet to come up with a harmonizing framework that would create a more effective and efficient system of civic engagement and social accountability in Porto Alegre (see Figure 1 below).

**Figure 1. The policy and expenditure cycle and participatory fora in Porto Alegre**



*What are the OP's social and fiscal impacts?*

**The econometric analysis conducted for this study isolated the fiscal and social outcomes that can be attributed to participatory budgeting as opposed to other factors..** The econometric analysis in this report compares Brazilian municipalities that adopted OP to a group of non-OP municipalities that had the same opportunity to make improvements in poverty, access to basic services, and fiscal performance. The analysis controls for the fact that in most municipalities where OP was implemented, the *Partido dos Trabalhadores* (PT, or Workers' Party) was a key political actor, either because the mayor belonged to the party or the party was the second most important political force in city. The analysis accordingly accounts for whether estimated impacts are the result of OP, and not the result of a political process (including strong participation through informal channels of voice) associated with substantial support to the PT. The analysis thus ensured that OP was the instrument that caused the impacts.

**The econometric analysis suggests that as a mechanism for improving pro-poor capital investments, participatory budgeting has contributed to a reduction of poverty rates** in municipalities where it was adopted prior to 1996. It is worth noting that this poverty impact occurred despite a reduction in GDP per capita in these municipalities, suggesting that the OP can contribute to a redistributive impact in the long run. To date, it seems that the impact on better access to water and sanitation is positive for all OP municipalities.

**Current findings do not indicate consistent positive impacts on fiscal performance.** The second hypothesis of the econometric analysis tested the impact of OP on fiscal performance, assuming that it empowers the poor and, therefore, leads to more transparency in the way the public budget is allocated, as well as to increased budget literacy. Participatory budgeting was not, however, found to have a consistent impact on fiscal performance. In fact, its impact appeared to be negative, when measured by the ratio of operational expenditure to total expenditure. The absence of positive impacts on fiscal performance associated with the OP in

Porto Alegre can be explained by the exclusive focus of the OP on investment capital allocations and its weak connection with other fiscal management decisions (e.g., current expenditure allocations and execution, revenue collection, etc.).

**A more simple analysis consistent with the logic of treatment and control evaluation sheds light on the specifics of OP in Porto Alegre.** This analysis compared Porto Alegre with all state capitals and with only non-OP state capitals. Using available data, it could not be concluded that Porto Alegre performed better than other cities in terms of living conditions. On the fiscal performance side, the figures suggested that it is not very likely that the recent fiscal problem in Porto Alegre was actually connected to the OP. It is more likely that Porto Alegre increased its operational expenses after 1996 for some other reason, and that it was not able to solve this problem even with the (relative) increase in revenues observed after 2000.

### *Overall Conclusions*

**The abovementioned findings help to identify the potential and limitations of the OP.** Findings on the poverty and fiscal impacts of OP in Brazil suggest that OP is a participatory mechanism that has significant potential for pro-poor distributive impacts that lead to poverty reduction outcomes in the long run. Its ability to have a positive impact on fiscal performance is less evident. This apparent limitation has important consequences for the sustainability of pro-poor investment. The results of the impact analysis confirm the overall findings: the OP in Porto Alegre constitutes a representative and credible conduit of voice for the poor to inform the allocation of public investments, but it has limitations with respect to its ability to enhance fiscal performance. The cycle mismatch between the OP and the municipal budget and the narrow scope of OP investment allocations prevent it from enhancing budget literacy and accountability or enhancing the quality of expenditures beyond investment allocation, to include revenue collection and overall quality fiscal and service delivery performance in Porto Alegre.

## **Main Recommendations**

**Changes and improvements in OP methodology can help overcome some of its limitations.** Nevertheless, the structural limits of the OP must be acknowledged by social actors and municipal authorities. There are other participatory mechanisms that are better suited to improving the accountability of certain stages of the public expenditure cycle, such as sectoral councils (which hold sectoral policies accountable for the delivery of services). The following recommendations are intended to help improve the performance and impacts of the OP in Porto Alegre. They also propose involving other organizations and mechanisms in the establishment of a system of social accountability in which the OP would play a leading role.

*How can the “quality of participation” in the OP be improved?*

**Creating incentives and removing barriers to make the OP more inclusive is a critical challenge.** Measures to address these challenges could include expanding the OP’s focus to issues of strategic importance for the city as a whole (including budgetary oversight, municipal revenues and current expenditures) that affect the space for OP investments and would attract interest from the middle class and professional groups, such as entrepreneurs. Furthermore, participation could be made more convenient to attract those who currently do not participate, for instance, by making available online voting on investment priorities or reimbursing the financial cost of participation borne by the poorest groups (e.g., the cost of bus tickets for participants below a certain income level). Improving the effectiveness of OP council meetings by reforming meeting procedures would save participants’ time. Finally, improving the training and education of participants is essential for fully realizing the potential benefits of the OP to enhance citizen understanding of the municipal budget process. Training needs should be identified as an integral part of the OP process at each level of participation (e.g., general, delegates, and councilors) and for each stage of the OP cycle.

**Making OP representation more legitimate and accountable is crucial to maintaining its credibility.** Simplifying the OP’s procedural rules and making them more accessible to OP participants would level the playing field among participants and prevent a situation in which only a handful of OP representatives have knowledge of the rules. Furthermore, establishing simple guidelines and formats for presentations by councilors and delegates would enhance the system of reporting to constituencies and enhance downstream accountability.

*How can the interface between the OP and municipal fiscal management be strengthened?*

**Tackling the time mismatch between the OP prioritization process and the municipal budget cycle is crucial.** Moving the OP cycle one month forward to ensure consistency with the Organic Law of the Municipality would product the best results in terms of the quality of information available during the prioritization process and consequently enhance the effectiveness of OP demands. An alternative solution would be to ensure that the executive arm of the municipality provides a reasonably accurate revenue estimate for the period for which OP investment demands are being prioritized. Between May and July, then, each region and sector should receive a more precise estimate of the budgeted caps for capital expenditure in the coming year.

**The articulation between municipal fiscal management and the OP could be further enhanced by expanding the OP cycle for complex public works to 2 years,** while maintaining an annual time frame for those OP investments that can be executed in a shorter time period. This step would increase the capacity of OP participants to engage in the oversight of public works by reducing the time pressure that the one-year limit currently creates. Yet, it must be acknowledged making the OP bi-annual may result in the possible tradeoff of reducing the interface between the population and local government.

**Furthermore, introducing a mechanism in the OP cycle to allow for adjustments to the Investment Plan during budget execution would prevent the accumulation of a backlog of investments in cases of unforeseen decreases in revenue.** This measure can be complemented

with measures to strengthen municipal capacity in budget planning, such as collecting and publishing indicators on the accuracy of revenues and expenditures for each budget cycle, as well as creating an indicator to measure the accuracy of disbursement estimates for each item in the Investment Plan. These indicators can then be used as benchmarks that are tracked by the OP Council. Additionally, the municipal government could define a budget cap for the investments prioritized by the OP so that they do not exceed the municipal budget envelope.

**Improving fiscal and budget literacy, as well as creating spaces for overall fiscal policy dialogue in the OP cycle, are essential for maximizing the OP's potential positive impact on fiscal management.** These goals can be achieved through a set of measures, including adding a stage at the beginning of the OP cycle for more in-depth public discussion of the overall fiscal policy of the municipality and the execution of the budget. This should go hand in hand with basic training in municipal finance for OP councilors, including familiarizing them with Multi-Annual Plans or Multi-Year Plans (PPA), the Law on Budgetary Guidelines (LDO), the Annual Budget Law (LOA), bimonthly Summary Budget Execution Reports (RREO), and Fiscal Management Reports (RGF). Partnering with local universities and think tanks that could assist the COP (Participatory Budgeting Council) to undertake independent fiscal policy and budget analysis would complement these measures, as would developing the ObservaPoA Website into a system that offers statistical information to assess budget priorities and monitor the impacts of investments.

*How can the capacity of the OP to monitor budget execution be improved?*

**Strengthening budget literacy in Porto Alegre is a precondition for enhancing the OP's capacity to monitor budget execution.** Currently, budget literacy is limited and uneven among the citizens of Porto Alegre. Although the OP has contributed to a greater understanding of the need for pro-poor public spending, it has not fulfilled its potential to improve budget literacy. To raise awareness of basic municipal finances and budgeting, the OP could make more frequent use of local radio, emulating experiences in Peru, Ecuador, and Guatemala, as well as in Anglophone African countries that have piloted this approach with the support of the World Bank. Porto Alegre's OP could also include a supplement on fiscal and budget literacy in its Statute, as well as detailed information on municipal revenue and expenditures in the OP Notebook of the Investment Plan. Moreover, OP Regional Journals could include detailed technical and financial information on each project being implemented in the respective regions, allowing for comparison between planned activities and their execution, together with an overall evaluation of the implementation of all municipal programs in the Booklet of Municipal Accounts, using the performance indicators adopted by the new management system.

**Furthermore, the scope of the OP could be expanded to systematically include budget oversight in its cycle of activities.** The OP Council can use and publish on its Website simple indicators that compare overall budget planning data (e.g., amounts, time of implementation, basic technical details) with budget execution data for different investments. These indicators can be developed to enable cross-regional comparisons and benchmarking. It would be advisable that the municipality make available on its Website regular budget execution reports (i.e., the bimonthly Summary Budget Execution Reports, or RREO) in a citizen-friendly manner. Additionally, the municipal government could define a budget cap for the investments prioritized by the OP so that they do not exceed the municipal budget envelope.

**Finally, strengthening mechanisms for civil society monitoring and evaluation of municipal services would contribute to overall social accountability.** These functions may well be beyond the scope of the OP, but they can be performed by other civil society organizations and spaces for dialogue that involve user organizations, civil society, and the Municipality of Porto Alegre, such as sector-based municipal public councils and the Forum of Services. It would thus be advisable to strengthen the capacity of these groups to monitor and evaluate service delivery. Citizen feedback mechanisms, such as community score cards and citizen report cards, can be introduced to strengthen client power in monitoring service performance. By establishing a citizens' charter of municipal services that sets citizen-friendly performance benchmarks for each service provided by the city, together with appropriate feedback channels, the city can create powerful tools for enhancing the quality of service delivery.

*How can the system of social accountability be made more coherent and articulation between different participatory governance fora be improved?*

**First, it is essential to re-examine the relationship between the OP and Municipal Councils to ensure maximum synergies.** The interface that currently exists between institutions of direct participation is weak, undermining the possibility of a coherent system of social accountability. Options to achieve better synergies could include the establishment of an overarching framework that would encompass the different municipal councils and the COP; the framework would clarify formal and informal functions of these bodies and remove overlaps in budget planning and oversight. At the same time, the interface between the different municipal councils and thematic assemblies of the OP should be strengthened. This could be complemented by better integration of the Urban Fora (public debate spaces on municipal master planning) with OP investment plan prioritization via a specific OP thematic group.

**Finally, it is essential to strengthen the alignment of long-term sector development objectives with OP annual capital investment planning for purposes of coherence and efficiency.** This goal could be achieved by using the City Conference to implement a well-structured strategic planning process among existing civil society and local government institutions. Such a process would establish clear long-term goals that would align policy making and budget planning. Moreover, the development of a system of social accountability in Porto Alegre would benefit from the establishment of a permanent governance structure to oversee the formulation, implementation, and revision of the city's strategic planning process. In addition to the City Conference, this structure should include a multi-stakeholder coordination committee, an executive secretariat, a technical team, and thematic task forces, comprising representatives of the municipal public councils, thematic areas of the OP, urban fora, and the Solidarity Local Governance program, together with representatives of the municipality (from both direct and indirect administration), the local legislature, and the private sector.

*How can the understanding of OP impacts be refined?*

**The econometric analysis conducted for this report suggests that further analytical work is necessary to better understand the impacts of OP and optimize its results.** It is advisable that universities and think tanks in Brazil continue to assess the social and fiscal impacts of the OP. The model and database developed for the impact analysis conducted by this study have the potential to be further explored and expanded to shed light on impact causalities surrounding the

OP and the value of the participatory process for bringing about poverty reduction and development.

## Introduction

### A Demand-driven Study

**The Municipality of Porto Alegre, capital city of the southern Brazilian state of Rio Grande do Sul, requested analysis and advice to improve its Participatory Budget process** (*Orçamento Participativo*, or OP, in Portuguese). Participatory budgeting is a process through which citizens and/or civil society organizations participate directly in different phases of the preparation and monitoring of public budgets. OPs vary in terms of the level and type of participation, as well as the technical criteria and instruments used to allocate resources. In most cases, participatory budgeting focuses on expenditures and involves participatory decision making in an annual or multi-year public budget plan.<sup>1</sup> The Municipality of Porto Alegre was one of the first municipalities in Brazil to introduce this practice, which brought international attention in the early 1990s. Since that time, over 200 municipalities in Brazil have introduced participatory budgets. A fiscal crisis in 2002, however, generated concerns about the fiscal performance of the municipality and the sustainability of the OP. Porto Alegre accordingly sought support to improve its performance, in part by strengthening its OP.

**Table 1**  
**Porto Alegre at a glance**

Population	1,453,076
GDP (2003)	R\$14,655,093
GDP per capita (2003)	R\$10,437
Municipal budget (2006)	R\$7,330,270
Municipal budget surplus (2006)	R\$1,634,339
Staffing costs/ revenues (2006)	46.95%
Debt / revenues (2006)	20.91%
Credit operations/ revenues (2006)	1.07%
Debt servicing/ revenues (2005)	2.02%
Life expectancy at birth (2000)	71.5 years
Literacy rate ages 15+ (2000)	96.6%
Human Development Index (2000)	0.87
Gini Index (2000)	0.61
Indigence (2000)	4.28%
Poverty (2000)	11.33%

*Sources:* IBGE (2000), ObservaPoA, Municipality of Porto Alegre, Muninet.

**The Municipality requested that the World Bank focus on five key concerns related to OP participation, public management, accountability, and impacts:<sup>2</sup>**

- The first concern relates to the *quality of participation in the OP*. This concerns the extent to which particular social groups are excluded from the process; the representativeness of the participatory process and the effect this representativeness may

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<sup>1</sup> Definition adopted from the World Bank's *Social Accountability Sourcebook*.

<sup>2</sup> Annex 1 presents a synopsis of the main studies about the OP and its implementation in Porto Alegre.

have on its outcomes; as well as whether and how information on the OP process and citizens' understanding thereof could be improved.

- The second concern relates to the *quality of the interface between the Porto Alegre OP and municipal fiscal management*. One of the first issues raised is whether the OP and the legal framework that regulates the municipal budget cycle are coherently interrelated. Furthermore, the municipality wanted to better understand the impact of the OP on the quality of public expenditure and how to strengthen OP capacity to contribute to sound financial management.
- The third concern relates to the potential of the OP to influence *other stages of the public expenditure cycle where social accountability could be enhanced*.<sup>3</sup> Appropriate operational guidance from the Bank team was thus requested. Specifically, the municipality was interested in finding out how user and citizen participation could contribute to holding the government accountable for actual expenditures and service provision, so as to improve the coverage and quality of public services.
- Fourth, the municipality requested an analysis of how the OP process interacted with other spaces for dialogue and participation in Porto Alegre, as well as an assessment of the potential for building *a system of social accountability* that could overcome actual fragmentation among the different arrangements between civil society and local government.
- And finally, the municipality sought a better understanding of the impacts of the OP on fiscal and social outcomes. To date, Porto Alegre has not instituted rigorous analysis of the fiscal and social impacts of the OP process, in spite of pioneering participatory budgeting in Brazil.

## Historical Evolution of the Participatory Budget

**A mechanism for increased participation in the municipal budget process first began to be discussed in Porto Alegre in the late 1980s. This discussion took place in the context of the re-democratization and decentralization of the country following the end of the military dictatorship.** Today's OP can be traced back to an experimental, unstructured consultative process that was set up to define the city's investment priorities by a newly elected municipal government in the late 1980s in response to highly mobilized social movements in the city. Although initially fraught with difficulties due to fiscal constraints, these processes became more institutionalized over time and in 1991, specific criteria and guidelines were defined for determining investment priorities and the distribution of resources in Porto Alegre. Since that time, the methodology has been refined to include the prioritization of investments by territory and sector.

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<sup>3</sup> Social accountability is defined here as an approach toward building accountability that relies on civic engagement, i.e., an approach in which ordinary citizens and/or civil society organizations participate directly or indirectly in exacting accountability. In a public sector context, social accountability refers to a broad range of actions and mechanisms that citizens, communities, independent media, and civil society organizations can use to hold public officials and public servants accountable. These include, among others, participatory budgeting, public expenditure tracking, monitoring the delivery of public services, investigative journalism, public commissions, and citizen advisory boards (Carmen, Foster, and Singh, 2004).

**Constitutional reforms gave local governments more power to make decisions on local investments, while stipulating that participatory mechanisms be established.** The de-concentration of funds encouraged by the Constitution of 1988 and the approval of local tax reform (*Reforma Tributária Local*) created the necessary fiscal space for public investments to be determined at the municipal level. At the same time, the Constitution created a hybrid political system that is fairly unique in that it combines forms of representation and participation at both the federal and local levels (Avritzer 2006). Political participation follows two tracks: (i) direct participation as an expression of sovereignty in the shape of plebiscites and referenda, and (ii) institutionalized participatory mechanisms, such as sector-based public councils and participatory budget processes.

**The principal participatory institutions that have proliferated in Brazil after 1988 are municipal policy councils (*Conselhos de Políticas*) and participatory budgeting (*Orçamento Participativo*).** Municipal policy councils resulted from the constitutional articles regulating health (*Lei Orgânica da Saúde*), social assistance (*Lei Orgânica da Assistência Social*), and child and adolescent issues (*Estatuto da Criança e do Adolescente*). While the parameters of these policy councils are determined in the Constitution, their institutional format is defined by local legislation, which makes for a substantial degree of variation between them. Unlike policy councils, participatory budgets are not mandated by the 1988 Constitution, but they also strike a characteristic balance between representation and the broad participation of citizens—elected officials share their decision-making power on budgetary priorities with a host of regional and thematic assemblies that operate on the principle of direct and voluntary participation.

#### **Box 1. A brief history of the OP**

Systematic calls for innovation in urban governance emerged with the rise of new social movements in Brazil in the 1970s. The first experiments with participatory schemes at the municipal level date back to the 1980s. These movements emphasized the need for greater participation in decision making, better accountability, democratic access to services, and the end of patronage schemes. These demands coincided with a rise in local organizations and networks, such as neighborhood associations, as well as national movements, such as the Housing Movement and the Collective Transports Movement, which stressed the right to certain services. Experimentation with participatory schemes to achieve greater local control over resource allocation decisions began in a number of municipalities governed by opposition parties while the military regime was still in power.

After the military regime ended, democratization and decentralization created the political environment and fiscal space for policy innovations like the OP, many of which were implemented when the Workers' Party (PT) was in power. The Constitution of 1988 and subsequent decision by most state capitals to reform their finances created the necessary fiscal space at the sub-national level to allow municipalities to adopt innovative policies like the OP. The rise of PT mayors and left-wing coalitions from 1988 onwards contributed to the widespread adoption of participatory programs, which varied broadly in scope and methodology.

In Porto Alegre and a number of other Brazilian municipalities, the PT administration instituted an early version of the OP in the late 1980s. The process has been institutionalized more formally since that time, despite changes in municipal leadership. The early success of OP is credited in part for having kept opposition at bay and maintaining the PT in power until 2004 (Baiocchi et al. 2004). The onset of a financial crisis in 2002 and the resulting reduction of the municipality's investment capacity created a backlog of investments that were prioritized by the OP but not executed. In 2004, a coalition of opposition parties was elected, led by mayor José Fogaça of the Popular Socialist Party (*Partido Popular Socialista*, or

PPS). The current municipal administration won the elections on a platform of rebalancing municipal finances while maintaining the OP as a mechanism to inform investment decisions.

**Today, the OP in Porto Alegre functions within a complex system of civil society-government arrangements.** These arrangements include municipal policy councils, participatory urban planning fora, and a citywide strategic planning conference (*Congresso da Cidade*), among others. The proliferation of participatory fora has sometimes created challenges for coordination and articulation between these institutions, especially at the stage of policy formulation. In recent years, the municipality of Porto Alegre has begun to implement measures to modernize its public administration and local governance schemes. These measures include expansion of the scope of participatory governance by improving social monitoring and information mechanisms, such as the *Observatório de Porto Alegre* (Observatory of Porto Alegre), and fostering partnerships between civil society and the private sector to address local community challenges through the *Programa de Governança Solidária Local* (Solidarity in Local Governance Program).

**The OP is viewed as a central element in the participatory governance architecture of Porto Alegre.** This report proposes recommendations to address some of the critical challenges that the municipality currently faces in making the OP more inclusive and effective.

## The OP Cycle and Process

**The first step in the OP process is a review of the implementation of the investment plan for the preceding year** (*Prestação de Contas*, or presentation of accounts). This review takes place in March–April of every year and focuses primarily on capital investments of the previous year, rather than on municipal budget expenditures as a whole. The first step in the cycle also includes mobilization and awareness-raising activities that explain the functions of the OP, as well as its rules and regulations.

**The second step in the process is establishing thematic priorities.** From April until May, regional and thematic assemblies take place with the objectives of (i) establishing thematic priorities by voting, (ii) electing councilors for each region, (iii) defining the number of delegates, and (iv) repeating the budget review for the preceding year at the local level. These meetings are open to all citizens and constitute the central and most inclusive component of the process. Porto Alegre is divided into 16 regions, which are again subdivided into several micro-regions where regional assemblies are held to ensure close proximity to the grassroots level. The five thematic areas discussed in the OP at city-level assemblies are: transport and traffic; education, leisure, and culture; health and social welfare; economic development and taxation; and organization of the city, urban and environmental development.

**The third step is the prioritization of specific investment demands.** From May until July, regional and thematic assemblies elect delegates and the prioritization of demands takes place (votes are tallied and aggregated to provide regional and overall rankings). For each theme, a point score is calculated by multiplication, using a coefficient and the total number of votes cast per priority rank.<sup>4</sup> Delegates from all regions then meet to review the funding requests; visits to proposed project sites are used to inform their discussions. A pre-agreed formula and indicators

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<sup>4</sup> These coefficients are 4, 3, 2 for the first 3 priorities, and 1 for priorities ranking from 4 to 13.

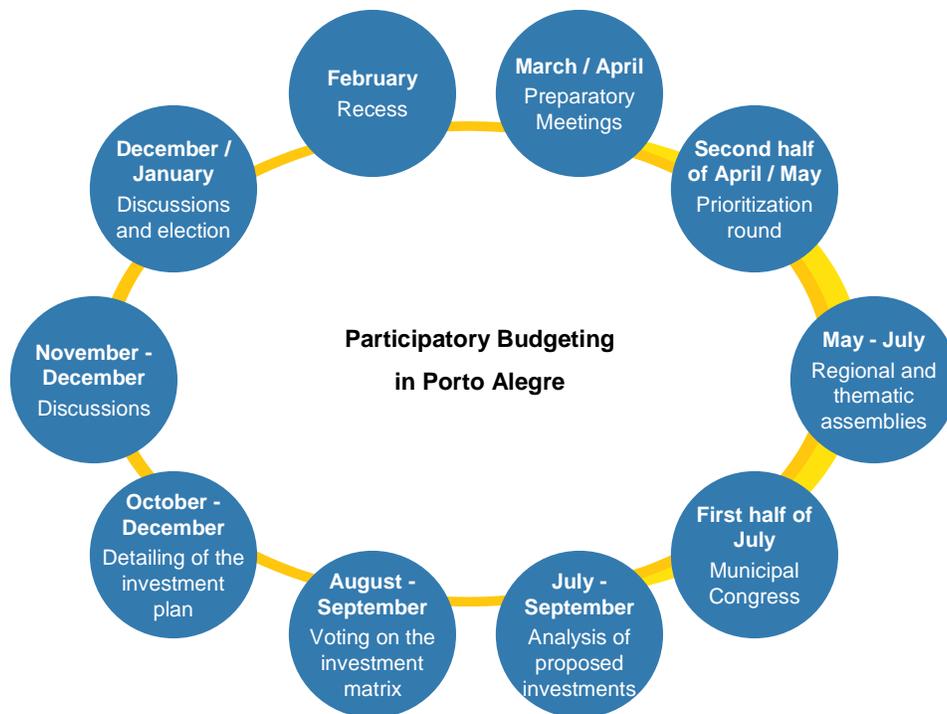
are used to allocate resources among sectors and regions on the basis of population, unmet services and infrastructure, and ranking of sector preferences.

**In July, new councilors officially take over their mandates.** Their main function is to harmonize competing demands and prepare the draft investment plan in coordination with the municipal administration, which undertakes a technical feasibility and financial analysis of the proposed projects. In August and September the investment plan (IP) is incorporated into the city's budget matrix and submitted to the local legislature for revision and approval.

**Once the prioritization process is finalized, investment plans are presented at regional and thematic forums.** These meetings are attended by representatives of the Cabinet for Budgetary Planning (*Gabinete de Programação Orçamentária*, or GPO) and the Municipal Secretariat of Political Coordination and Local Governance (*Secretaria Municipal de Coordenação Política e Governança Local*, or SMCPGL) and other sector secretariats, as necessary.

**The final step in the OP is a revision of its statute.** This step takes place in November and December. Amendments to and modifications of OP rules can be proposed and voted on before the new cycle begins the following March.

**Figure 2. Participatory budgeting cycle in Porto Alegre**

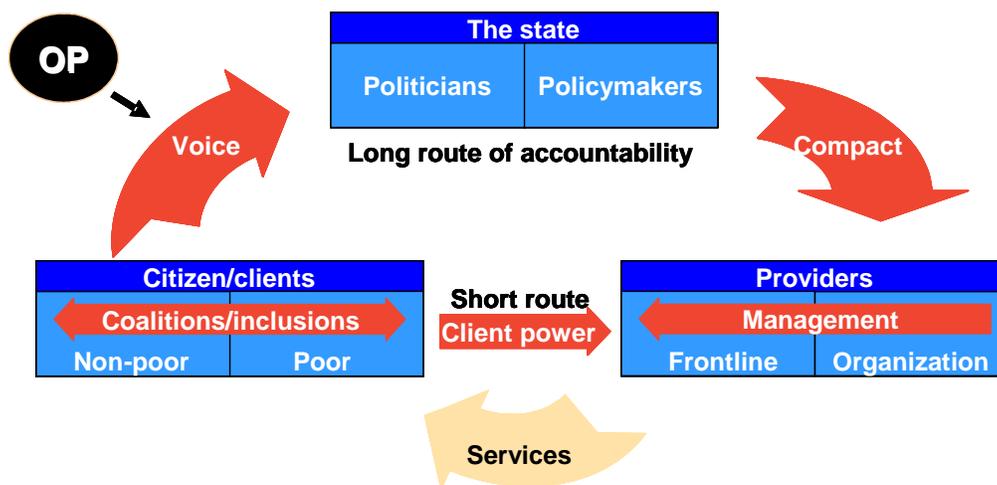


## Conceptual Framework

This study on the Participatory Budget of Porto Alegre draws on the conceptual underpinnings of the 2004 *World Development Report (WDR04)*.<sup>5</sup> The WDR04 discusses the role of citizens and service beneficiaries in the framework of accountability for service delivery. It identifies two ways in which citizens participate and demand accountability: by expressing *voice* (i.e., through voting, direct participation in policymaking, or influencing public officials) and by participating and demanding accountability as “clients” of public services (*implementing policy* and participating directly in service delivery, management, or monitoring). For example, parents who participate in parent-school associations to monitor the quality of education provided by their local schools engage in this second form of participation, referred to as *client power* (see Figure 3).

**Voice is an indispensable factor that balances the power relationships between government, service providers, and users.** After an extensive review of service delivery experiences all over the world, the WDR04 concluded that citizens’ voice, expressed through electoral processes or other forms of political participation, creates important incentives to improve both social policy design and the oversight and regulatory role of the state over service providers. In other words, the report finds that the existence of strong accountability relationships between citizens and politicians has a positive impact on the rules of engagement (the *compact*) that governs the relationship between the state and its service provision agents.

Figure 3. Key relationships of power



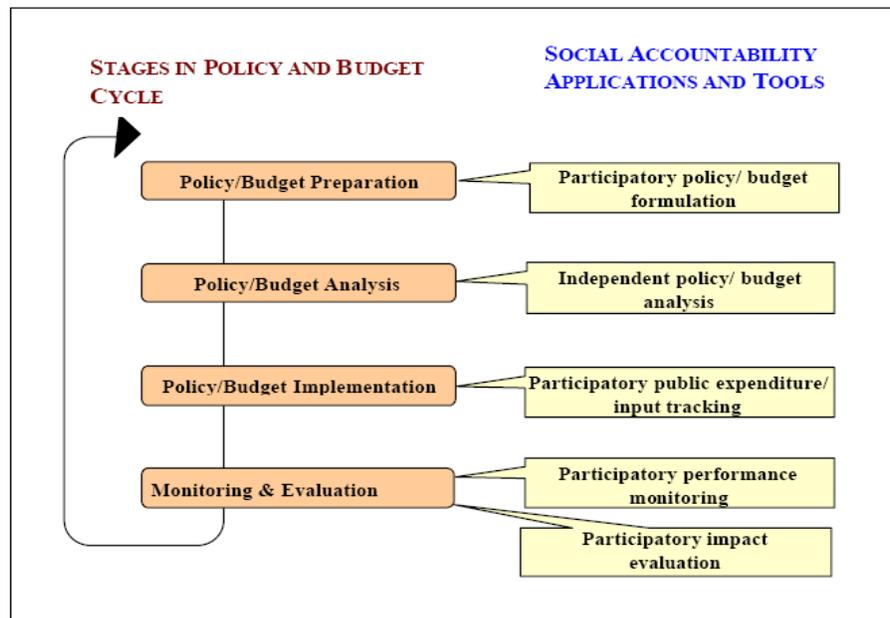
The WDR04 explores two routes through which citizens or clients can exert accountability. Expressing *client power* is considered the *short route to achieving accountability* because beneficiaries exert direct influence and power over services, affecting service delivery without going through the state. Expressing *voice* is considered the *long route to achieving accountability* because it involves citizens trying to influence service delivery via the state and its social policy.

<sup>5</sup> World Bank (2004).

Both types of participation are important parts of the practice of *social accountability*, defined as the range of efforts by which citizens express their voice, engage in direct management or monitoring of public services, and/or participate in service delivery (Goetz 2003). This study focuses primarily on voice, since the OP is a mechanism of voice through which citizens engage in a participatory process aimed at influencing public expenditure.

**The World Bank has identified a set of *social accountability* mechanisms and practices that are implemented by civil society at different stages of the public expenditure cycle.**<sup>6</sup> These mechanisms can be tailored to each stage of the budget cycle and provide an entry point for voice in municipal decision making. Civil society organizations, independently or in conjunction with local and national governments, have engaged in participatory processes to influence decision making in planning and budget preparation, budget analysis and resource allocation, and expenditure tracking and the monitoring of service delivery (see Figure 4). The OP was designed as a mechanism to inform the first step in the budget cycle. However, the process can potentially be expanded to cover other stages of the cycle, such as analysis of the government budget as a whole and oversight of expenditure quality.

**Figure 4. Mechanisms for social accountability throughout the public expenditure cycle**



**The effectiveness of participatory accountability mechanisms to improve public decision making depends on inherent factors related to the *quality of voice*.** If citizens' voice is not representative or badly informed, it will not make a positive contribution to improving accountability and development effectiveness. The success of participatory accountability mechanisms hinges on an enabling environment for civic engagement.<sup>7</sup> This study examines the OP in Porto Alegre as a mechanism for the articulation of voice and attempts to assess its contribution to enhanced accountability and better governance throughout the public expenditure

<sup>6</sup> See Carmen, Foster, and Singh (2004).

<sup>7</sup> See World Bank (2003).

cycle. The framework applied here identifies three analytical dimensions of the *quality of voice* in the Porto Alegre OP:

- **Inclusiveness.** Do a range of social actors participate in the process, especially groups that have traditionally suffered from exclusion? Are there barriers to the participation of certain groups? What are the incentives to participate? What is the “cost” of participation and are the necessary minimum resources available for participation?
- **Legitimacy.** Is the OP process itself considered fair, credible, and lawful? Are participants autonomous or are there risks of patronage, capture by internal leadership, or cooptation by the municipality and/or political parties? What is the internal accountability of the process itself? Does the OP actually influence budgetary decision making?
- **Information.** Do citizens have easy access to timely, relevant, and reliable information in order to participate constructively in the process? Do deliberation and debate in the context of the OP improve the quality of projects and their prioritization?

**In addition to inherent factors, the ability of voice to influence decision making and impact development outcomes depends on broader political economy factors and the insertion of voice within the existing governance scheme.**<sup>8</sup> Representative democracy is in itself not a guarantee for good governance. Acemoglu, Ticchi and Vindigni (2007) have modeled the emergence and persistence of inefficient states based on a theory of how patronage can affect the transition to democracy. Under certain circumstances, by choosing inefficient state structures an established elite may be able to use patronage and capture democratic politics. This enables them to reduce the amount of redistribution and the provision of public goods in a democracy. Moreover, an inefficient state creates its own constituency, which contributes to its persistence over time. This governance scheme leads to a political equilibrium that explains the survival of inefficient and captured states in formal democratic frameworks.

**The de jure and de facto exercise of power by a new political coalition is essential for breaking an old equilibrium.** When a new political coalition comes to power in a democracy, its incentive is to break the old political equilibrium, reform the state structure, and make it more efficient, thereby enabling the state to collect higher taxes at a lower cost, lower bureaucratic rents, and allocate public investment to meet the priority needs of coalition constituents. Acemoglu and Robinson (2006) suggest that this type of reform can only be undertaken when there is reasonable consistency between the exercise of *de jure* and *de facto* political power. Their paper offers a rich conceptual basis for situating OP in the context of the political economy of a transition from a system of elite capture to one of more broad-based democratic politics. As the authors argue, changes in the *de jure* institutional setup may not translate into an altered *de facto* balance of power, since established elites are in a better position to maintain *de facto* power. Even when an electoral process brings about changes in the *de jure* balance of power, established elites can attempt to maintain their *de facto* power by intensive lobbying. Broad-based participation can

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<sup>8</sup> In Williamson’s (2000) categorization, governance represents the third level of institutions. The first level consists of basic social customs, norms, and religion, and takes centuries to change. The second level encompasses the cornerstones of the institutional environment, such as constitutions, and can change more rapidly than the institutions comprising the first level. The third level refers to the actual rules that govern transactions and organizations and make up the governance scheme. Finally, the fourth level comprises routine economic transactions.

serve to help newly elected officials to strengthen *de facto* power and break instances of elite capture.

**Participation mechanisms that encourage collective action from the constituent base and channel this voice to guide decision making can be a powerful tool for legitimizing reform programs.** These participation mechanisms can take different forms and have varying degrees of formalization, ranging from loose consultative processes to structured co-management arrangements. The Worker's Party (or *Partido dos Trabalhadores*, PT), which was newly elected to a number of municipalities in Brazil in the 1980s, experimented with different degrees of formalization for participatory mechanisms. In some municipalities, the chosen method to encourage collective action included participatory planning schemes and different types of consultations. In Porto Alegre and other Brazilian municipalities the PT chose to formalize participation to a greater extent, instituting an OP upon coming to power.

**The creation of the OP in Porto Alegre provides an example of a case where municipal governance structures formalized participative processes in order to upset the old political equilibrium.** This formalized participation helped ensure that the feeble *de jure* power obtained by the new political coalition through elections was complemented by a collective action mechanism such as the OP, which strengthened its *de facto* power. Through the OP the executive branch of the municipality opened up the budgetary process to formalized participation from the population. As a result, Porto Alegre instituted a mechanism whereby investment priorities decided by OP participants are incorporated into the official budget that the mayor presents to the municipal council for its approval.

**Formalized vs. *ad-hoc* types of participation.** In the majority of municipalities participation occurs in an *ad-hoc* fashion and is not subjected to pre-established rules. The effectiveness of each type of participation is debatable. A model developed by Dixit (2003), which examines the benefits of moving from an informal governance system to one that is based on rules, can help explain when each of the two models works more effectively to meet expected governance results. Although Dixit's paper focuses on trade transactions, its conclusions offer insight into public sector governance. The paper concludes that informal governance arrangements work for small communities, whereas a (costly) external system of governance is necessary in larger ones, even though the payoff of such a system may not be larger than that of a smaller one. Applying these conclusions to the OP, one can infer that a small community is in lesser need of a rules-based system to determine resource allocation since everyone has relatively equal access to decision makers and the latter are, in turn, aware of citizen preferences (i.e., their investment needs). In a large city, however, resource allocation decisions are more difficult and there is a benefit to creating a rules-based system of participation that ensures voice is more evenly distributed, although this system comes at a cost.

**Better social outcomes and higher fiscal efficiency are the expected results of OP.** Assuming that participation in the OP process in Brazil brings decision making closer to each neighborhood through a rules-based process, it is possible to expect, using this framework, an increase in income distribution and an improvement in fiscal management, unless some form of "capture" occurs in the participatory process. The underlying assumption of this study is that the introduction of OP will change municipal governance by increasing budget transparency and accountability and empowering the poor to voice their public investment preferences through a process regulated by pre-established rules of engagement. The argument is that formalized

popular participation in budgetary process in large cities will lead to: (a) better social outcomes, since opening a channel of participation to all citizens (not just the elites, where lobbying power is concentrated) can ensure that government spending corresponds more closely to the actual investment needs of the poor; (b) more efficient fiscal policy, as citizens should be more willing to pay local taxes when they have more control over allocation decisions, and the incentives for elected officials to improve tax collection are also greater when a broad base of citizens has concrete public investment expectations; and (c) lowering the incidence of corruption, as local government expenditures will become more transparent. This study aims to investigate how these assumptions have played out in Porto Alegre by responding to the five key concerns about OP performance presented at the beginning of this Introduction.

## **Methodology**

**The methodology of this report draws on recent work on social accountability and governance.** It involves an analysis of five key dimensions of the OP: (i) the participatory process and conditions that determine the quality and inclusiveness of citizens' voice; (ii) the upstream interface between OP and fiscal management; (iii) the downstream effects of OP on the entire policy and public expenditure management cycle; (iv) the potential and limits of articulating a system of social accountability, together with other participatory spaces; and, finally, (v) the correlation of OP with both fiscal and social outcomes.

**The report uses a combination of qualitative and quantitative methods and has benefited from an iterative process of dialogue with key stakeholders.** The stakeholders were involved from the design phase through the presentation of research findings; their input has been incorporated either as part of the analytical inquiry or as evidence. More specifically, the chapters use the following methods:

- Chapter 1 examines the extent and quality of OP participation by drawing on a representative survey of Porto Alegre households, as well as semi-structured interviews and organized focus groups with OP participants and non-participants alike. The survey data took into account regional characteristics in order to ensure fair representation of players within each stakeholder group and a proportional number of players across all stakeholder groups.
- Semi-structured interviews and focus groups were instrumental in establishing sound stakeholder analysis for the study, as well as uncovering and discussing issues of inclusion, governance, and management constraints of the OP model. A new survey was conducted in Porto Alegre in December 2006 for the purpose of this report with a representative sample of 1,000 people and a control group of 300 OP participants. The survey yielded valuable information about the OP and disaggregated OP participants by region, sex, age, and income group.
- Chapter 2 analyzes the interface between OP and municipal fiscal management by reviewing data on municipal fiscal and management reforms, municipal finances (i.e., fiscal discipline, resource allocation efficiency, etc.), and public accountability systems (i.e., strategic budget planning, budget formulation, resource management, internal checks and balances, accounting and reporting, external audits, etc.). This longitudinal analysis of 15 years is limited only to data relevant to the evolution of

the OP process in Porto Alegre, especially data from budget headings and items that have had greater leverage in the participatory budgeting process and are critical to the delivery of public services.

- Chapter 3 examines the downstream effect of the OP on the broader system of social accountability by using institutional analysis, as well as quantitative and qualitative methods employed in Chapter 2.
- Chapter 4 analyzes the OP within the broader framework of participation and demand for good governance. It also looks at the potential of the OP to strengthen the system of social accountability in Porto Alegre, using the same methods employed in chapters 1 and 2.
- Finally, chapter 5 uses econometric tools to undertake a counterfactual analysis of the impacts of OP on fiscal and social outcomes in a group of more than 150 Brazilian municipalities that have implemented OP, as well as specifically in Porto Alegre.

# Chapter 1. Quality of Participation in the OP

**This chapter focuses on how to improve the *quality of voice in the OP***, that is, how to reduce the extent to which particular social groups are excluded from the process and the effects this exclusion has on OP outcomes. Analysis of the quality of participation in the OP process is a decisive element for verifying its sustainability. Furthermore, the chapter analyzes the information available to citizens on the OP and whether and how that information and citizen understanding thereof could be improved. Specifically, the chapter examines:

- who participates in the OP at different levels of representation and the obstacles to their participation;
- the legitimacy of the OP, i.e., the autonomy of its agents and the internal accountability of the process;
- the quality of information provided to OP participants; and
- the extent to which the OP has been able to influence decision making.

Finally, the chapter offers specific recommendations for improving the quality of voice and participation in the OP.

**This chapter relies on quantitative and qualitative research methods**, including a number of surveys conducted on the OP, including one on OP participation completed in December 2006 specifically for this study. It also draws on focus group interviews conducted with groups of OP participants and non-participants alike, as well as interviews with individuals.<sup>9</sup>

## 1.1. Who participates in the OP?

**This section focuses on the degree of OP inclusiveness** by examining the OP participation rates of different groups in society over time (including their level of representation) and the main obstacles to their participation, including measures taken by the municipality to enhance OP inclusiveness.<sup>10</sup>

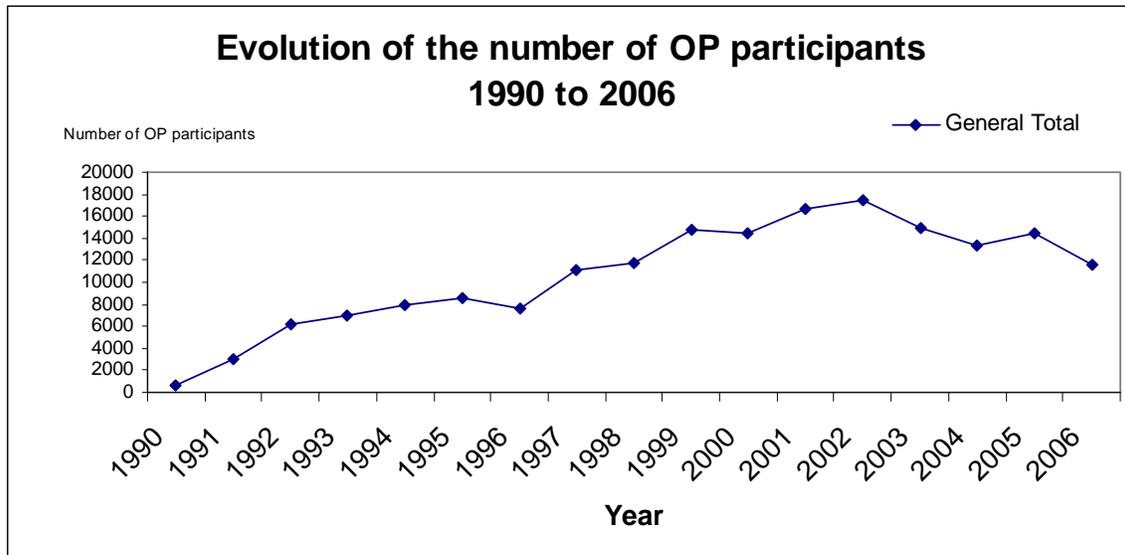
**The number of OP participants grew rapidly during the early years of implementation. More recently, participant numbers have declined and stabilized at around 11,000 participants per year.** Participation grew from 628 people in 1990 to over 6,000 in 1992 (see Figure 5). From 1993 to 1996, the number of participants stabilized at around 7,000, before a new wave of expansion started in 1997, reaching an apex of 17,000 in 2002. Since 2002, participation has fallen to the levels of 1997, declining to 11,500 in 2006. The financial crisis of 2002 and the resulting backlog of approved OP investments are plausible explanations for the reduction in participation since 2002.

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<sup>9</sup> See Annex 2 for Guidelines for the Focus Group.

<sup>10</sup> For a comprehensive discussion of participation in the OP, see Fedozzi (2007).

**Figure 5. Number of OP participants in Regional and Thematic Assemblies, 1990-2006**

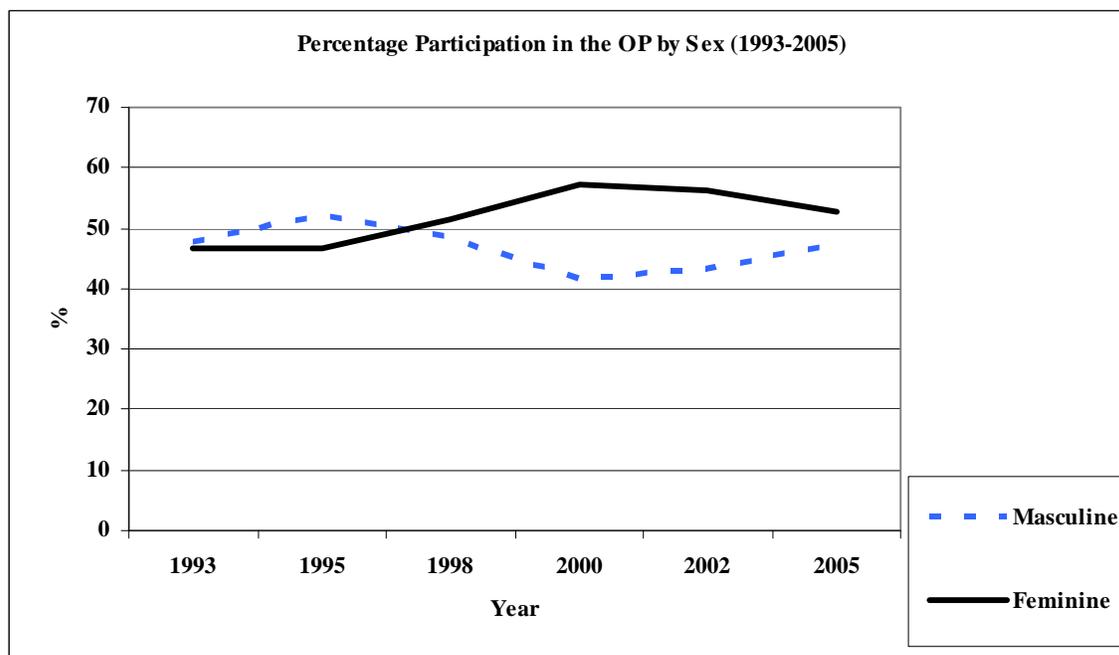


Source: Municipality of Porto Alegre.

**Although not all social groups display the same level of participation in the OP, overall participation is significant.** In general, OP participants tend to come from lower-income households, be older, and have low-to-medium levels of education. However, despite the under-representation of certain groups (such as the very poor), the involvement of large numbers of citizens in discussions of the public budget reveals an interest in participation. The survey conducted for this report found that 19.8 percent of Porto Alegre residents had participated in the OP at some point in their lives through 2006.

**Men and women participate equally in the OP and in recent years, women have reversed the trend of under-representation at higher levels of representation.** Historically, public attendees of OP community assemblies have consisted of a fairly equal number of women and men, but females tended to be under-represented in the COP (*Conselho do Orçamento Participativo*, or Participatory Budgeting Council) and the delegates' forum. However, the situation began to change in 1998. By 2005, women participants for the first time slightly outnumbered men participants (52.8 percent), as did women councilors (53.5 percent) and women delegates (52.4 percent). Women also outnumber men in the regional fora (54.5 percent), while men outnumber women in the thematic councils (53.2 percent). Of note, participation rates vary by topic—women make up the majority of participants in the thematic council on health and social assistance (80 percent), while men make up the bulk of participants in the council on economic and tributary development (70 percent). Overall, OP representation rates reflect Porto Alegre's demographic structure, as shown in Figure 6 (IBGE 2000).<sup>11</sup>

<sup>11</sup> Since 2003, the minimum share of 50 percent female participation in the COP and Forum of Representatives has been treated as a recommendation, not as a compulsory rule.

**Figure 6. OP participation by sex in Regional and Thematic Assemblies, 1993-2005**

Source: Fedozzi (2007).

**Participation among women varies according to marital status; married women are rarely elected councilors or delegates.** A survey conducted with the participating public in 2005 indicated that female councilors are predominantly single (62 percent), while male councilors are mostly married (71.4 percent). Among delegates, a considerable share of women are widowed or separated, while males are predominantly married (57.7 percent). This indicates that while women as a whole are represented in the OP, married women are rarely elected delegates or councilors, perhaps due to time constraints or a patriarchal culture. Some of the concrete barriers to greater participation that were identified by married women included the late evening time of the meetings, childcare obligations and the perception that the OP does not provide a space for the discussion of gender issues.<sup>12</sup>

**Data about the ethnicity of OP participants indicates higher rates of participation among Afro-Brazilians, indigenous people, and Brazilians of Asian descent, while those who identify themselves as white are under-represented.** While Afro-Brazilian participation was low in 1995, their reported participation rates have doubled since that year, a finding that could signify an increase in their participation or a change in ethnic consciousness.<sup>13</sup> Surveys conducted in 2000 and 2002 indicated that indigenous people and Asian-Brazilians were over-represented relative to their share of the population in the 2000 census. Those who identified themselves as white were under-represented at both the assembly level and as councilors and delegates. Higher participation rates among ethnic minorities are a positive indication of social inclusion, since their participation is assumed to counterbalance power inequalities present in Brazilian society. However, it should be noted that the OP attracts participants who are more inclined to identify themselves as belonging to a minority group.

<sup>12</sup> See Annex 5 for complete survey tabulation.

<sup>13</sup> See Annex 5.

**Table 2. OP Participation according to age, 1995 -2005 (percent)**

Age	1995	1998	2000	2002	2005	Council members (2005)	Delegates (2005)	Population (IBGE 2000)
16 to 25	15.8	17.3	17.6	19.5	19.0	1.7	8.1	24.3
26 to 33	19.1	15.1	16.4	17.4	15.0	6.0	8.3	15.9
34 to 41	23.0	22.7	20.4	19.9	16.7	12.9	19.3	16.7
42 to 49	18.8	19.4	18.6	18.6	21.7	35.3	26.9	13.8
50 or +	22.4	25.2	25.9	24.5	27.6	44.0	37.4	29.3
N/R	0.9	0.3	1.1	0.1	0.0	-	-	-
Total*	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Fedozzi (2007).

Notes: N/R – no response.

\* Size of the sample surveys was 10 percent of total participants. The sampling error is  $\pm 2.4$ .

**On average, youth are underrepresented in the OP, although in recent years the share of youth participation has increased over time.** Historical data indicate that the participation share of youth aged 16–25 has risen moderately over the last decade, from 15.8 percent in 1995 to 19 percent in 2005. Similarly, the participation share of those aged 50 and older has slightly increased, while participation by the middle age bracket (ages 34–41) has fallen.

**Time requirements are a likely reason for the under-representation of younger citizens, especially among councilors and delegates.** A survey conducted by this study in 2006 of 44 current and former councilors showed that participation in the OP is time consuming. The majority of delegates devote between 4 and 8 hours per week to the OP; 21.4 percent spend more than 12 hours per week. The amount of time required to participate in the OP, especially at higher levels of representation, is likely a barrier to participation for under-represented groups such as younger people who are in full-time employment.

**Table 3. Time devoted to OP by councilors, 2006**

Time spent	%
Up to 4 hours per week	23.4
Between 4 and 8 hours per week	40.4
Between 8 and 12 hours per week	12.8
More than 12 hours per week	21.4

**Although the middle-aged and elderly make up a significant share of OP participants, especially councilors, their presence has not translated into specific demands for their age group.** The relative over-representation of older participants is even more pronounced when the age distribution of delegates and councilors is analyzed: people aged 50 years or older represent

almost half of elected council members (43.96 percent).<sup>14</sup> Despite their relative over-representation, the OP has not focused on issues of special interest to this group, as the Municipal Council for the Elderly (COMUI) maintains. Participants seem to represent localized demands rather than sectoral issues, such as health. In fact, the methodology of the OP appears to disadvantage sectoral issues, as one community member observed during a focus group meeting, “*We aren’t able to gather enough elderly to vote; each community gathers a lot of people due to the demands of the location, but not specifically elderly people.*”

**Data on working hours presents two clusters of participation, suggesting that councilors have long, albeit flexible, workdays.** A considerable share of OP participants reported being without remunerated work (over 30 percent), while a comparable share reported working 40–48 hours per week (over 35 percent). Among those who had participated for 5 years or more, a significant share worked 40–48 hours per week (41 percent). Workday data did not reveal differences between delegates and councilors, although councilors tended to have long, if flexible, work days.

**The under-representation of youth is especially severe at delegate and councilor levels,** where only 1.7 percent of youth ages 16–25 have been elected councilors and only 8.1 percent as delegates. Those aged 33 and younger have comparable representation levels. Participating youth are predominantly male and their participation is higher in regional (20.3 percent) than thematic (13.9 percent) assemblies. Student participation in the OP is around 4 percent overall, with 0.9 percent of this group elected councilors and 1.2 percent, delegates (Fedozzi 2007). The OP has been criticized for not involving youth more actively. In the words of one interviewee, “*the OP doesn’t involve enough youths and they’re not encouraged to be part of it.*”<sup>15</sup>

**Youth also identify the content and format of meetings as disincentive to broader youth involvement.** Some youth complained about the lack of a systematic discussion of public policies relating to youth in the OP as a reason for their non-participation. While youth groups have created a Youth Forum and have held sub-meetings in the thematic assemblies, these strategies appear to have yielded only limited results. The hip-hop movement, which is primarily comprised of poor youth from the suburbs, is one of the rare exceptions of a youth group that participates in the OP. Young people are most actively involved in the thematic assembly on culture, where they represent 30 percent of all participants.

**In terms of educational level, the majority of OP participants have completed primary education.** A survey conducted in 2000 found that the majority of participants (55.1 percent) had either completed primary education or more, which was close to 53.35 percent in the 2000 census (IBGE 2000). The most recent survey of 2005 showed that the share of participants with primary education or more now accounts for more than 63 percent of OP participants (see Table 4). A comparison of participant education levels in 2000 and 2005 with demographic data (IBGE 2000) shows that people with higher education and people without education or with incomplete primary education were under-represented in the OP. Data also indicates differences in educational background across OP fora: in 2005, more than 60 percent of participants in thematic fora either had completed secondary education (36.8 percent) or had a complete or incomplete higher education (27.7 percent); the figures for regional assemblies were significantly lower (Fedozzi 2007).

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<sup>14</sup> Fedozzi (2007).

<sup>15</sup> Interview with Alemão Guar, leader of the Hip-Hop Movement and OP participant.

**Table 4. OP participation by level of education, 1995-2005<sup>16</sup>**

Levels of Education (%)	1995	1998	2000	2002	2005	Council members (2005) - %	Delegates (2005) - %	Population (IBGE 2000) - %
Without Education	5.5	3.0	4.7	3.8	1.5	0.0	0.0	6.56
Literate	-	-	2.1	2.6	1.2	-	-	-
<b>Primary School incomplete</b>	37.0	46.0	34.3	44.4	33.4	19.8	28.3	40.09
<b>Primary School complete</b>	12.1	12.2	10.9	13.3	14.3	3.5	15.7	7.62
Secondary incomplete	12.6	7.5	10.4	7.8	11.8	14.6	10.3	8.88
Secondary complete	18.6	13.1	13.7	16.0	22.0	35.4	27.7	15.47
<b>Higher Education complete and incomplete</b>	14.2	16.1	20.1	12.0	15.5	26.7	18.0	21.38
N/R	-	2.0	3.8	0.1	0.4	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Fedozzi (2007). Note: N/R – no response.

**Complexity of language used and a limited understanding of the OP process are perhaps the most severe barriers to participation for youth and those with low educational attainment.** Producing materials that are sufficiently accessible to these groups has been a significant challenge, given the technical complexity of the budget. These groups also show limited understanding of how the OP functions. Hence, the lack of a comprehensive learning methodology and capacity-building initiatives are also severe barriers to expanding OP participation and enhancing its quality. The percentage of people who have been participating in the OP for 2 to 4 years and do not have knowledge of OP rules remains high (40 percent). The share of participants who know only a few rules is even higher (45 percent). Those with secondary and higher education, however, tend to understand the rules (over 50 percent). Conversely, those with incomplete primary education tend to declare that they do not know the rules. These figures point to an absence of an effective pedagogic methodology for ensuring full mastery of the rules, which is a serious concern for the sustainability and legitimacy of the process.

**Delegates and councilors tend to have higher levels of education and income compared to other participants.** The series of abovementioned OP participant surveys reveals that contingents with lower education and income are not adequately represented at delegate and councilor levels. According to a survey conducted in 2005, for example, 47.7 percent of participants had a basic education, but only 23.3 percent of this group was elected to the COP (Fedozzi 2005). Representation of those with lower levels of schooling is higher among delegates. This finding has significant implications for the learning opportunities offered by the OP process.

<sup>16</sup> Size of the sample surveys was 10 percent of the total number of participants. The sampling error was  $\pm 2.4$ .

**Overall, OP participants report low household incomes; higher-income groups are proportionally under-represented and their participation continues to fall.** While 31.1 percent of participants reported household incomes valued at up to 2 minimum salaries (MS) in the 2000 census, 63.2 percent of OP participants fell into this income bracket in 2005. Conversely, data indicate disproportionately low levels of participation among higher-income groups. The share of OP participation among groups earning more than 10 MS is 10.9 percent. Comparisons with historical data on the household income of OP participants indicate a relative increase of participants with up to two MS (from 39.4 percent in 2003 to 63.2 percent in 2005). Conversely, the share of participants with incomes over 12 MS has fallen by half in recent years, from 7.2 percent in 2002 to 3.4 percent in 2005.

**As with household income levels, differences exist according to the forum.** Participants in the regional assemblies reported lower incomes than those who participated in thematic assemblies, with 42.5 versus 53.6 percent reporting incomes of up to two MS. Similarly, 15.5 percent of participants reported having a household income of over 8 MS in the thematic assemblies, compared to 9.3 percent in the regional assemblies. The observed drop in the participation rate of high-income groups raises questions about the continued support of the OP process by different sectors of the population, as well as the capacity of the OP to express the needs of the city as a whole.

**The poorest sectors of the population identified the opportunity cost and expense of participation as obstacles to their participation.** Overall, the consensus is that the OP is a model that does not present barriers to entry either for the poor or those who are not politically organized. However, the extremely poor<sup>17</sup> identified transportation costs, such as bus fares and forgone earnings, as barriers to their representation of their community as councilors or delegates. One community leader from the Santa Terezinha neighborhood, who collects paper for recycling, stated: *“I was invited to be a councilor, but I turned it down. When I go to the meetings, I’m not able to work so much. Somebody from the village pulls my cart to help me, but it is never the same thing. However, I don’t want to abandon the process.”*

**This explanation likely applies not only to collectors of recyclable waste, but to all of the poorest population sectors, which may find transport and opportunity costs an obstacle to participation at higher levels of representation.** If one assumes that the poor earn one minimum salary (R\$360) per month for 200 hours worked, 8 hours of participation in the OP per week would translate into a cost of R\$58 per month, or one-sixth of the income of a household living on one minimum salary. Representing one’s community as a delegate or councilor therefore increases the opportunity cost of the very poor.

**Those who belong to lower-income families (incomes of up to 2 MS) are less represented at the councilor level.** Those elected to councilor functions tend to fall into the income ranges of 2–4 and 4–8 minimum salaries, indicating that the very poor are rarely elected to these positions, perhaps due to the opportunity cost of participation. Interestingly, there are fewer differences among delegate income levels and the distribution among them is more in line with general OP participation.

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<sup>17</sup> About 7 percent of the city’s population has a monthly household income of between 0.5 to 1 minimum salaries (i.e., R\$160–R\$320, or US\$80–160). IBGE (2000).

**Lower participation by wealthier income groups is likely due to the fact that (i) the economic incentives for their participation are weak and (ii) they perceive the OP as a mechanism for the poor to demand basic services, rather than a mechanism for addressing complex issues such as public security.** One middle-class focus group interviewee stated, *“Low-income neighborhoods participate much more, because people with open sewers are going to try to obtain public works.”* Participation in the OP is thus inextricably connected to basic needs: *“They [the poor] have many more needs; they believe that their voice is really going to bring about improvements. But the middle and upper classes do not think so. It is not worth going there to argue.”* Residents of wealthier neighborhoods appear to doubt whether the OP is a viable mechanism for addressing complex issues that go beyond basic services: *“The lower-class people participate because the matters that are resolved faster are basic sanitation and infrastructure. . . I imagine that what we in the middle would like is public safety—more complicated things—from [the] OP.”*

**The non-participation of higher-income groups can also be attributed to their perception that the poor are in greater need, as well as the challenges of mobilizing the heterogeneous interests of the better-off.** Higher-income groups recognize that basic service provision is a priority in low-income neighborhoods: *“People do not consider the claims of [wealthy] neighborhoods to be a priority. I don’t think they have the same urgency as the poorer neighborhoods do. . . . They have open sewers. . . therefore I think they have a greater priority.”* They also acknowledge the difficulties of mobilizing higher-income neighborhoods: *“The middle class does not organize itself to participate. That is cultural.”* Or, *“It’s not even worth it for people to go. What is going to happen is that there is going to be half a dozen middle-class people wanting something such as safety, health, or something like that and about 800,000 people wanting basic sanitation.”*

**Expanding the scope of discussion topics to include issues of strategic importance for the city, as well as oversight of public expenditures, would capture the interest of higher-income non-participants.** As one interviewee noted, *“It would be very interesting if. . . people could participate in the sense of discussing public policies that would, for example, generate income, because this moves the economy, promotes development, and would end up affecting our companies.”*<sup>18</sup> Greater emphasis on the supervision of public expenditures would also stimulate greater participation of middle-income sectors. Another interviewee noted, *“Everyone is united in wanting to supervise. Everyone is united. It is not me wanting something for my neighborhood, you for your neighborhood. Everyone (is) wanting things to be done correctly, so as to save money for us.”*

**Although the creation of thematic assemblies in the mid-1990s was intended to broaden OP discussions to include strategic issues and thus attract the participation of middle- and high-income groups, this strategy has failed.**<sup>19</sup> Thematic assemblies were created as a forum to discuss strategic issues and facilitate discussions less driven by localized demands. However, analysis of the investment discussions over the past two years shows little variation between the content of the discussions in the two types of assemblies. Thematic assemblies do not serve as a space for discussion of strategic municipal sector policies and have thus failed to attract groups that feel the OP does not concern them, such as entrepreneurs.

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<sup>18</sup> Interview with a local business leader, January 2007.

<sup>19</sup> The thematic assemblies discuss: (i) transport and traffic; (ii) health and social assistance; (iii) education, sports, and leisure; (iv) economic development, taxes, and tourism; (v) organization of the city, urban and environmental development; and (vi) culture.

**Other strategies to attract these groups have also failed to yield substantial results.** Initiatives by the municipality to stimulate the participation of these groups have focused on advertising campaigns at the beginning of the annual OP cycle, inviting the population to participate via local newspapers, the radio, and television spots. In 2002, the municipal government also reached out to specific groups and sectors, visiting leading business entities and universities to formally invite them to participate.<sup>20</sup> However, these efforts have not been very successful.

**The location of regional assemblies has been identified by higher-income groups as a barrier to participation; some also suggest giving meetings a more attractive format.** One focus group interviewee summarized what is needed to attract the middle class as follows: “A bigger venue, parking, somewhere safe. Because the neighborhood associations are generally located near poorer areas, wealthier people are probably intimidated to go. A more neutral location would certainly attract more people.” Linking OP meetings with cultural activities was also suggested to attract a broader set of participants. A young music student suggested that a different format “can attract more people. . . Maybe it can be a concert of a local artist where more is achieved when something happens afterwards.”

**Among middle- and high-income groups, some people perceive the OP as an overly political process, although these perceptions seem to have softened recently.** Some interviewees identified political and ideological considerations as a reason for their non-participation, viewing the OP as a mechanism inextricably associated with the Worker’s Party. The leader of the Union of the Civil Construction Industry summarized this view: “In my opinion and in the opinion of those people that I know and who did not and do not participate in the OP, the latter became a much more political instrument than an instrument for societal participation. Then these people, mostly the middle class, distanced themselves and ended up not going. Since it was a political instrument, it ended up being used politically, distancing many people from it.”<sup>21</sup> Although this view appears to have softened since the new administration took over, the participation rates of these income groups remains unchanged. In the words of one entrepreneur, the OP “now, in this current administration, seems to have changed a little. . . It seems that the current administration treats it. . . like an instrument of society.”<sup>22</sup>

**Given the preponderance of lower-income participants, the bulk of OP participants are unskilled workers—certain professional groups, such as entrepreneurs, are under-represented.** About a quarter of participants describe their occupation as unskilled manual labor. Students and teachers make up almost 10 percent of participants. There has been a significant increase among those who report working in the informal sector over the years, from 1.4 percent in 1998 to 4.7 percent in 2005. Yet the participation rates of micro entrepreneurs fell from 1.7 percent in 1998 to 0.27 percent in 2005, while larger entrepreneurs made up less than half of one percent (0.47 percent) of participants in 2005. Professional groups that have shown a decline in participation over the same period include civil construction workers (from 5.3 to 2 percent) and maids and nannies (from 12.8 percent to 6.6 percent). The percentage of participants who are unemployed or public servants, on the other hand, more than doubled between 1995 and 2005. The participation of retirees also remains significant—nearly 10 percent in 2005.

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<sup>20</sup> Interview with João Verle, February 2007.

<sup>21</sup> Interview with the leader of a local entrepreneurial organization, January 2007.

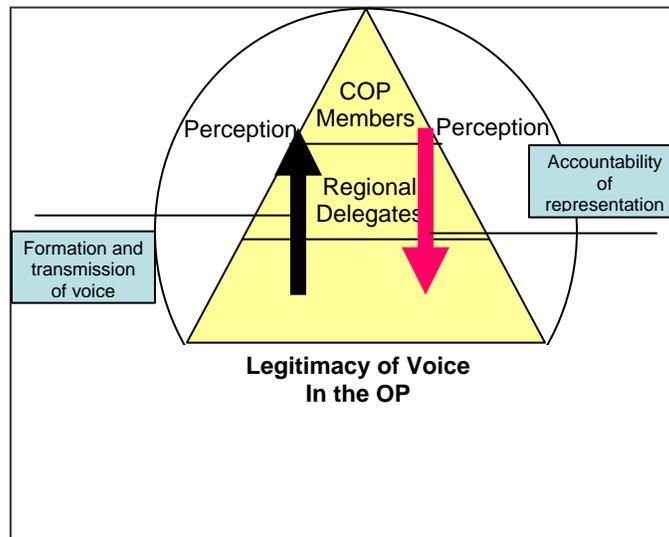
<sup>22</sup> Ibid.

**The involvement of different municipal secretariats in the OP process fluctuates, reflecting the nature of the public work projects being planned and executed.** The degree of involvement of different municipal bodies in the OP depends on the priorities established by the communities. However, certain bodies (e.g., the Municipal Secretariats of Finance [SMF] and Administration [SMA]), do not have a systematic relationship with the OP due to the nature of their activities and the specific characteristics of the OP process. Data indicate that the presence of the municipal secretariats at OP meetings peaked in the period 1997–2000 and declined thereafter.

## 1.2. How Legitimate is the OP?

**This section discusses the legitimacy of representation in the OP process.** This legitimacy involves three main dimensions: the authenticity of the process of formation of voice and its transmission upstream; the downstream process of accountability to the broad base of OP participants and the city as a whole; and the perception of credibility by the population and different social actors (see Figure 7). The following paragraphs examine how these dimensions play out in the OP, based on the survey, interviews, and focus groups conducted for this study, as well on existing literature and analytical contributions.

**Figure 7. Legitimacy of representation in the OP process**



### *Formation and Transmission of Voice*

**The participation model of the OP favors the autonomy of participating agents in the formation and upstream transmission of voice.** One of the main controversies in the debate that led to the design of the OP in the years 1989–1992 was the choice between: (i) a participation model characterized by direct and open participation of individuals, combined with representation of organized expressions of civil society, and (ii) a corporate model limited to the involvement of representatives of social entities, such as neighborhood assemblies (NAs). The prevalence of the first model is considered a positive factor by most studies of the OP (Abers 2000; Baierle 2000; Baiocchi 2001; Goldfrank 2001; Gret and Sintomer 2002; Fedozzi 1997; Menegat 1995; Silva 2003) for the following reasons:

- The participation model put an end to the monopoly of civil society representation exercised by the NAs, reduced the influence that political parties could have on the OP (via its social base), and diminished the control that traditional leaders could assert over delegation processes (i.e., through the NAs and other pre-existing forms of social organization). People who share this perspective opposed attempts to ensure a predominant role for the NAs, which was defended at the time by the Union of Neighborhood Assemblies (UAMPA),<sup>23</sup> to the detriment of the plurality of individual representation and the emergence of new expressions of civil society, which surged markedly at the end of the 1970s. These civil society movements included such organizations as Mother’s Clubs, Popular Councils, Street Commissions, leisure, sport and/or recreation organizations, and entities organized by specific subjects (e.g., children, the handicapped, ethnicities, etc.). In short, the representation model selected expressed the real complexity of Brazilian society.
- The participation model also diminished “barriers to entry” to the OP and, therefore, to an institutionalized relationship between citizens and the local government, by including groups that normally did not have the capacity or capital to organize formal collective action.
- Individual and open participation allowed direct interaction among people who lived in different neighborhoods, and between people and their local governments, reducing the intermediation that would occur when roles are delegated to leaders of social entities. This aspect of participation is associated with learning experiences that result from bringing together people who do not know one another and, therefore, possibly increasing their social capital.

**Despite the fact that a direct participation structure was adopted for the OP at its founding, the controversy over this structure has not come to an end.** Community leaders still consider the real impact of the OP on the associative realm of the city to be ambiguous. For some, the OP reduced the power of patronage exercised both by City Council members and representatives of a number of formal civil-society organizations. For others, open access to the OP weakened the associations because it stimulated direct participation outside these entities. These two positions were bluntly expressed by civil society leaders who participated in a focus group conducted for this study (see Box 2).

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<sup>23</sup> União das Associações de Moradores de Porto Alegre, founded in 1983.

**Box 2. Focus group views on the OP participation model**

“It [the OP] . . . took the power of patronage from the members of the City Council. . . . It put an end to all that. I think the OP is a wonderful way to democratize and include people in decisions regarding how public funds should be spent. **Another thing it did was demystify a number of entrenched associations. The OP doesn’t necessarily need to go through an association that isn’t even involved in its community—one that is just entrenched there and doesn’t even go beyond the little structure it has anymore.** For me, this cycle has been broken. The OP has a new criterion: any organized group can call an assembly, put forth a demand, fight for it, and succeed. I think this is a very positive point made by the OP because we began to realize that we could become a movement, as long as we’re organized and not tied down to a structure.”

—Nelsa, Former OP Councilwoman, and Director,  
UNIVENS Cooperative Social Movements Focus Group

“**[There were] entrenched associations in my own community [but] when the OP began and I first became aware of [it], I entered directly into the budget meetings without being from an association or anything—I became a delegate to the OP.** I entered the OP to find out what it was really all about, because until then, people said the OP was an institution using a particular acronym to manipulate the people and to some extent I agree with that, because if Nelsa can go into the community, just like Laura can go and get 30–40 people and get them to participate. . . . then it establishes a certain [claim]... I[n] my region, we had our share of victories, but it was within the organized form of our association, neighborhood groups, the church—all of us united for the sake of a demand that was obtained in 1996 and came out in the year 2000. It was won, but there had to be continuity in the struggle, keep up the pressure; that’s where the associative question comes in, of us having to go there and do it.”

—Ivani, Social Movements Focus Group

“**I believe the OP . . . emptied the community associations, that the community association leaders had the role of addressing the demands of their communities.** The OP did not require that demands go through an institutional route. So anyone could go there as a community resident and present a demand. This caused relations between the presidents of neighborhood associations and the executive power [of the municipality] to cool. . . . That was the first thing the OP caused.”

—Horácia, Current President of UAMPA

**If it is true that the OP has promoted the autonomous participation of individuals and new social movements in the discussion of public policy and resource allocation, it is also true that the OP tends to blur the realms of civil society and government.** The evolution of co-management functions in the OP has led to situations where there is a lack of differentiation between the roles of political agents and government officials (e.g., CROPs,<sup>24</sup> council members, secretaries, etc.) and those of the OP and its civil society representatives. This risk of “contamination” of the independent voice of citizens and civil society actors, along with the dependence of the OP on government initiatives, was recognized and addressed by the municipal government during the discussion of OP reform in 2001 (Verle and Brunet 2002, 19). Actually, the relationship is considered to have the “difficult practical solution” of assuring the political-organizational autonomy of communities with respect to the municipal administration, while

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<sup>24</sup> CROPs are Regional Coordinators of the OP. Council members were established by the first PT administration, which integrated the FASCOM (Forum of Community Council members of the Municipal Secretariats), an internal body of the government that is involved in coordinating the OP.

recognizing the need for practical intervention by the government in the regions for the sake of agile communication (e.g., information dissemination, clarification, mobilization). The new structure was intended to put an end to attempts to exclude groups and to mediate conflicts that emerge in disputes over limited resources.

**Transparent rules of engagement are a precondition for strengthening the authenticity of the upstream process of formation and transmission of voice.** The autonomous participation of participants requires knowledge of the rules of engagement. It is evident that the monopoly of knowledge of these rules by a limited number of participants (usually those having more years of engagement) neither favors a level playing field, nor a more equitable distribution of power to influence decisions. Participation in the OP is often spontaneous and chaotic. In many cases, participants are limited to mobilizing themselves around their particular demands without greater knowledge of the process or rules of engagement, or a broader interest in the municipal budget as a whole. In 2005, the majority of surveyed OP participants who had worked with the OP for less than two years claimed that they had poor or no knowledge of the rules.

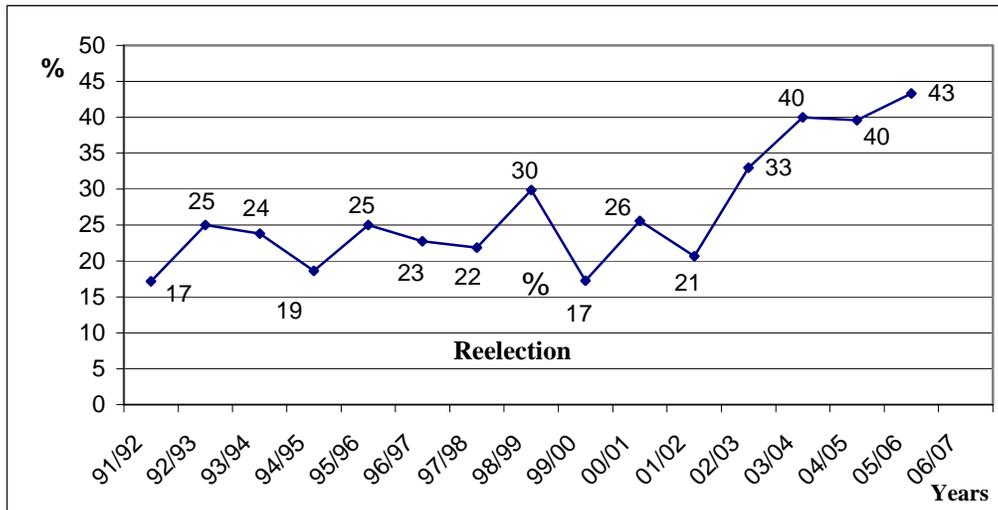
**Table 5. Knowledge of OP rules and criteria according to duration of participation**

Knowledge of OP rules and working criteria		Duration of OP participation			
		1 year	2 to 4 years	5 to 7 years	8 years or more
Most of the rules	n	22	98	94	153
	%	<b>11.1</b>	<b>25.9</b>	<b>47.7</b>	<b>64.0</b>
Only some	n	66	144	60	58
	%	<b>33.2</b>	<b>38.0</b>	<b>30.5</b>	<b>24.3</b>
Few	n	46	81	30	23
	%	<b>23.1</b>	<b>21.4</b>	<b>15.2</b>	<b>9.6</b>
Doesn't know	n	65	56	13	5
	%	<b>32.7</b>	<b>14.8</b>	<b>6.6</b>	<b>2.1</b>
Total	n	199	379	197	239
	%	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Fedozzi (2007).

**Lack of knowledge of the rules of engagement increases the risk of capture and/or monopolization of the OP.** According to an evaluation conducted by the municipality on the occasion of the debates to improve the OP in 2001, there is a trend of increasing “*appropriation of the process by an elite that impedes the formation of a broader base of participants.*” Today, the Internal Rules of the OP are compiled in a long, complex document of more than 60 pages. This favors the capture of the process by a group of leaders that have more experience and time to get to know the “secrets” of how the system functions (Verle and Brunet 2002, 22). The control that results from knowing the rules could be one element contributing to the trend towards decreasing levels of rotation of elected COP members over the last five years, as shown in Figure 8.

Figure 8. Reelection of COP delegates, 1991-2007



Source: Fedozzi (2007).

**To summarize, the OP process represents a trade-off between autonomous participation of civil society and government influence over civil society actors.** The OP representation model favors autonomous engagement of individual citizens and new civil society organizations, but tends to blur government and civil society realms, reinforcing the dependency of civil society on government initiative, which compromises the autonomy of participating agents. Transparency and knowledge of the rules of engagement thus become a critical factor in promoting autonomous participation and reducing the risk of capture.

#### *Internal Accountability of the OP*

**The downstream accountability of COP delegates and members is a critical legitimacy factor.** The presentation of accounts (*Prestação de Contas*) by delegates and councilors (members of the COP) to their constituents is basically carried out at OP regional forums, which take place every 15 days. At the regional forums, councilors report back to regional delegates and interested community members on discussions held in the COP. They also review the implementation of public works in the Investment Plan and the services provided by the municipality, as well as collect community demands and requests. Not as visible as regional or thematic assemblies, these periodic meetings constitute privileged spaces of downstream internal accountability within the OP process.

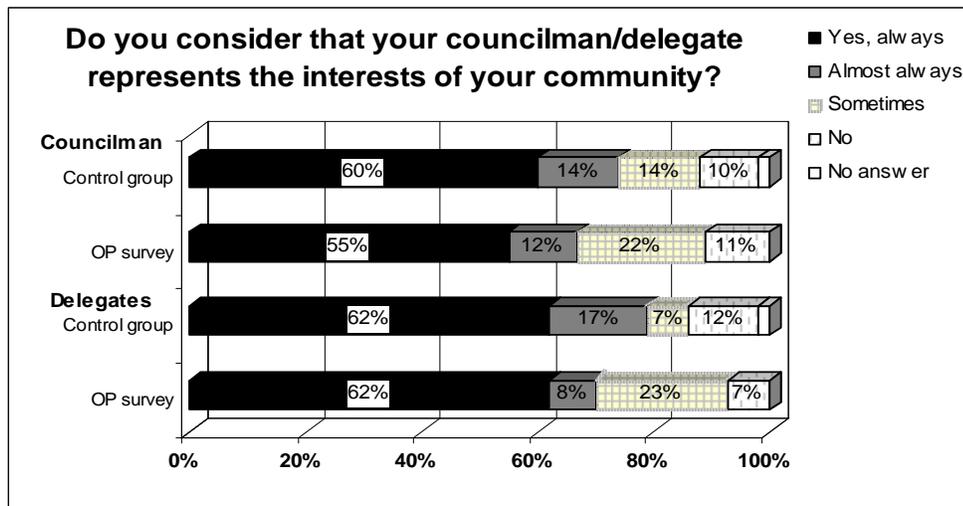
**Presentations by councilors and delegates are predominantly informal.** Reports are presented verbally, with very sporadic use of written documents and hard data. Reports also do not follow a pre-established guideline or a simple communication format. Because they are verbal, the reports are not recorded for eventual checks by regional OP members. One delegate described how he receives information as follows: *“It arrives somewhat altered. It depends on the interest of the councilor. If he is interested he will let me know. . . I notice that the information arrives in pieces, and it is not very clear and it is always late.”*

**Limited skills and lack of incentives explain the absence of a more formal and systematic presentation of COP discussions to regional assemblies.** There is no training program to help

COP members prepare more accurate and relevant reports, nor does the OP have user-friendly forms and procedures to facilitate a better presentation of accounts. Yet COP members and OP delegates have little incentive to adopt a more rigorous accountability process, given that survey data shows they enjoy high levels of credibility among participants in spite of the manner of their accountability. In other words, the current internal accountability process is perceived as effective and legitimate by citizens who participate in the process (see Figures 9 and 10).

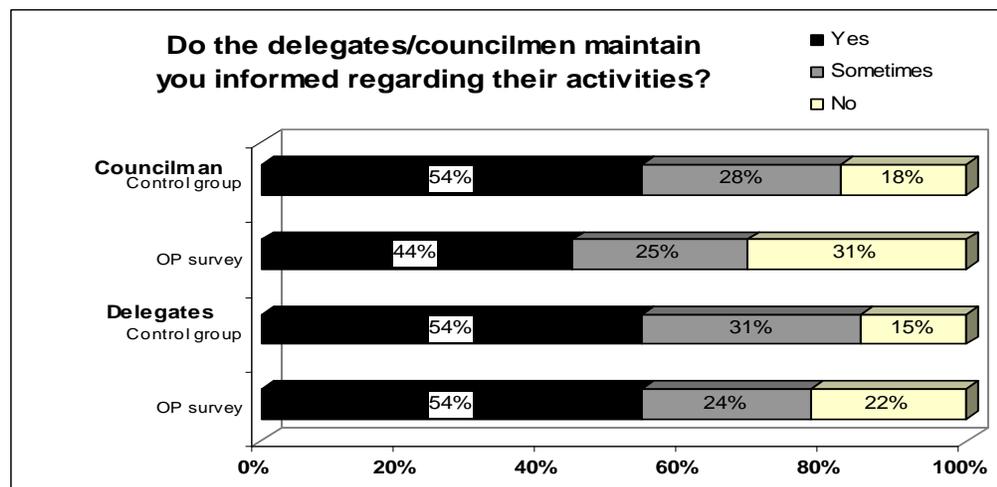
**The accountability of the OP to the population at large suffers from similar problems.** Most of the information about the performance of the OP flows through the media in a casual way and via inaccurate formats. There are little to no flows of information between regional delegates (or the regional forums themselves) and their respective communities. As the survey conducted for this study revealed, 23 percent of respondents claimed they were not informed about the OP and 25 percent responded that media was their main source of information.

**Figure 9. Ratings of representation by councilors and delegates**



Source: Study survey, 2006.

**Figure 10. Ratings of accountability of councilors and delegates**

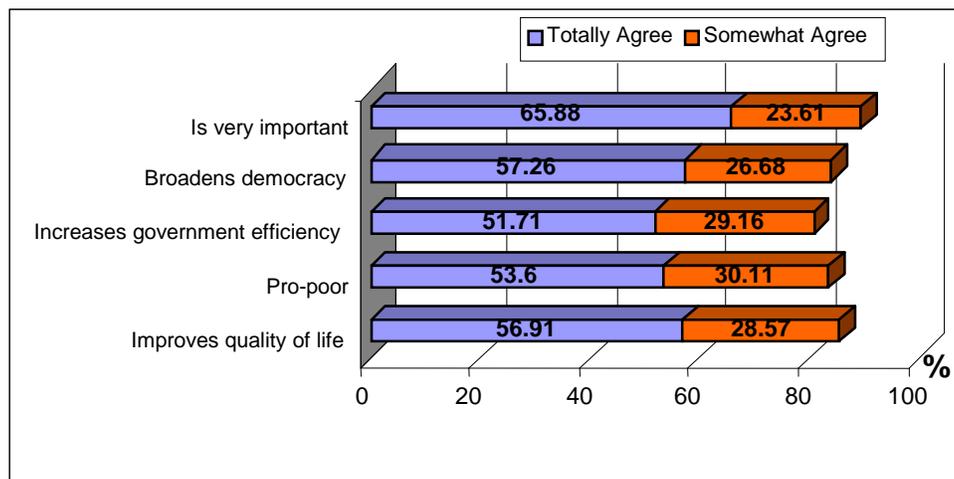


Source: Study survey, 2006.

*Perception of the OP by Internal and External Actors*

**In spite of loose accountability practices, the OP enjoys credibility among participants and the population.** According to the survey, the perception of the general public is that the OP is a very important institution in the City of Porto Alegre—it helps broaden democracy, increases the efficiency of the government, is pro-poor, and improves quality of life in the city (see Figure 11). As can be expected, this perception is even more positive among OP participants.

**Figure 11. Public perception of the OP by percentage of population, 2006**



Source: Study survey, 2006.

**Even controversial questions about public perceptions of the OP received favorable answers.** Statements judging the OP as a “demagogic practice,” for example, received relatively low ratings, with only 16.18 percent of respondents totally or partially agreeing with this argument. Perceptions were more divided with respect to the statement that “the OP is a political party instrument,” with which less than half the population (42.62 percent) totally or partially agreed. The fact that the OP was conceived and implemented by subsequent Porto Alegre administrations from 1989 through 2005 (when a coalition of opposition parties won local elections) provides a strong explanation of why people link the OP to a specific political party.

**Two factors may explain the mismatch between the OP’s weak internal accountability and its positive public perception.** The first factor is that the OP is already perceived as an important accountability achievement in and of itself. As has been shown in earlier sections of this chapter, the OP has given voice to large sectors of the population (particularly the poor) in the prioritization of public investments, enabling them to influence budget allocations to some extent. In the absence of the OP, these allocations would be decided by a small group of elected officials and bureaucrats who would not face the social control created by the OP and therefore would most likely engage in clientelistic practices. Even if the accountability of the OP representation process is weak, upwards decision making via delegation is already a more democratic and transparent process. The second reason for the mismatch is the prevalence of a participative

culture based on verbal communication, which demands and expects less accuracy and associates credibility with other factors, such as confidence in personal links, networks, and the media.

#### *Available Information on the OP*

**There have been significant improvements regarding the information made available about the OP.** Although the OP Website offers information on the OP process, according to OP councilors and delegates, as well as municipal technical staff, this information is not regularly updated. The operations necessary to analyze the situation of the Investment Plan at a specific point in time are also quite complex, demanding considerable effort and exhaustive repetition of procedures. The ObservaPoA (the city's online repository of geographically based census information and socioeconomic data) also provides a wealth of information on the city, including social indicators disaggregated by region.

**While detailed information on the OP and budgetary matters is available, it is not easily accessible to all groups due to its complexity and format.** The information available on the Internet is not easy to navigate, nor is it appropriate for many groups. Obtaining detailed information presumes a degree of technical knowledge that the average citizen does not have. Low levels of understanding of the OP process are evidence of the existing challenges of information provision, which is a precondition for improving the quality of participation and voice in the OP. (For a more detailed discussion of this topic, see Chapter 3).

#### *Ability of the OP to Influence Decision Making*

**While the current municipal administration incorporated the OP as one of its 21 programs, the municipality has never been legally bound by its recommendations.** As previously discussed, the OP has its roots in an experimental consultation process that became more formalized over time. When a new municipal administration took over in 2005, the OP was maintained as a mechanism for the transmission of voice on budgetary decisions. This decision is significant evidence of the sustainability of the OP process and its capacity to inform municipal decision making.

**Public perception in Porto Alegre is that the OP has considerable influence on municipal decision making.** This influence is not, however, generally interpreted to mean that the OP actually determines city investments. For example, when a general sample of the population was asked who determined public investment in Porto Alegre, 16.1 percent responded that the population did via the OP. Most respondents (41.6 percent) responded that the mayor and his team decided on investments. In same survey, however, 75.2 percent of respondents agreed with the statement that the OP had yielded results in terms of investments for the population. A survey of OP participants found that only 57.4 percent believed that demands presented in the OP process were included in the Investment Plan, while 24.5 percent reported that their demands had not been included (the remainder did not answer the question or didn't know the answer).

**Participants perceive the OP as empowering communities in the decision-making process.** A survey of former council members, for example, found that 83.7 percent believed the OP increased the decision-making power of communities (Beras 2006). Another survey found that over 50 percent of OP participants believed the community always or nearly always decided issues of public works and services through the OP, although this perception has decreased slightly over time (Fedozzi 2007). The second survey also found that longer participation in the

OP process was associated with a stronger sense of empowerment, a possible indicator that the OP is a learning process that eventually translates into empowerment. Among people who had participated in the OP for 8 or more years, the majority believed that the population always decided issues of public works and services.

**Over the past 10 years, the OP has informed almost half of all municipal investment decisions, which is a significant proportion.** As shown in more detail in Chapter 3, the percentage of total municipal investments represented by the Investment Plan has varied over time and in some instances has exceeded 60 percent. For the period between 1997 and 2006, however, the average IP represented only 46 percent of total municipal investments.

**The fact that the OP has informed almost half of municipal investment spending for over 18 years points to significant decision-making influence, despite the shortcomings of the process.** Given its shortcomings, especially the poor representation of certain social groups and the absence of an effective forum to discuss more strategic and/or sectoral issues, the OP is a considerable achievement because it has influenced such a significant share of municipal investment. The methodological and operational limitations of the OP, and the fact that it exists within a complex system of participation, make it unrealistic to expect that a larger share of investment spending could be resolved by the process.

### **1.3. Main Challenges and Recommendations**

As this chapter has shown, although a large number of citizens participate in the OP, not all social groups participate to an equal extent. Under-represented groups include the extremely poor, youth, middle- and high-income groups, as well as certain professional groups, such as entrepreneurs, all of whom face significant barriers to participation. Certain challenges to the legitimacy of the OP also need to be overcome to make the participatory budgeting process more accessible, especially the challenges of transparency and knowledge of the rules of engagement. The following paragraphs outline the major challenges to the quality of participation and propose recommendations to address them.

**Challenge 1: Creating incentives and removing barriers to make the OP more inclusive.** Currently, the OP lacks incentives for the participation of a number of groups in society and/or presents barriers to their participation. Among these barriers are the large amount of time required to participate, the location and timing of meetings, their format, and the complexity of the subject matter. Actions to address these challenges could include:

- **Create incentives for participation.** Several people identify the narrow focus of the OP (i.e., on the provision of basic infrastructure for poor neighborhoods) as a disincentive for participation. Expanding its focus to include issues of strategic importance for the city as a whole would attract interest from the middle class, professional groups, and entrepreneurs.
  - Reconsider both the role of thematic assemblies in the OP process and their scope of discussion.
  - Consider expanding the focus of the OP to include issues of strategic importance for the city as a whole, including budgetary oversight, particularly the execution of the Investment Plan and other fiscal policies and municipal revenues and current expenditures that affect the space for OP investments, which would

attract interest from the middle class and professional groups such as entrepreneurs.

- **Make participation more convenient.** The time and location of meetings have been identified as barriers to the participation of middle- and high-income groups, as well as married women. Alternative means of participation could open an avenue to including these groups in the process. For instance, online voting on investment priorities would provide a quick and convenient mechanism for their participation.
  - Consider forms of online participation.
  - Consider reimbursing the financial cost of participation by the poorest groups (e.g., the cost of bus tickets for participants below a certain income level).
  - Improve the effectiveness of OP council meetings by reforming meeting procedures, i.e., establishing a time frame, agenda, and considering the possibility of further decentralizing meetings to micro-regions.
- **Improve the training and education of participants.** Ideally, the OP should be a mechanism that contributes to citizen understanding of the municipal budget process. As it currently functions, however, the OP does not offer specific training to participants to ensure that they understand the process and can make high-quality contributions to it. Training needs should be identified at each level of participation (e.g., general, delegates, and councilors) for each stage of the OP cycle. Training modules should then be specifically tailored to each level and stage and made available as an integral part of the process. The challenge is to identify the appropriate training content as well as effective instructional methods. Specifically:
  - *Level knowledge among participants.* Delegate forums are the obvious choice for training, as they are close to the social base and delegates are potential council members. The OP Council should also institute required training. Becoming acquainted with the rules of the game should be the first step toward effective democratization and the establishment of equal conditions of participation.
  - *Improve knowledge about the public budget.* This is a challenge of considerable complexity, as it involves making technical aspects of the budget easily accessible by and understandable to OP participants. Realistic training should consider differentiated levels for OP Council members and delegates that take into account their diverse educational backgrounds.
  - *Test training methods to find an appropriate model.* The two principal challenges will be to overcome the *ad-hoc* nature of OP meetings and recognize the heterogeneity of the people involved (in terms of professional training, formal schooling, etc.) in order to offer equal opportunities for learning.

**Challenge 2: Make OP representation more legitimate and accountable.** OP rules are currently overly detailed, making them difficult to manage for participants and newly elected delegates. There is also no systematic dissemination of rules among participants, nor do newly elected delegates have access to training programs. Concentration of knowledge of the rules of engagement favors limited rotation of delegates and COP members. Additionally, downstream accountability of COP members to delegates (and of delegates to Porto Alegre participants) does not include systematic reporting mechanisms. Communication of the OP to Porto Alegre communities is sporadic and depends on the initiative of the media.

- **Simplify the rules of engagement and make them more accessible to OP participants.** Rules of engagement should consist of a simple, homogeneous, and

well-known set of guiding principles. Ample dissemination and adoption of those principles by all levels and regions of the OP would create common ground for all participants and avoid concentrating knowledge of the rules in only a handful of OP representatives. Local media and simple dissemination mechanisms could be used to make the rules more accessible to all participants and to communities as a whole.

- **Create simple formats for presentations by councilors and delegates.** Establishment of simple guidelines and formats would enhance the system by which delegates and OP council members report back to their constituencies. Expedited creation and circulation of meeting minutes would also help downstream accountability. The COP and other forums of the OP require minimum equipment to register and disseminate minutes. An OP campaign concerning the right of communities and regional forums to demand accountability from their elected representatives would have a double positive effect: it would raise awareness of both communities and OP participants about the importance of monitoring how well their delegates represent and transmit their interests, and it would create an incentive for delegates and COP members to improve their presentations.

## Chapter 2. The Interface between OP and Municipal Fiscal Management

**Historically, the focus of the OP debate has been mainly directed towards popular participation, without much attention to issues of fiscal management.** Most studies of participatory budgeting have focused on its political aspects, its impacts on social capital, and the inclusion of disenfranchised groups in the prioritization of public investments. Resource revenue and public finance management were mostly subordinate to these issues, as if reserved for a secondary role, so that the OP could achieve its objective of empowering the poor and re-directing public investment priorities.

**This concept, however, has evolved over time. Currently there is growing concern that the financial health of the government is a fundamental aspect of the sustainability of the OP process and the fulfillment of its social objectives.** The acknowledgement of this interdependence has revealed a complex relationship between the management of public finances and the OP participation process. For instance, an increase in personnel expenditure is often offset by lower capital investment. At the same time, a weak capacity to collect revenues undermines the ability of the local government to make necessary investments. Similarly, frequent errors in over-optimistic revenue forecasts and unrealistic expenditure plans are resolved during budget execution by reducing investments that have already been approved.

**Since the implementation of the OP in Porto Alegre, the municipality has passed through moments of both fiscal equilibrium and imbalance that directly impacted the OP process.** During the period 2002–2004, the municipality accumulated a deficit of R\$138 million, which severely deteriorated its ability to fulfill already approved investment demands from the OP process. The inherited stock of non-implemented OP investment projects then accumulated and the fiscal deficit became a serious challenge to the fulfillment of new OP demands approved in subsequent years. This reversal in Porto Alegre's fiscal equilibrium raised profound questions about the role of the OP and the impact of a fiscal crisis on its economic sustainability.

**The 2002–2004 period coincided with a moment when many questions were raised about the dynamics of the OP itself.** The dual crisis made the municipality and OP participants increasingly aware of the importance of sound financial management. Sound management is not only vital for ensuring the capacity of the municipal government to make necessary capital investments and provide adequate services, it is also fundamental to the effectiveness of participatory budgeting per se.

**Since the most recent fiscal crisis, the municipality has re-established a sound fiscal policy.** As can be seen in Table 6, the primary budget balance of Porto Alegre has shifted from a series of deficits to a surplus. The city is now well below the limits established by the Fiscal Responsibility Law (FRL) for debt, personnel expenditures, debt servicing, and credit operations. Porto Alegre currently shows a positive trend of diminishing expenditures in relation to net current revenue (NCR).

**Table 6. Financial indicators of Porto Alegre municipality, compared to FRL limits**

	2003	2004	2005	2006	FRL Limits
Personnel Exp/NCR	51.71%	51.66%	46.60%	46.95%	54.00%
Debt/NCR	28.03%	31.82%	24.95%	20.91%	120.00%
Credit Operations/NCR	2, 63%	2.84%	1.25%	1.07%	16.00%
Debt Service/NCR	2.39%	2.63%	2.02%	N.A.	11.50%
Primary Surplus/NCR	-1.72%	-4.38%	1.81%	3.29%	

*Source:* Tesouro Nacional, Tribunal de Contas do Estado do Rio Grande do Sul, and Porto Alegre municipality.

**Although these key municipal finance indicators suggest that Porto Alegre has recovered sound fiscal management and can potentially better fulfill the demands of the OP process, some critical questions remain concerning its ability to ensure a sound interface between the OP process and the municipal fiscal system.** While the fiscal surplus effort of the current administration was necessary to honor short-term debts created by past fiscal deficits and recover the city's long-term borrowing capacity, the annual investment envelope designated for the OP had to be seriously reduced, creating more social discontent. This chapter analyzes the relationship between the Porto Alegre OP and municipal fiscal management in more depth. One of the first issues addressed is whether the OP and the legal framework that regulates the municipal budget cycle are coherently interrelated. Constant delays in the execution of the Investment Plan have raised questions about the extent to which OP resource prioritization is based on accurate revenue forecasts. It has also raised questions about whether overall budget planning and execution are consistent, and if not, what impacts this lack of consistency has on the OP process.

**Because a budgeting process should ultimately produce sound resource allocation, this chapter also looks at the impact of the OP on the quality and quantity of capital investment.** First, it analyzes whether the OP favors the fragmentation of public resources vis-à-vis strategic investments. Second, it examines whether the OP considers the cost-benefit aspects of proposed investments, as well as whether there is any correlation between the OP and the way in which the municipality manages taxes and current expenditures. Finally, the chapter attempts to understand whether the OP has the capacity to contribute to sound financial management, and if so, why it was unable to prevent the recent fiscal crisis.

**Any analysis of the relationship between the OP in Porto Alegre and municipal fiscal management must start by taking into account the overall municipal budget framework in Brazil, as well as macroeconomic and political conditions in the country.** The performance of Porto Alegre municipal finance and its OP program is not conditioned exclusively on the local context; it is also affected by budget regulations imposed by the national government, macroeconomic policies, and structural political changes. Indeed, the 18-year life cycle of the OP has coincided with profound changes in Brazil. The process of re-democratization of the country brought new actors into the political arena, redirecting a great number of social movements away from the macro democratization agenda to local decision making and service delivery. As a result, the local space became a privileged governance sphere boosted by the decentralization reforms of the 1988 Constitution.

**On the other hand, policy reforms at the national level have imposed clear limits on municipal government, particularly its discretionary power to assign revenues and expenditures.** Budget rigidity arises on both the revenue and expenditure sides of the budget. On the revenue side, constitutional, or legal, earmarking mechanisms link certain types of revenues to specific expenditures. As a result, it is forbidden to shift resources that are legally earmarked towards other types of expenditure.

On the expenditure side, certain expenditures are considered mandatory, including legal (constitutional) obligations, such as interest payments, personnel salaries, social security entitlements, and assistance benefits (see Box 3).

**On the macroeconomic side, Brazil has passed through periods of growth and recession, high inflation, and tight monetary policies.** During the 18 years of the OP, the municipality of Porto Alegre has gone through at least three distinct phases. The beginning of the OP in 1989 through the first years of the 1990s was a period marked by increased revenue capacity and implementation of bottom-up governance reforms. A second period, which began in 1993 and ran through 1999, saw the consolidation of the OP and the revenue capacity of the city. The third phase, which began in 2000, was a period in which the finances of the municipality deteriorated, together with its capacity to execute the investments prioritized by the OP.

### **Box 3. Municipal budget rigidity**

Municipalities in Brazil suffer from acute budget rigidity. On the revenue side, constitutional norms establish minimum levels of expenditure of municipal revenues in specific sectors (e.g., 15 percent in health and 25 percent in education).

On the expenditure side, the increase in personnel payments observed in small and medium-sized municipalities also contributes to expenditure rigidity. Additionally, the weight of debt servicing in highly indebted municipalities also contributes to the problem.

However budget rigidity is measured (whether as the ratio of earmarked revenues to total revenues or the ratio of mandatory expenditures to total expenditures), it is clear that the portion of the budget that a municipal government can allocate “freely” within an annual budget process is quite limited.

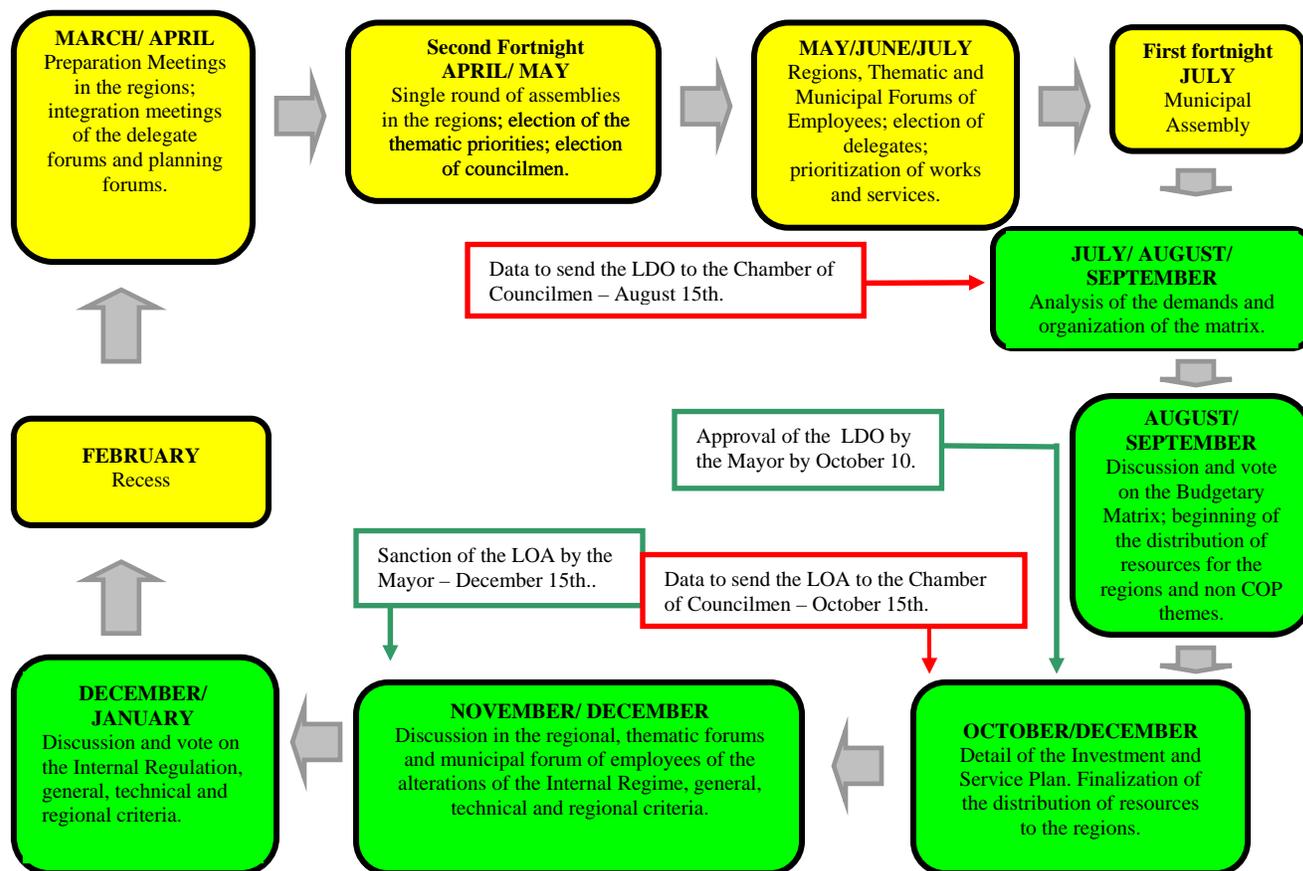
*Source:* World Bank (2006).

## **2.1 Cycles of Municipal Budget Planning and the OP: Convergence or Divergence?**

### *The OP Timeframe and Legal Budget Cycles*

**Although the cycle of the OP in Porto Alegre is widely known, it remains relatively unclear whether this cycle is well articulated with legal provisions that regulate the municipal budget cycle.** Figure 12 shows how the cycles of the OP and LDO (Law on Budget Guidelines) overlap, revealing a mismatch between the time frames for OP budget prioritization and the preparation of annual municipal budget guidelines. The prioritization of public works in the OP starts in early May and continues through July. Meanwhile, the LDO is elaborated by the executive arm of the municipal government between July and August, then submitted to the municipal legislative chamber by August 15th. As a result, the timing of the two processes is not completely synchronized.

Figure 12. Comparison of OP and municipal budgeting cycles



Timing asynchronies raise a serious concern that OP prioritization takes place without precise knowledge of municipal budget guidelines or revenue forecasts, including the share of resources that will be allocated to capital investment in the coming year. The detailed technical work required to estimate future municipal income occurs only during the elaboration of the LDO. Lack of accurate information on the distribution of resources and the definition of budget guidelines thus results in conflicting proposals between the executive and the OP. Alterations of the municipal budget law, which had the correct intention of increasing the time the executive branch is given to elaborate multi-annual plans and budget guidelines, were not always reflected in the OP cycle.

As a result of the timing mismatch, the OP prioritization process is based on an incomplete income forecast, increasing the possibility of unrealistic investment planning. Lack of information can lead to either an excess or a shortfall of demands to be included in the Investment Plan proposal. In fact, the OP works with revenue estimates based on previous years, correcting for the expected rate of economic growth, tax compliance, and credit operations, all of which have been overly optimistic. The mismatch between the dates of OP prioritization and the budgetary process is currently one of the main concerns of the Municipal Department of Budget Planning of Porto Alegre.

Analysis of OP minutes supports the perception of the timing discrepancy between the two cycles. Complaints about a lack of time to adequately prepare the OP delegates and councils for discussions of the LDO and Multi-Annual Plan (PPA) have, for example, been systematically recorded. Although COP

minutes reveal that the analyses of the PPA and the LDO were always carried out within the time frames established by the municipal executive, the time allocated for discussions with the COP were not always adequate. In some cases, other COP priorities took precedence—to the detriment of discussions of the LDO or PPA. In other cases, the executive sent the budget documents to the COP very close to the date by which they had to be submitted to the legislature.

### *The Timing of Complex Public Works*

**The one-year cycle of the OP is problematic for complex public works, which require long planning and implementation periods.** Large investments have a planning, procurement, and execution time frame that goes far beyond the annual OP cycle. The Municipal Department of Housing (DEMHAB) and the Municipal Department of Water and Sewage (DEMAE) of Porto Alegre, for example, usually administer projects that require greater resources, complex technical analyses, and multi-year implementation. On several occasions, large investments have been dismembered into smaller parts to fit into the OP annual resource allocation schedule. Although this appeared to be a creative solution, it runs the risk that a project will not receive resources in the following OP cycle that are needed for its completion. Municipal staffs who were interviewed mentioned, for example, that topographic inventories of urban development projects have been lost because resources to continue the work were not prioritized within the valid inventory time frame.

**To address this issue, some municipalities in Brazil have modified the OP cycle to a bi-annual period and/or created a separate OP for complex urban interventions.** Cities such as Belo Horizonte and Santo André, among others, have extended the OP cycle to two years due to the backlog in the implementation of their respective Investment Plans. Large projects, such as housing or transport, usually entail more than one year from planning to execution, particularly when they involve land acquisition, resettlement, and/or environmental licensing. As a result of the timing problem, tensions constantly emerge because citizens become deeply disappointed when municipal priorities of the previous year are not implemented as planned. In this regard, Belo Horizonte also created a special OP only for the housing sector, which absorbs larger amounts of resources and requires complex technical and financial planning.

**The bi-annual OP cycle of many municipalities also seems to allow more time for communities to engage in the oversight of procurement and public works.** The analysis in Chapters 1 and 3 indicates that OP delegates and councilors already spend considerable time on budget formulation, but do not effectively monitor the execution of public works. The two-year cycle—theoretically, at least—expands the time available for OP participants to carry out oversight, given that this task would not overlap so greatly with the period of budget formulation.

## **2.2 Consistency of Budget Planning and Execution: Impacts on the OP**

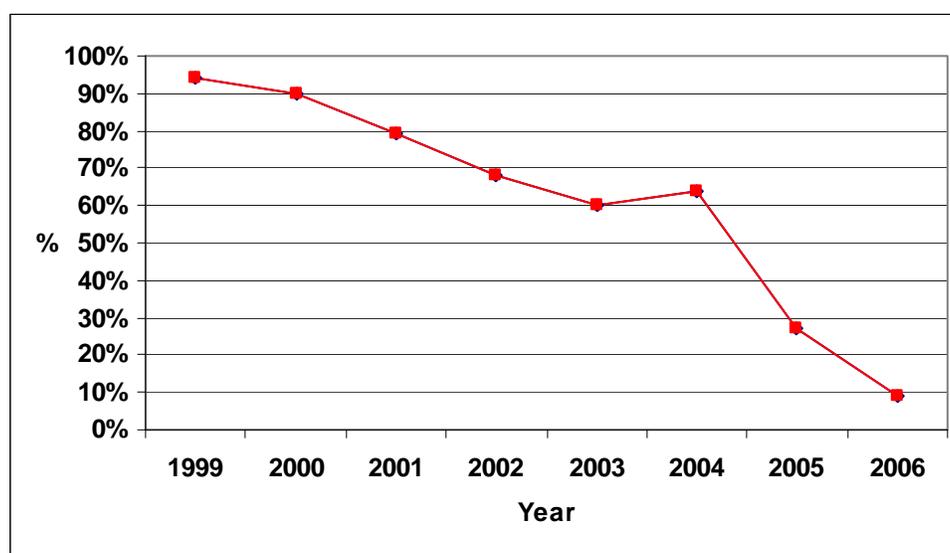
**This section evaluates the consistency between the planned budget and its actual execution.** Three basic analytical instruments are used in the analysis: (i) the percentage of execution of the IP; (ii) a comparison between the budgeted value of a sample of works and the actual sum spent on the works; and, (iii) the consistency between forecast revenue and collected revenue. Each one of these instruments is intended to approach more specifically a phase of elaboration or execution of the budget of the municipal administration. Additionally, the study analyzed the volume of municipal investments determined by the OP.

### *Execution of the Investment Plan*

**The percentage of the Investment Plan (IP) that has been implemented has dropped continuously since the early years of the OP process.** This percentage determines, in a relatively simple manner, whether budgeted investments were effectively concluded within the forecast time frame and whether all of the demands included in the IP were effectively carried out. Whereas between 1990 and 1999, approximately 90 percent of IP projects were finished before the forecast date, since the year 2000, this percentage has fallen significantly. In 2004, it was forecast at little more than 60 percent. The rate of executed investments dropped even further in 2005 and 2006.

**However, it is important to notice that in the last two years a significant number of projects have continued to be classified as “in progress.”** In other words, these investments might be executed and the rate of total executed projects for 2005–2006 might be higher after considering those investments in progress. Another important factor to take into account is that projects approved in a certain IP that are not implemented due to a lack of resources are usually re-prioritized during the subsequent OP cycle. This implies that delays in the conclusion of works included in the IP do not necessary represent an abandonment of a specific initiative approved through citizen consultation.

**Figure 13. Share of executed investments, 1999–2006**



*Source:* Porto Alegre Municipality.

**Another important issue to consider is the effect of capital expenditures financed through credit operations, which increase the fiscal deficit when loans are not backed by revenue efficiency.** In the short term, credit operations can boost capital investments, but in the medium term, they result in a diminished capacity to invest if the initial borrowing is not followed by increased revenue efficiency. For instance, in Porto Alegre a portion of IPs have been executed with financing from credit operations, creating a fiscal deficit. Without this mechanism, the rate of IP implementation would probably have been much lower. After 2005, however, measures taken to recover from fiscal deficit and the impact of loan maturation limited the capacity of the municipality to implement already approved investments. During the first years of the new administration, fiscal policy concentrated on recovering medium- and long-term

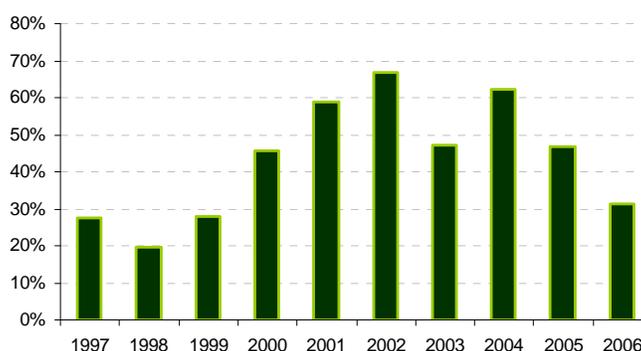
borrowing capacity by achieving more strict fiscal balance. As result, previously approved investments had to be renegotiated. At the same time, credits from loans diminished and services increased.

### *The OP Share of Total Investment*

**The share of investment prioritized through the OP in relation to total municipal investments has fluctuated significantly.** The data provided by Porto Alegre shows that the percentage of total investments prioritized by the OP increased significantly during the 1997–2002 period, but has since declined considerably. It is important to note here that, from time to time, large citywide investments are prioritized through the OP thematic plenaries, such as the III Perimetral (ring-road), which increase the share of OP investments. Nevertheless, the 46 percent average of OP investments as a proportion of total capital costs give a more precise picture of the OP impact on municipal investments than the literature on the OP often implies.

**This OP historic average of close to 50 percent reveals the real limits of the share of capital investments that can be prioritized through the OP.** More in-depth analysis of capital investments that are not prioritized through the OP process could clarify the other investment pressures on the municipal budget. For instance, municipal departments and municipal enterprises need to make regular capital investments that are subject to public debate. Budget re-allocations and pressure from municipal councilors are thus likely sources of capital investments that are decided outside of the OP process.

**Figure 14. Percentage of total investments prioritized by the OP, 1997–2006**

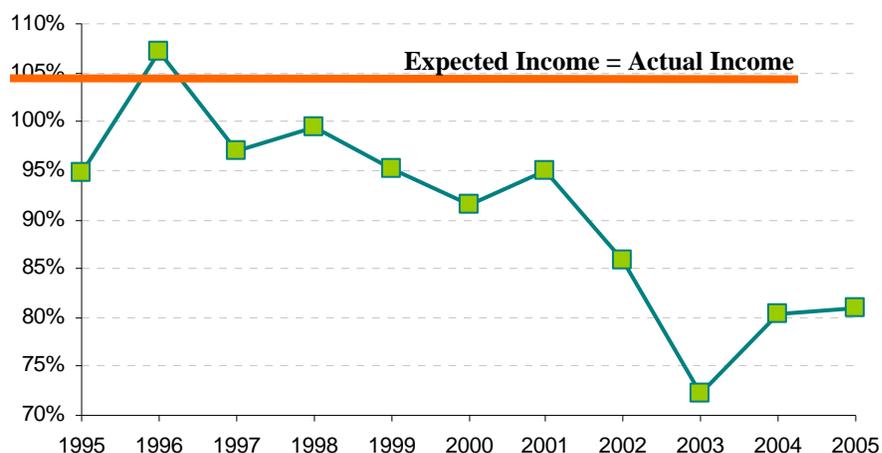


Source: Porto Alegre Municipality.

### *Capacity to Forecast Income*

**The revenue forecasting capacity of the municipality has deteriorated in recent years.** Analyzing the revenue estimations of the city administration against actual collections shows that in the period 1995–2000, public planners forecast revenues that were less than or equal to those actually collected. After 2001, however, the revenue forecast margin of error increased substantially, as shown in Figure 15. When added to the OP practice of overestimating municipal capital funds during the prioritization process, the impact of weak forecasting can have a strong negative effect on citizen expectations and trust in the OP, particularly given the transparency of the OP process in Porto Alegre.

**Figure 15. Accuracy of municipal income forecasts, 1995–2005**



**Of the two main sources of current income (taxes and current transfers), the most optimistic forecast was for tax revenues.** Current transfers do not represent a behavior pattern related to effective forecasting and collection. This income category was sometimes conservative and other times, optimistic. The inconsistency of tax revenue forecasts is a serious concern, given the contribution of this income source to the municipality's total current income.

**As Figure 15 shows, over-optimistic forecasts of municipal income have been striking in magnitude.** Current account surplus and borrowing have been the main sources of capital investments in Porto Alegre. In Brazil as a whole, the budgetary process of most states and municipalities similarly use expenditure authorizations based on income forecasts. Weaker control of these two income components thus affected capital expenditures and led to current deficits.

**It is important to highlight that discrepancies between income forecasts and expenditures are not exclusive to the municipality of Porto Alegre.** Historically, the Brazilian public finance sector has found it difficult to correlate income forecasts with executed expenditures. The first problem has been inflation. Until 1994, the country was devastated by high inflation, which not only altered the price system, but also the entire forecasting and planning system, whether public or private. The introduction of new taxes and modifications of how existing taxes could be applied (mainly the reduction of collection periods and the use of indexes with daily monetary corrections) gave municipalities the capacity to resist the income erosion caused by inflation.

**The end of inflation, however, imposed a new condition on administrators.** The private sector quickly adapted itself to stable prices. However, the public sector reacted much less quickly and still suffers from weak forecasting capacity. In light of controlled inflation and the need for fiscal balance, it became imperative to establish public finance norms aimed at responsible tax administration. In 2000, the National Congress accordingly approved a code of conduct for public administrators called the "Law of Social Responsibility."

**Another matter that complicates the forecasting of municipal income is the complexity of the Brazilian tax regime,** which distributes tax income between different levels of government and makes municipalities dependent on resources from the states and/or federal government. After the Constitution of 1988 was adopted, the municipalities began to receive 22.5 percent of the federal income tax and 25

percent of the federal Industrial Production Tax (IPI), in addition to 25 percent of the state service tax (ICMS) and 50 percent of the state vehicle tax (IPVA). Since municipal dependence on these resources is very large, the legislation of reforms, as well as changes in the macroeconomic environment that alter the collection of these resources have a direct repercussion on the income available to municipalities. Because of this dependency, revenue forecasting becomes highly complex.

*Capacity for Investment Forecasting*

**Discrepancies between investment planning and effective capital expenditures have been common.**

These discrepancies were analyzed for a random sample of 10 regional demands and 10 thematic demands in the years 2004 and 2005. The results show values that were very different among themselves, with systematic forecasting errors apparent in the OP demands. The magnitude of variation depended on each case. The samples analyzed in Tables 7 and 8 show that DEMHAB (the Municipal Department of Housing) estimates exhibited the least variation between investment planning and execution, and those of the FASC (the Foundation for Social and Citizen Assistance) and DMAE (the Municipal Department of Water and Sewage), the greatest variation.

**Table 7. Thematic demands: Ratio of executed value/ forecast value (in R\$)**

IP year	Region	Demand	Dept.	Thematic	Forecast value	Executed value	Variation	Work or service
2004	Center-South	1992	DEM HAB	Urban Develop.	103,177	121,713	<b>17.9%</b>	Pavement of Diretriz 4522
2004	Northeast	2054	DEM HAB	Urban Develop.	146,974.	169,829	<b>15.5%</b>	Pavement of Street 6
2004	Citywide	1905	DEM HAB	Urban Develop.	150,000	138,706	<b>7.5%</b>	Emergency houses
2005	Citywide	590	SMC	Culture	64,000	44,800	<b>-30.0%</b>	Ten dance workshops
2005	Citywide	600	SMC	Culture	12,800	8,960	<b>-30.0%</b>	Two Afro-Brazilian workshops
2005	Citywide	2658	DMAE	Urban Develop.	180,000	110,987	<b>-38.4%</b>	Reforms of properties
2004	Citywide	1930	DMAE	Urban Develop.	300,000	2,343,000	<b>681%</b>	Water network linking system
2004	Citywide	1919	DMAE	Urban Develop.	115,000	147,200	<b>28%</b>	Expansion of water networks
2005	Citywide	2651	DMAE	Urban Develop.	135,000	301,000	<b>123.9%</b>	Topography and cadastral inventory

Source: Porto Alegre Municipality.

**Table 8. Regional demands: Ratio of executed value/ forecast value (in R\$)**

IP Year	Region	Demand	Department	Forecast value	Executed value	Variation	Work or service
2004	North	1522	DMAE	270,000	878,300	<b>225.3%</b>	Substitution of the water network
2005	South	1335	DMAE	55,000	53,100	<b>-3.5%</b>	Extension water network
2004	North	1517	DMAE	85,000	149,000	<b>75.3%</b>	Substitution of the water network
2005	North-east	1474	FASC	40,102	70,866	<b>76.7%</b>	SASE Agreement
2004	Cruzeiro	939	FASC	16,708	43,195	<b>158.5%</b>	Expansion of 60 goals of SASE
2004	Restinga	1019	FASC	33,416	92,254	<b>176.1%</b>	SASE Agreement Assoc.Vila Coema
2004	Cruzeiro	937	FASC	16,708	44,530	<b>166.5%</b>	SASE Agreement with Dwellers Association
2005	Glória	270	FASC	40,102	60,465	<b>50.8%</b>	SASE Agreement with Dwellers Association

Source: Porto Alegre Municipality.

**Consultations with specific municipal departments revealed several technical justifications for the discrepancies between planned and executed expenses.** These justifications included: (i) changes in evaluation criteria; (ii) differences between commitments and execution; (iii) cost contingencies, (iv) a forecast value insufficient to respond to the demand; and, (v) transfer of expenditures to the following budgetary year.

**These inconsistencies have generated serious risks to the credibility of the OP, and to its core values of transparency, participation, and accountability.** Since several works had an estimated value below actual cost, the budget ended up inducing a greater demand that could only be partially fulfilled due to lack of resources. This fact is often a source of deep frustration for citizens participating in the process. Moreover, the reconciliation between approved OP demands and real investment capacity takes place during the execution of the budget, which does not feature the same level of transparency and participation for which the OP in Porto Alegre is internationally known. It is therefore fundamental to OP that the values allocated to public investment projects be consistent with the real expected level of future municipal capital investment. Only this consistency can ensure that the sophisticated participatory budgeting process that has evolved over the past 18 years does not generate a mere wish list.

## **2.3 The Impact of OP on Capital Investments: Efficient Allocation or Fragmentation?**

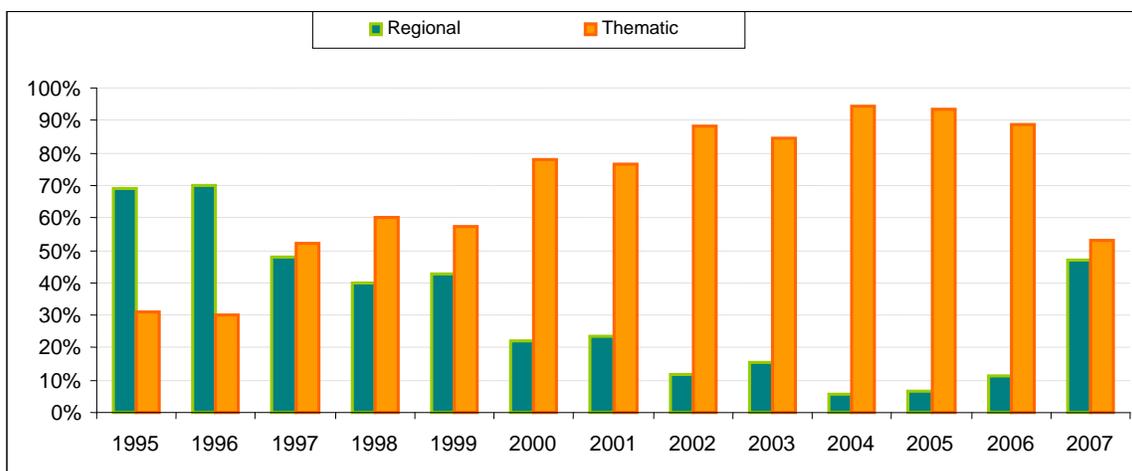
### *Distribution of Resources among Local and Citywide Investments*

**Contrary to common perception, the OP in Porto Alegre has not undermined the prioritization of citywide investments.** Considering that the OP Statute defines public investments that aim to benefit the entire city as “thematic demands,” whereas “regional demands” are defined as addressing local needs, the distribution of resources presented in Figure 16 shows that historically, a much larger share of resources has been allocated to thematic demands,<sup>25</sup> indicating that the OP has in general favored citywide investments, such as the Third Perimetral (ring road) and the Conduto Alvaro Chaves (sanitation

<sup>25</sup> The sum allocated to each type of demand is chosen spontaneously by the regional assemblies.

infrastructure). Of note, while the share of resources allocated to citywide investments increased significantly after 1996, the share of resources allocated to “regional demands” (i.e., small localized investments) decreased. This change might denote a situational trade-off: whereas localized and strategic investments are necessary, the municipality has not had the financial capacity to address both at the same time.

**Figure 16. Distribution of resources between regional and thematic demands, 1995–2007**



Source: Municipality of Porto Alegre.

**This tendency of greater share of resource being allocated to citywide investments seems to have changed direction in 2006.** One possible reason behind the new trend could be popular pressure to fulfill investments prioritized in previous years, particularly small neighborhood public works that were not funded due to the municipality’s decision to devote expenditures to accumulated thematic demands.

#### *OP Impact on Resource Fragmentation*

**A comparison of the number of small and large investments prioritized by the OP reinforces the previous finding that the OP process has not undermined the municipality’s capacity to allocate resources to large investments.** Analyzing data on regional and sectoral OP investments for the period 1995–2006, it can be verified that a great number of the investments (77.9 percent) did not surpass R\$400,000 (approximately US\$200,000).<sup>26</sup> This finding indicates that most works prioritized by the OP are relatively small in scope. However, it does not mean that the OP process privileges small-scope works, but rather, that small-scope works are considered in the OP process. Despite the great prevalence of investments of small value, the total sum of investments spent on works valued at up to R\$400,000 was equivalent only to 15.6 percent of total disbursements in the 11-year period analyzed here. Investments valued at over R\$9 million (approximately US\$4.5 million), on the other hand, represented 34.3 percent of total capital expenditures.

<sup>26</sup> Corrected by the annual average General Price Index (IGP-DI, values as of December 2006).

**Table 9. Distribution of the number of works by value, 1995–2006 (in R\$)**

<b>Value</b>	<b>Frequency</b>	<b>Cumulative %</b>
0 – 30,000	911	22.42%
30,001 – 150,000	1,295	54.29%
150,001 – 400,000	957	77.85%
40,001 – 1,000,000	547	91.31%
1,000,001 – 2,500,000	200	96.23%
2,500,001 – 6,000,000	87	98.38%
6,000,001 – 20,000,000	54	99.70%
> 20,000,000	12	100.00%

*Source:* Municipality of Porto Alegre.

**Since 1999, the number of small investment demands has risen, reaching 89.5 percent of the total number of OP demands prioritized in 2006.** Yet this figure does not reflect a fragmentation of investment resources because the total amount allocated to small demands decreased in the same period. In 1996, investments valued at up to R\$400,000 totaled 28.3 percent of total resources; while in 2006, they totaled only 9.8 percent of the total allocated Investment Plan. These data also suggest that when the budget for large investments increases, the share of resources allocated to small public works diminishes.

#### *Distribution of OP Demands by Sector*

**The distribution of OP demands shows a clear prioritization of projects for roads, water and sewage, and housing.** A sector assessment was conducted for the period 1990–2007, based on the number of works carried out. Approximately 26 percent of OP investment demands involved road works (SMOV), including paving and maintenance, among others. In second place were demands for the treatment of water and sewage (DEMAE), with 17.5 percent. Works related to housing, carried out by DEMHAB, were in third place, with 12.7 percent of total demands. It is also important to notice that projects executed by SMOV, DEMAE, and DEMHAB are usually more complex and expensive than those executed by other municipal departments.

**Table 10. OP demands per sector, 1990–2007**

<b>Administrative Unit</b>	<b>Frequency</b>	<b>% of total OP demands</b>
SMOV	1,566	26.20%
DMAE	1,043	17.50%
DEMHAB	760	12.70%
SMT	548	9.20%
DEP	423	7.10%
SMED	313	5.20%
SMAM	273	4.60%
SMS	231	3.90%
FASC	229	3.80%
SMIC	206	3.40%
SMC	135	2.30%
SME	97	1.60%
DMLU	47	0.80%
SPM	32	0.50%
GP	17	0.30%
SMA	18	0.30%
SGM	9	0.20%
SMF	14	0.20%
SMDHSU	3	0.10%
PREVIMPA	3	0.10%
PROCEMPA	3	0.10%
PGM	2	0.00%
SECAR	2	0.00%
GAPLAN	2	0.00%
<b>Total</b>	<b>5,976</b>	<b>100.00%</b>

*Source:* Porto Alegre Municipality.

**The number of demands for water, sewage, and housing investments has been increasing since 1998.** Between the years 1990 and 1997, OP investments were initially linked to road works (SMOV), followed by demands for DEMAЕ and DEMHAB works. Since 1998, however, there has been a clear reduction in the demand for SMOV works (overall, this percentage fell from 33 percent of total demands in 1990 to nearly 7 percent in 2007) and an increase in demand for DEMAЕ and DEMHAB works.

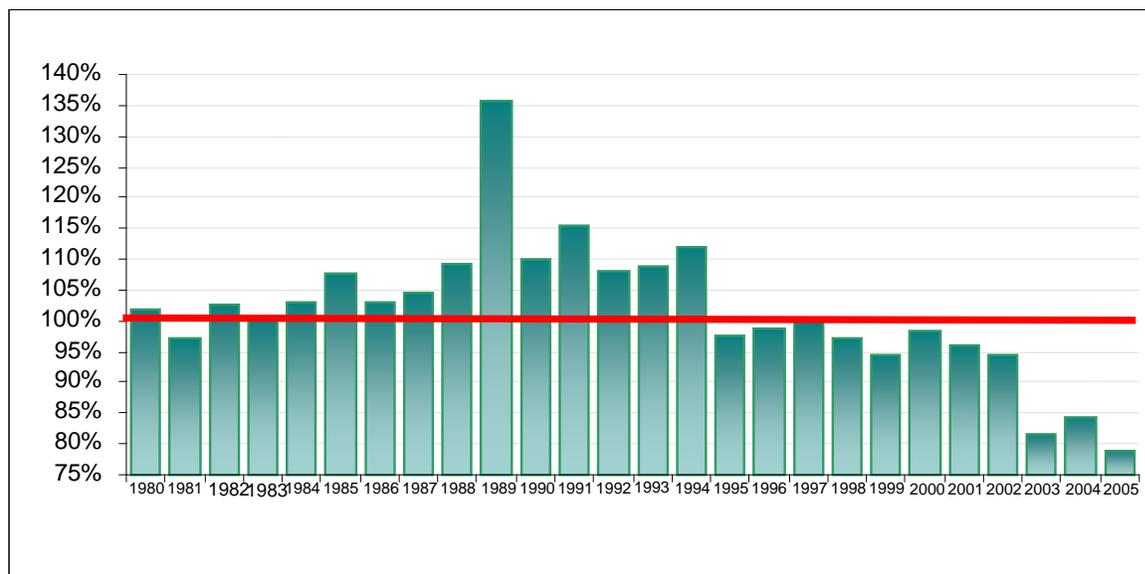
**These findings show that local communities have modified their priorities.** In part, this change might have occurred because problems linked to road works (SMOV) are gradually being resolved. Finally, the distribution of OP investment demands has improved. Whereas in 1991, the three types of projects most in demand comprised nearly 80 percent of all OP demands, this percentage had fallen to only 47.8 percent in 2007.

## **2.4 Current Expenditure and the OP**

### *Effects of Increasing current Expenditures*

**Although there have been recent improvements, historically the city has shown a high degree of fiscal commitment to current expenditure.** Analyzing the historic period 1980–2005, the average commitment to current cost expenditure (direct administration) exceeds 85 percent of total income. It is important to highlight that since 2000, this ratio has steadily diminished.

**Figure 17. Ratio of current expenditure to total income, 1980–2005**



*Source:* Municipality of Porto Alegre.

**The impact of legislative reforms during this period must be considered.** Before the implementation of the Law on Fiscal Responsibility and other follow-up fiscal legislation, deficits of indirect administrations (i.e., municipal enterprises and foundations) were commonly resolved by transfers from the direct administration. Given this practice, the change in legislation can partially explain the reduction in the commitment to current expenditure.

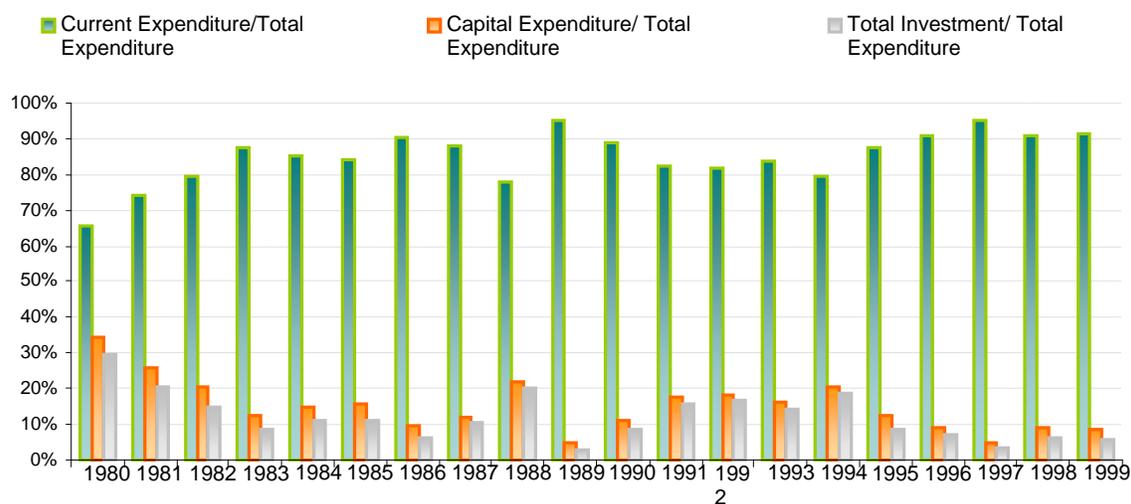
**Due to the impact of national policies, more coherent results are obtained by separating the analysis of Porto Alegre public finances into two chronological periods:** the period between 1980 and 1999, and the period between 2000 and 2005. This temporal division is required for several reasons. The federal allocation for the Municipality Participation Fund (FPM) was increased in 1983 and 1985. In 1988, the new Constitution implemented a decentralization of government income. In addition to this decentralization, municipalities also received larger shares of collected service taxes (ICMS) and were given greater participation in the FPM.

*Analysis of the 1980–1999 period*

**This period was characterized by significant changes in the fiscal situation of the municipality of Porto Alegre.** In order to evaluate the expenditure structure during the period, three indicators were used: (i) current expenditure/total expenditure; (ii) capital expenditure/total expenditure, and (iii) total investment/total expenditure. As seen in Figure 18, the current expenditure/total expenditure ratio shows a growing trajectory over time. The capital expenditure/total expenditure ratio fell throughout the period, with a growing commitment to the payment of current expenses. When public finances reflect these characteristics, it is natural that investment—which is normally an adjustment variable—is reduced. As can be observed, current expenditure grew from 65.6 percent in 1980 to 95.2 percent in 1989. Certainly 1989 represented the peak of municipal investment; nevertheless, the graph shows that total expenditure was continuously more committed to current expenditure. Between 1990 and 1999, the growth in this commitment slowed, although it seemed to be suspended at a very high level of nearly 90 percent.

As a direct consequence of current expenditure coming to represent a larger share of total expenditure, the ratio of investment to expenditure was significantly reduced. In 1980, this ratio was equivalent to 29.6 percent and in 1999, 5.9 percent. Investments on the order of 15 percent could be observed in the period between 1991 and 1994. However, investments returned to levels below 10 percent between 1995 and 1999 and reached a nadir of 3.4 percent in 1997.

**Figure 18. Expenditure indicators of the municipal prefecture of Porto Alegre, 1980–1999**



Source: Porto Alegre Municipality.

Analysis of the 1998–2005 period

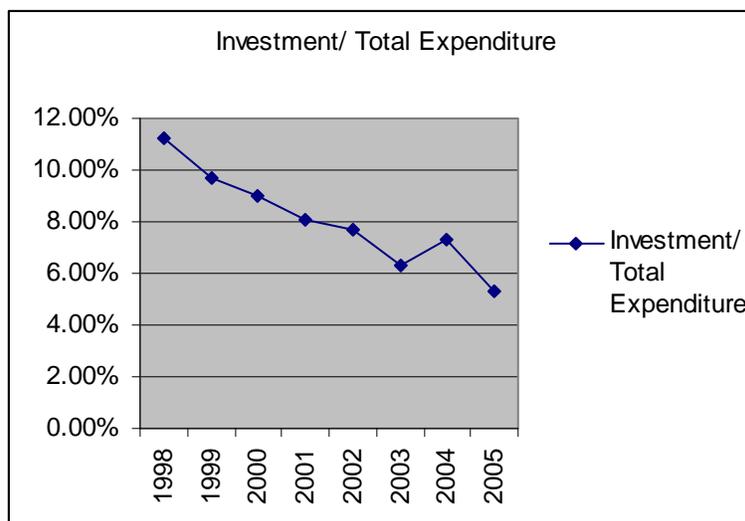
The share of investments in relation to total expenditure also experienced continual decline from 1998 to 2005. As shown in Table 11 and Figure 19, investments expenditures amounted to 11.2 percent of total expenditure in 1998, but deteriorated to 5.3 percent by 2005.

**Table 11. Capital/current expenditure ratios of Porto Alegre, 1998–2005**

	Current Expenditure/ Total Expenditure	Capital Expenditure/ Total Expenditure	Investment/ Total Expenditure
1998	87.6%	12.4%	11.2%
1999	89.3%	10.7%	9.7%
2000	90.1%	9.9%	9.0%
2001	90.9%	9.1%	8.1%
2002	89.5%	10.5%	7.7%
2003	91.6%	8.4%	6.3%
2004	89.9%	10.1%	7.3%
2005	91.1%	8.9%	5.3%

Source: Municipality of Porto Alegre.

**Figure 19. Investment as a percentage of total expenditure, 1988–2005**



Source: Porto Alegre Municipality.

**During the past several years, the municipality of Porto Alegre has undertaken a significant effort to reduce its deficit and recover its investment capacity.** The municipality is currently attempting to modernize its management model to improve control over expenditures and the tax system. These efforts have already demonstrated positive fiscal results in the form of a better equilibrium of revenue and expenditure, better tax compliance and the achievement of a surplus after three consecutive years of deficit (2002–2004). These results have not only enabled the municipality to recover its capacity to invest with its own resources, but have also improved its creditworthiness. According to recent data released by Porto Alegre, the level of investments made in 2006 with its own resources was the highest of the last six years (R\$84.8 million), while local revenues<sup>27</sup> increased 7.14 percent without any increase in the individual tax rate.<sup>28</sup>

## 2.5 Fiscal Equilibrium and the OP: Genuine Capacity for Influencing Sound Fiscal Policies

**Analysis of the minutes of key meetings of the Participatory Budgeting Council (COP) shows that it has not always undertaken substantive and independent analysis of municipal fiscal policies, particularly at critical moments.** The following content analysis examines the behavior of the OP debate in the face of concrete fiscal challenges, as well as its interest in and capacity to hold substantive debate on fiscal issues. Among the various meeting minutes analyzed, those of September 19, 2002, stand out, as they correspond to a critical period during the reversal of Porto Alegre's finances. During the discussion of the LDO, an increase in expenditure was proposed because there was no other way to finance previous OP demands for priority works. Available data, however, clearly indicated that the budget would run into a deficit if expenditures were increased, given that the budget balance depended on credit operations.

<sup>27</sup> That is, revenues generated by ITBI, ISSQN, and IPTU.

<sup>28</sup> See Prefeitura Municipal de Porto Alegre (2007).

**Pressure on councilors to make sure that community demands were included in the Investment Plan prevailed over sound fiscal policy debate.** Certain councilors questioned whether or not they should accept an LDO that implied a deficit, but the majority of the council accepted such proposals, stating that if the government was proposing an expenditure, it should worry about how to finance it.

**Table 12. Sample analysis of COP meeting minutes**

Date	Guideline	Description	Observations
10/01/91	LDO technical criteria	Discussion was basically on technical criteria. The LDO was not voted on	Lack of attention to fiscal issues
10/15/91	Tax revenue	Discussion on collecting taxes (IPTU, Garbage Tax, and Transport Tax).	Attention to fiscal issues
09/12/96	Budget proposal	Presentation of appropriate values for each secretariat and agency.	Lack of attention to fiscal issues
09/17/96	Budget proposal	Discussion of values and doubts.	Attention to fiscal issues
04/22/97	Multi-annual plan	Beginning of discussion of amendments to the PPA; clarification of what the PPA is.	Attention to fiscal issues
04/24/97	Multi-annual plan	Continuation of discussion of the PPA (participants demonstrate difficulty in understanding the scope of the PPA).	Attention to fiscal issues
05/22/97	LDO	Discussion of the LDO and other subjects.	Attention to fiscal issues
05/26/97	LDO	Discussion of the LDO (participants demonstrate difficulty in understanding the scope of the PPA).	Attention to fiscal issues
05/20/99	LDO	Discussion of LDO.	Attention to fiscal issues
05/15/01	LDO	Superficial discussion of LDO (participants demonstrate difficulty in understanding the scope of the PPA).	Lack of attention to fiscal issues
05/17/01	LDO	Discussion of LDO.	Attention to fiscal issues
07/31/01	LDO (vote)	Government presents amendments to the LDO and suggest feedback from COP.	Lack of attention to fiscal issues
05/17/02	LDO	The LDO presented, but no qualified discussion takes place.	Lack of attention to fiscal issues
05/24/02	LDO	The guideline subject was not discussed.	Lack of attention to fiscal issues
05/27/02	LDO (conclusion)	Discussion of LDO.	Attention to fiscal issues
09/16/02	Budget matrix	Good-quality discussion of budget matrix.	Attention to fiscal issues
09/17/02	Budget matrix	Strong reaction on tentative influence COP demonstrated its independence and analytical capacity.	Attention to fiscal issues
Cycle 05/06	Entire cycle	While participants demonstrated grasp of the discussions related to the budget matrix and the IP, relevant fiscal policy issues such as s related to the PPA and LDO were analyzed and debated in depth only at rare moments.	Lack of attention to fiscal issues

Source: Selected COP minutes, 1996–2006.

**The COP appears not to have undertaken a systematic initiative to analyze fiscal and budgetary policies.** The review of COP minutes clearly revealed its limited capacity to react to fiscal policy. COP members mainly focused on the prioritization of investments, rather than on long-term fiscal policies. Most discussions were limited to the redistribution of resources between the original priorities of the LDO without serious consideration of the sources of those resources, i.e., whether the municipality was incurring a deficit, whether a deficit would be temporary or permanent, and how it would be reversed. The decisions of the COP show a certain short-term bias, as participants identified works and services for which there was an immediate need in the communities they represented. Their position thus biased them against arguments for medium- and long-term fiscal adjustments. When they were given the option to increase expenditures to fulfill their demands, they normally accepted this option without considering the future impacts of such decisions (e.g., the commitment of income to pay interest, the amortization of debt, etc.).

**The COP cannot conduct informed, independent fiscal and budgetary analysis without proper training and access to information.** The limitations of OP analysis of public municipal accounts are linked to two basic problems. The first is the technical limitation of COP members to perform rigorous financial analysis. If it is possible to identify a systematic demand of COP members, it is their request for technical training so that they can work with budget figures on an equal basis with municipal technical staff. This request was made in the very first minutes of the OP and continued to be made through 2006. The second limitation is the absence of available financial information that is easily accessible to all citizens. The availability of comparable data over time would allow individuals, private companies, and social entities that possess qualified technical personnel to analyze the figures or carry out independent budget analysis, as well as to alert members of the COP of eventual imbalances that the municipal administration should clarify.

**An important lesson learned during past financial crises is that OP councilors clearly understand that they need to be well informed regarding budget and fiscal matters.** Without a better leveling of fiscal knowledge, the capacity of civil society to carry out qualified analysis and oversight of municipal fiscal management is limited.

## **2.6 The Relevance of Cost-Benefit Analysis and Impact Assessment in the OP Process**

**Although some cost-benefit discussion occurred at COP meetings, an analysis of the minutes of 624 out of 1,120 meetings reveals that there was no systematic approach to this issue.**<sup>29</sup> In fact, cost-benefit analysis occurred only at specific moments, in specific forums, and at the initiative of specific participants. It was not a process that was systemized and organized either by the COP or the municipal administration. Only 12 percent (73 of 624) of the meetings examined involved discussions of the budget process for the Multi-Year Plan (PPA), Law of Budget Guidelines (LDO), Annual Budget Law (LOA), Direct Administration Budget, or Municipal Administration Deficit. A cost-benefit analysis of the investment priorities proposed at COP meetings was rarely conducted.

**In addition, lack of systematic data collection on the results of previous investments hampered the ability of the COP and the municipality to conduct impact assessments.** Even where statistical information did exist, there was no continuous collection of the same data points, which is essential for time series analysis. Furthermore, the evidence shows that there was no institutionally coordinated process for data collection, nor was there a determination of which variables were most important for tracking and evaluating the benefits generated by OP works. The tasks of defining indicators, collecting data, and systemizing analytical methods are the responsibility of different secretariats and entities of the municipal administration. Some units, such as the Municipal Secretariat of Health (SMS) and the Secretariat of Justice and Safety (Secretariat of State of RS), collect data that permits cost-benefit analysis in specific areas, such as birth and crime rates, respectively. However, these individual efforts do not constitute a system for monitoring the impact of OP projects, nor do they inform OP decision making.

**Some Brazilian municipalities are currently developing innovative systems to better inform local decision making and evaluate the impact of OP projects.** Belo Horizonte, for example, has developed a sophisticated system of indices to monitor how and which resources allocated by the OP are applied and their observed impacts. The city is using a multi-dimensional quality-of-life index (ISAVC) based on an

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<sup>29</sup> In addition to meeting minutes, interviews with public administrators and a sample of municipal reports were analyzed.

index previously used to redistribute OP resources among different municipal territorial planning units (UPs).<sup>30</sup>

**The index used by Belo Horizonte enables the municipality to measure the quantitative impact of the public works prioritized by the OP on populations living or working near the respective affected areas**, as well as to assess the qualitative impacts of prioritized investments with an emphasis on their social aspects. The initiative represents a concerted effort to implement a system that can inform public municipal policies, helping better integrate sector interventions and better respond to complex needs in a more effective and sustainable manner.<sup>31</sup>

**The recently launched Observatory of Porto Alegre (ObservaPoA) has the potential to strengthen the capacity of the OP to conduct better analyses that can inform decision making and monitor impacts.** The ObservaPoA could be used to enable OP participants to access a vast database of available statistical data (objective information) to qualify their perception of their own needs (subjective information). It could also help the municipality better monitor the impact of its different programs, as the web-based information site allows users to compare special-allocation investments against highly desegregated and territorially located socioeconomic data. While the staff of the municipality managing the ObservaPoA have undertaken new analysis using this new tool, COP members and the population in general have not utilized it to date in their deliberations. It is also unclear whether the municipality will use the ObservaPoA as a unified system to monitor and disseminate the impacts of different programs, as different platforms are currently being used to manage these programs (see Chapter 3 for additional information).

## **2.7 Main Challenges and Recommendations**

**Despite the fact that the OP enjoys high levels of participation and credibility, analysis of the interface between the OP and municipal fiscal management yields mixed results.** On the one hand, contrary to common perception, the OP in Porto Alegre does not lead to suboptimal resource allocation or investment fragmentation. When it comes to the risk of investment fragmentation posed by regional pressures (i.e., allocating resources to small public works), the OP also performs quite well. Although the number of demands for small investments has increased in the last years, it has not affected the overall share of resources allocated to satisfy those demands. On the other hand, there is no evidence that the OP has played a positive role in contributing to fiscal balance in Porto Alegre. In different years, expenditure and revenue forecasts performed unsatisfactory vis-à-vis their actual amounts. The city typically covered the fiscal gap by generating current deficits and/or postponing capital investments. The inconsistency between the OP cycle and the real budget calendar also contributed to capital investment plans being based on weak fiscal data. Both problems ended up creating a backlog of non-implemented OP investment demands and consequently generated increasing public discontent.

**The OP in Porto Alegre has worked mainly as an instrument for interested citizens to voice their preferences regarding capital investments, rather than as a space of public debate to discuss municipal fiscal policy and revenue and expenditure management as a whole.** An analysis of the minutes of key meetings of the COP showed that the body has not undertaken substantive assessment of municipal fiscal policies and revenue capacity, particularly at critical moments. This behavior of the COP can be attributed to the absence of a clear motivation among its members to give fiscal management a priority over their interest in ensuring that community demands are included in the Investment Plan. The

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<sup>30</sup> The index, known by its acronym ISVAC, is calculated on the basis of 75 quality-of-life indicators.

<sup>31</sup> See Prefeitura Municipal de Belo Horizonte (2007).

lack of regular training of COP members is another possible explanation, as the LDO, LOA, and PPA involve many technical issues that ordinary citizens find difficult to understand.

**Challenge 1: Bridge the temporal mismatch between the OP cycle and the legal cycle of the municipal budget.** Since the OP process is part of the budgetary process of the municipality, improved coordination between the LDO, LOA, PPA, and the OP cycle would support a more efficient budgetary process. Options to address this problem include:

- Have the municipality's executive arm provide a reasonably accurate income estimate for the period for which OP investment demands are prioritized. Between May and July, each region and sector should receive a more precise estimate of the budgeted amounts that will be available for capital expenditure in the coming year.
- An alternative solution would be to move the OP cycle, or at least the third stage of the cycle, one month forward, restructuring the terms of the OP in accordance with those of the Organic Law of the Municipality. This seems to be a simpler solution that would offer the best results in terms of the quality of information available during the prioritization process. This solution would also enhance the effectiveness of OP demands.

**Challenge 2: Amend the OP cycle so that it can handle complex public works that require more than one year of implementation.** The annual cycle of the OP is not conducive to investments in large and complex works, which require several years to complete. This negatively affects the planning and execution time frames of complex urban operations and the accuracy of municipal capital investment forecasts. Actions to address this problem could include:

- Create a mechanism that links the income of the IP of the following years to works that have already been selected, ensuring that additional resources will be allocated to fund ensuing stages of their execution.
- An alternative option would be to maintain an annual time frame for a certain group of priorities, with those that require more complex execution assigned to a bi-annual cycle.<sup>32</sup> This step would increase the capacity of OP participants to engage in public works oversight because it reduces the pressure of one-year time cycles.

**Challenge 3: Ensure the implementation of the Investment Plan in the projected time frame.** Failure to conclude implementation within the foreseen time frame generates serious risks to the credibility of the OP, undermining participants' confidence in its capacity to influence actual municipal investments. Options to address this problem include:

- Create indicators and benchmarks for both investment and current account objectives that would clearly show how increased current expenses limit the government's investment capacity.
- Improve the quality of public expenses, particularly current expenditures.

**Challenge 4: Ensure that OP's Investment Plan does not exceed the actual amount assigned to OP investments by the municipal budget envelope.** Failure to allocate OP priorities according to the municipalities fiscal capacity leads to pressures to expand beyond what is fiscally sound and negatively

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<sup>32</sup> It must be acknowledged that making the OP a bi-annual process involves other important factors and trade-offs, such as a possible reduction of the interface between the population and the local government.

affects the credibility of the OP among the population, when investments prioritized by the OP are not implemented because of fiscal constraints. Actions to address this problem could include:

- Each year the municipality assigns a budget cap prior to the preparatory meetings of the OP.
- Include a rule in the OP Internal Regulation (*Regimento Interno*) preventing that demands exceed the budget cap.

**Challenge 5: Ensure revenue and expenditure forecasts are as accurate as possible.** The capacity of the municipality to forecast revenues and expenditures has deteriorated in recent years (a problem not exclusive to Porto Alegre), which affects both OP resources as a share of total municipal investments and the municipality's ability to execute planned investments in the projected time frame. Actions to address this problem could include:

- Introduce a mechanism in the OP cycle that permits adjustments to the Investment Plan during budget execution, allowing the OP to better address unforeseen falls in revenue.
- Strengthen municipal capacity in budget planning. The use of appropriate financial software could help the municipality evaluate the impact of capital investments on tax revenue and current expenditures, as well as better incorporate external macroeconomic factors into its forecasts. Software could be also used to measure the impact of changes in revenue and current expenditures on capital investments. A citizen-friendly version could help better inform OP delegates and councils during the prioritization process.
- Collect indicators on the accuracy of income and expenditures and make them public during each budget cycle.
- Create an indicator (e.g., number of demands budgeted correctly/total of demands) to measure the accuracy of disbursement estimates for each demand in the IP.

**Challenge 6: Balance small localized public works with citywide strategic investments.** Although historically the OP has not led to investment fragmentation, a recent trend of increasing small investments can be discerned, together with the absence of sound debate on long-term investments. Options to address this problem include:

- Use strategic policy objectives that are debated in city conferences and different sectoral public policy councils to guide discussions at the thematic meetings of the OP. This guidance would help better align the prioritization of OP resources with strategic policy issues.
- Incorporate a strategic planning methodology into the OP process to facilitate thematic meeting discussions, thus avoiding discussion of demands that should be addressed in regional meetings and approved after citywide debates.

**Challenge 7: Strengthen the OP's capacity to conduct independent, qualified analysis of municipal fiscal policies and monitor the impact of OP projects.** If the OP is to contribute to Porto Alegre's fiscal health, a more systematic and in-depth public debate on the municipal fiscal policies and decisions needs to occur. Options to address this problem include:

- Incorporate in-depth public discussion of the overall municipal fiscal policy and budget execution at the beginning of each OP cycle.
- Offer annual training in municipal finance to OP participants—particularly new OP delegates and councilors—that covers such topics as Multi-Year Plans (PPA), the Budgetary

Guidelines Law (LDO), the Annual Budget Law (LDO), bimonthly Summary Budget Execution Reports (RREO), and Fiscal Management Reports (RGF).

- Establish partnerships with local universities and think tanks that could assist COP to undertake independent fiscal policy and budget analysis.
- Make the fiscal and budget information available on municipality portals more citizen-friendly, as well as update it more frequently.
- Develop the ObservaPoA into a system that offers statistical information that enables the OP to better allocate investments and monitor the impacts of different municipal programs.
- Offer regular training to OP councilors and delegates on how to incorporate the objective data available on the ObservaPoA into the OP process.

## Chapter 3. The OP and the Accountability of Public Expenditure

**The debate on Participatory Budgeting has focused mainly on the role of citizen *voice* in capital expenditure planning, not their potential oversight role in monitoring public expenditure and service delivery.** In addition to underestimating the role that the OP has played in empowering poor and socially excluded groups in decision making, the role of the OP in engaging citizens in public oversight of government expenditure and monitoring public works and services deserves discussion.

**Including the priorities of the poor in the municipal investment plan is fundamental. However, it is insufficient to ensure that public resources are actually allocated to the intended priorities in an efficient manner, or that intended beneficiaries gain access to high-quality services.** To cite one illustration, the actual cost of a school construction project prioritized through a participatory process can, at the end of the day, exceed the estimated cost due to expenditure inefficiencies and leakages. In addition, after building the school, what really matters is the quality of the education it imparts, which should be equal to or better than that of other, similar schools. Therefore, for the OP to become a truly effective mechanism of social accountability and poverty reduction, it should not only empower citizens to voice their priorities when planning capital expenditures, it should also strengthen their role in both scrutinizing public expenditures and holding accountable and disciplining service providers.

**Budget transparency and literacy is the first entry point for civil society to hold local governments accountable for how they manage public resources.** With adequate and timely information, citizens can closely monitor policy implementation and budget execution. In several cases, local governments have actively engaged citizens in public bidding and procurement processes, as well as tracking flows of public resources from revenue sources to final outputs of goods and services. Through this process, local governments attempt to uncover budget waste, leakage, and favoritism—limitations that traditional check-and-balance systems often fail to uncover. Civil society can also play an important role in this area by analyzing, disseminating, and building awareness of government policies and budgets in an independent manner. Investigative journalism, local media, and civil-society organizations have an important role in scrutinizing public policy and government expenditures. In addition to a direct impact on accountability, independent policy and budget analysis is a powerful mechanism for social learning, as it increases the literacy and awareness of civil society on issues that are opaque to people without a technical specialization or who have yet to recognize the relevance of such issues to their lives.

**Strengthening the power of service users is another a powerful instrument of social accountability because it can better discipline providers.** Services providers are not always responsive to user needs and preferences, particularly in monopoly frameworks. As the World Bank's *World Development Report 2004* (WDR04) explained, engaging users in an active role (e.g., as purchasers, monitors, and co-producers) can improve service performance tremendously. This finding is particularly relevant to the poor, given that services have a strong impact on their well-being and that they usually have less access and purchasing power to discipline providers. Strengthening client power means making the interests of the poor matter more to providers. This can be achieved by increasing their individual purchasing power, taking collective action to exert power over providers, and building their sense of capability and empowerment. Experiences with participatory approaches to service performance assessment, such as community score cards and citizen report cards, have not only demonstrated positive changes in service responsiveness and performance, they have also awakened citizens, civil society, and the media to play a more active role in local governance.

Taking these issues into consideration, **this chapter attempts to shed light on the largely unknown role the OP in facilitating greater social accountability of public procurement and the delivery of goods and services.** It starts by analyzing the level of budget transparency and literacy, as well as the actual contribution of the OP to promoting budget transparency and public expenditure oversight in Porto Alegre. The analysis then looks at whether the OP has monitoring and evaluation mechanisms to discipline service providers. Finally, the chapter highlights the main shortcomings of the OP in promoting budget transparency and oversight of public works and services; it then concludes by offering a range of recommendations to address these challenges.

### **3.1 Budget Transparency and Public Expenditure Oversight in Porto Alegre**

**Brazil has detailed legislation relating to budget transparency and access to municipal fiscal accounts.** Law 4320 established the normative framework that regulates the budgetary process. The law stipulates a series of formal regulations pertaining to the development of city budgetary proposals in all of their dimensions, as well as the presentation of accounts on budgetary execution. Publication of the budget plan, together with annual balance and budgetary execution audits, are determined by current national legislation. In addition, the national Law on Fiscal Responsibility, the state constitution, and municipal legislation also set strict guidelines for budget transparency.

**The Porto Alegre administration not only complies with national Brazilian legislation, it goes even further in budget transparency.** The municipality rigorously complies with all legal requirements, to which it has added many other instruments for the presentation of public fiscal accounts, some of which are directly related to the OP and some of which are not. As analyzed in the sections that follow, the municipality carries out different processes of account presentation within the framework of the OP, all of which are aimed at informing participants about the execution of Investment Plans. Additionally, the municipality has developed a sophisticated e-government system that gives the public access to a vast range of information related not only to budget planning and public expenditure, but also to different local government programs, as well as detailed socioeconomic statistical data.

**The use of the Internet in Porto Alegre represents one of municipality's major advances in transparency.** Through the municipal Website ([www.portoalegre.rs.gov.br](http://www.portoalegre.rs.gov.br)), it is possible to access not only all reports that the municipality is required by law to make accessible to citizens, but also detailed data regarding capital investment planning, execution of public works, and the implementation of different municipal programs. As the box below shows, information on Porto Alegre's budget can be accessed through three different web portals, which together represent both a significant innovation and an advance in the use of the Internet to promote budget transparency.

**Box 4. Access to budget information on the Porto Alegre Website  
(www.portoalegre.rs.gov.br)**

**OP portal** (www2.portoalegre.rs.gov.br/op/). The OP portal offers information on how the OP functions, news about the current OP cycle, and information about the implementation of each OP demand according to the year it was prioritized, the secretariat of the agency responsible for its execution, the region or thematic forum of which it is a part, and its identification number. The portal also provides links to key pages of the municipal budget Website (e.g., multi-year plan, financial reports, etc.).

**Municipal Finance Department Web page** (www.portoalegre.rs.gov.br). This Web page offers comprehensive information on municipal finance management, tax system, audit reports, procurement processes, and contracts. The Website has a link to the OP Portal.

**Municipal Management Portal** (www2.portoalegre.rs.gov.br/portaldegestao/). This portal allows users to monitor the implementation all municipal programs using different performance indicators. For example, the management portal offers four main indicators to assess OP performance, including unmet investments, executed investments, budget execution, and number of participants. The Management Portal also explains the rationale behind the new municipal management model, which is based on programmatic areas rather than administrative units.

**Observatory of the City of Porto Alegre** (www2.portoalegre.rs.gov.br/observatorio/). The Observatory (“ObservaPoa”) is probably the city’s greatest contribution to informing its citizens about their municipality. ObservaPoA organizes and makes accessible the most relevant census information about the city, using a GIS system that allows cross-referencing of statistical data and geographic areas, such as regions of the OP. It is also a portal for accessing quantitative studies on different social and economic groups of the population. The municipality believes that ObservaPoA can play a fundamental role in better informing public debate in Porto Alegre, particularly by offering quantitative socioeconomic data to help OP participants prioritize investments.

**Regular publications on municipal performance are another important contribution to transparency and accountability.** Booklets are published on a bi-annual basis that report on local government achievements during a specific period. Most include information on the city’s fiscal and budgetary situation, as well as the implementation of different municipal programs.<sup>33</sup> This material is not specifically directed at OP participants, since it has a wider distribution (i.e., the general population). Together with the information available on the Internet, these publications ensure a high degree of transparency and accountability on the part of the municipality.

*OP Contribution to Public Expenditure Transparency and Oversight*

**The OP, which has debated Porto Alegre’s budget for the last 18 years, has unquestionably contributed to increasing public access to budget information and awareness of pro-poor spending.**

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<sup>33</sup> For the purposes of this investigation, material from the previous administrations was analyzed for the years 1995, 1997, 2000, and 2002, and the presentation of accounts of the current administration was analyzed for the years 2005 and 2007.

The survey conducted for this study showed that 85 percent of people interviewed had knowledge of the OP process. Moreover, about 80 percent agreed or partially agreed with the statement that the OP favors poor people. This finding indicates high awareness among the local population about the redistributive nature of the OP. As discussed below, the methodology of the OP in Porto Alegre also favors increasing budget transparency by offering citizens different means to access information about local government expenditure.

**The most direct way for citizens to learn about municipal finances is most likely at the OP meetings organized in each region of the city, or at the OP meetings organized around specific thematic areas.** During these meetings, the local government presents the overall situation of municipal finances and the stages of implementation of the Investment Plan approved the previous year. In addition, as part of the ordinary OP process, the municipality discusses its Multi-Annual Plan, the Budgetary Guidance Law, and the Budget Matrix in more detail at COP meetings. Usually, the government provides overall budgetary numbers and general concepts related to the budgetary process in Power Point presentations at COP meetings. These meetings between the municipality and citizens represent not only an effort to increase budget transparency, but also an opportunity to improve budget literacy.

**The various OP publications produced by the municipality are another important instrument of budget transparency.** Probably the most important publication is the booklet “OP: Plano de Investimento e Serviços” (“Investment and Service Plans of Porto Alegre Participatory Budgeting”). This document presents the budgetary matrix (i.e., forecasts of current and capital expenditure) and the investments by administrative unit (direct and indirect), overall revenue from local taxes, inter-governmental transfers (i.e., SUS), and credit operations. It also presents the list of works prioritized in each OP region and thematic area, as well as the estimated cost of each investment. Finally, the OP Notebook also provides general information about the OP process, including a diagram of the OP cycle, the names of councilors, and general information on the municipality. The OP Notebook is, therefore, the main written document of the municipality on overall budget figures and includes a detailed list of investment priorities approved by the OP.

**Regional newsletters are another important means of promoting transparency and public access to information.** The 2001–2004 administration launched the *OP Regional Journal*, which informed the public about OP activities in each of the city’s regions. The current administration replaced this publication with the *Regional Bulletin (Jornal da Região)*, which aims to provide have a broader scope of information on the city, including information about the new program, Solidarity in Local Governance.<sup>34</sup> In general, the newsletter is structured in four parts. The first page presents an action of the municipality of particular interest to the local population or describes projects being carried out in association with civil society. The central part of the newsletter presents information on matters of interest to the entire city, for example, the participatory budget calendar, which normally has the same content for all regions. The last page is used for matters of interest to a specific region, such as actions carried out in the region by social organizations or the municipal government.

### *Monitoring and Evaluation of Delivery of Public Works and Services*

**Although the overall focus of the OP is on investment planning, it also provides a space for citizens to monitor the budgetary execution process.** During the past 18 years, the OP in Porto Alegre has created instruments that allow citizens to monitor the execution of the investments prioritized by them. The “Commissions of Procurement and Monitoring of Works” is the formal oversight instrument of the OP. Article 47 of the Internal Regime of the OP gives, at least in theory, great responsibility to the OP

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<sup>34</sup> The last number of *Jornal da Região* was issued in January 2007. The municipality plans to continue its publication in 2008.

commissions to oversee budget procurement (i.e., tendering, bidding, and contracting) and execution of the Investment Plan. In addition, OP delegates and councils regularly debate community demands regarding the quantity and quality of municipal services. An inventory of COP minutes between 1990 and 2006 showed that services were often an agenda topic at these meetings. Out of the 712 meetings for which minutes were analyzed over the 17-year period, services provided by the municipality were discussed at 14.4 percent of the meetings.

**Public debate on the quality of the services, however, takes place in the “Forum of Services,” a social accountability space that functions in parallel with the OP.** These service fora are public hearing mechanisms created as direct communication channels between citizens and the municipality on the quality of public services. The service fora are not formally related to the OP process, but they function according to the same territorial divisions as the OP. In fact, the “Forum of Services” is often associated with the OP, given that councilors and delegates see it as a privileged space that can be used to demand better services for their neighborhoods.

**Although not its primary objective, the recently created Solidarity in Local Governance (*Governança Solidária Local*) program is another relevant space which provides opportunities for citizens to discuss service delivery.** As part of the SLG, the municipality established local governance committees (*Comitê Gestor Local*), the aim of which is to further decentralize and integrate the actions of municipal departments and agencies in the city’s sub-regions. According to the municipality, local governance committees are intended to better respond to the particularities of each sub-region, facilitate municipal action at the neighborhood level, articulate the OP with the SLG, and promote a culture of solidarity. This initiative is providing a space where representatives of local communities can discuss the quantity and quality of municipal services with municipal secretariat staff. In addition, the program seeks solutions to the problems raised by the community through partnerships with local business and non-governmental organizations.

**The new model of programmatic management in the Porto Alegre municipality has also established a system for monitoring and evaluating service performance.** This system allows the public to access information on the performance of different municipal programs with respect to specific performance targets. A simple system of colors (green, yellow, and red) is used to rate the performance of each program and its sub-activities. Although it offers greater transparency on the performance of municipal programs, this model does not allow for citizen feedback. In this respect, the new system is more an internal monitoring mechanism for the municipal administration.

### **3.2 Limitations in Budget Transparency, Oversight, and Service Performance Monitoring**

#### *Limitations of the OP in Increasing Budget Transparency and Literacy*

**Although the OP in Porto Alegre has made important achievements in terms of transparency, its impact has been very uneven.** Findings from the public opinion survey, focus groups, and interviews conducted for this study indicate that the OP has had a limited impact on overall budget transparency and literacy. OP participants generally consider themselves poorly informed on the budget, particularly with respect to procurement and public works execution. Only a minority (4–8 percent) of people interviewed stated that they were well informed. The majority said that they did not have much information on the budget. Interviews and focus groups corroborated these findings. When asked about their degree of information on the subject, most people confirmed that “*people do not have access, have no idea about how much tax is collected, and so on.*” The information level of citizens is, moreover, precarious and

obtained in a partial manner: “Some things. . . people hear on the radio. For example, I listen to the radio and once in a while they provide numbers, but no concrete information.”

**Table 13. How Porto Alegre citizens rate their knowledge of the municipal budget**

	General Sample	Control group	OP participants	Non-participants
Well informed	5%	9%	8%	4%
More or less informed	29%	34%	39%	27%
Without much information	65%	57%	53%	69%
No answer	1%	-	-	1%

*Source:* Public opinion survey, 2006.

**OP participants nevertheless considered themselves better informed about the municipal budget than non-participants.** This finding leads to two conclusions. On one hand, after many years of implementation, the OP has apparently been unable to significantly expand the general population’s access to budget information. On the other hand, the process has contributed to a certain increase in citizen knowledge of the municipal budget, at least for those actively involved in the process.

**The municipality has not, however, carried out regular evaluations of budget awareness and public access to information.** Public surveys administered by the administration have historically concentrated on generic evaluations of administrative performance, focusing more on the public image of the government than on citizen awareness and perceptions of budget transparency. Overall, the municipal administration lacks an effective communication strategy to deepen citizens’ knowledge of public expenditures.

**Limited public knowledge of the municipal budget is partially a result of the lack of public interest in the subject.** In spite of efforts made by the municipality to inform the population of different aspects of the budgetary process, such as through the recent publication “*Caderno de Prestação de Contas*,” which reported on key fiscal and budgetary issues, ordinary citizens have not often taken the initiative to read municipal publications. As some people who were interviewed stated, “*I do not have information regarding the balance sheet of the municipality and I never tried to find out.*” This type of response indicates that a strategy to promote budget transparency and access to information must go beyond making budget information publicly available—it must actively engage the municipality in raising public awareness and building civil society capacity to undertake independent budget oversight.

**One contributing factor to narrow budget literacy is that the information presented at OP meetings is mainly focused on the execution of public works.** Analysis of the material presented at OP meetings reveals important shortcomings. First, the presentation of accounts during these meetings does not relate to the municipal budget as a whole, only to the Investment Plan (IP). There is thus no presentation of what was effectively spent, nor a comparison between what was forecast and what was effectively spent on public works. Although the OP process constitutes a privileged dialogue between local government and civil society, it is limited mainly to public works chosen by the OP that are subsequently carried out. Meetings do not address the financial situation of the municipality, nor do they effectively analyze the quality of public expenditure in general. Consequently, it is difficult for participants to gain a deep understanding of the city’s fiscal and budgetary situation. At most, they have a sense of the progress of IP implementation.

**Similarly, the OP Notebook of Investment Plan does not allow citizens to effectively evaluate budget execution.** Overall numbers are presented in overwhelming profusion, but without analysis (e.g., the relation between planned and executed expenses or deficits and/or surpluses). Nor does the budgetary

matrix convey the exact share of investments prioritized in the OP process in relation to overall capital expenditures. Resources for forecasted investments are also presented in a different manner every time, making it very difficult to analyze whether municipal finances are improving or deteriorating. As discussed in the previous chapter, the information provided by the municipality thus limits the capacity of the OP to monitor overall fiscal policy.

**Only citizens with specific budgetary knowledge can analyze the information provided by the city and extract the data needed to understand the real budget situation.** For example, it is not easy to understand what share of capital investment is prioritized by the OP process. Currently, this comparison must be done by comparing the total amount of investments proposed in the IP for each priority project with the general budget matrix. The complexity of this operation for common citizens, and even for OP council members, limits the possibility of the OP serving as a mechanism for budget transparency and independent oversight.

**In the same way, regional municipal newsletters have not been used by local communities as a tool for monitoring public expenditures at a more detailed level.** The regional newsletters (i.e., the new *Jornal da Região*, or the old *OP Regional Journal*), for example, contain general information on budget execution, the financial situation of the municipality, and the stages of IP implementation. The publications thus function mainly to publicize government actions in each region. To a much lesser degree, they support citizens with the budgetary information needed to hold the municipality accountable for its use of public resources.

**Although the Municipality of Porto Alegre has instituted significant innovations in using the Internet, the real potential of this medium to increase budget transparency and literacy has not yet been fully explored.** The information available on the various Websites created by the city is in many cases fragmented and not consistently updated. These problems highlight internal barriers that prevent municipal secretariats from upholding a common transparency goal. Moreover, OP councilors do not regularly use the information available on the e-governance platforms. Although the municipality presented these innovations at OP meetings, interviews and focus groups revealed that only one OP participant had used this instrument to access budget data. This finding cannot be attributed to the fact that many councilors do not have computers connected to the municipal network because management of the OP requires this equipment and the municipality offers access to computers and the Internet through its “Telecentros.” Rather, it indicates that OP participants do not have the knowledge or habit of using this kind of tool. The availability of data on the public network is therefore insufficient to ensure oversight in the absence of proper awareness and capacity-building programs. The disinclination to access online data is probably similar among everyday citizens, who are less involved in discussions of the public budget.

**Although the ObservaPoA offers an overwhelming amount of budget information, the platform is not sufficiently easy to be used by average citizens.** The main problem is that it is difficult to locate and reach budget reports on the portal, a process that involves a series of successive commands and information criteria that must be searched. These procedures presume a degree of technical knowledge that the average citizen evidently does not possess. In addition to this data, essential perspectives on budgetary control, which are strategic considerations of the OP, are not related to the information on the portal. Finally, both councilors and delegates, as well as municipal technical staff, point out that the information on the portal tends not to be updated in a timely manner.

### *The Limitations of the OP regarding Budget Oversight and Service Performance Evaluation*

**Participatory monitoring of budget execution is a secondary priority of the OP process, the primary focus of which is the elaboration of the annual municipal Investment Plan.** A review of the 2007 OP Statute (“*Regimento do OP 2007*”) clearly shows that oversight of budget execution is given much less

emphasis than participation in the budget formulation cycle. In fact, the stages of budget execution are not even included in the graphic representation of the OP cycle. While the OP Statute is very detailed in its definitions of the methodology used in participatory budget formulation, oversight work has a much lower level of systematization. The lack of a proactive, sustained goal among OP participants of exposing delays in the implementation of public works or other budget execution problems corroborates the notion that most participants do not have a clear incentive to scrutinize budget execution once they have ensured that their preferred public works have been included in the approved budget matrix. Thus, while the OP has done a good job in organizing and promoting the process by which citizens can voice their needs for public works and services, it has been unable to significantly advance effective oversight of public expenditures.

**The Commissions of Procurement and Accompaniment of Works have not always functioned in a systematic or efficient manner.** The study survey shows that only 1 in 3 OP councilors usually participate in these commissions, which supervise the execution of public works. Nor is any methodological approach specified for delegates and councils to use in monitoring procurement for and the execution of public works. The effectiveness of oversight largely depends on the interest and knowledge of the parties involved. The interviews conducted for this study made clear, for example, that certain commissions have undertaken careful oversight of investment implementation in their specific OP regions. According to the Secretary of Budget Programming, OP councilors and delegates who have a better understanding of budget execution, and have access to municipal technical staff, play a very effective oversight role, helping local authorities manage the process.

**The knowledge and skills required to carry out basic budget oversight work is uneven among OP representatives.** A structured questionnaire completed by 44 current and former councilors demonstrated great fragility in their understanding of the fundamental concepts of public finance. Although the majority of people interviewed answered the questions correctly (or approximately correctly), the percentage of correct answers varied between 65 and 72 percent. The incidence of wrong and no answers, moreover, indicated significant weaknesses in their basic knowledge of how fiscal expenditures are monitored. As community representatives who decide certain municipal expenditures, the members of the COP, particularly OP participants, should at least understand basic budgetary concepts.

**Table 14. Survey question: Would you know how to say in your own words the meaning of...**

Subject	True	More or less	Wrong	No answer
Multi-annual plan	51.1%	17.0%	8.5%	25.4%
Law on Budgetary Guidelines	40.4%	25.5%	19.1%	14.9%
Expenditure costs	66.0%	6.4%	17.0%	10.6%
Deficit	53.2%	17.0%	17.0%	12.8%

*Source:* Structured questionnaire of 44 OP councilors, 2006.

**Furthermore, the commissions are fragmented in character, with each devoted to monitoring one work in particular, without a global vision of budgetary execution** (i.e., quantitative data on public expenditure) or efficiency indicators (i.e., quality analysis). To the extent to which each work is supervised in an isolated manner, no parameters exist that would permit comparisons of public expenditure across regions. In addition, the monitoring of a public works project by delegates directly interested in their realization could lead to a less rigorous review of public expenditure, given that it is in their the interest that the project be implemented.

**The municipality and the COP mainly interact during the formulation phase of the Investment Plan and after the presentation of accounts at the beginning of the following year.** There are no systematic meetings with municipal secretariats during the year to track execution of the budget. Contacts with the secretariats are sporadic and depend on a decision or request of the COP, as well as the consequent acceptance of such by the secretariats, which in many cases do not respond.

**Limited attention to the execution of the municipal budget may have indirectly contributed to the current difficult situation of the OP, where a large volume of investments is not being executed as planned.** Because of the narrow focus of the Porto Alegre OP on capital expenditure planning, it has become a very limited instrument for engaging civil society in actual monitoring and evaluation of public expenditure management. Indeed, the analysis in this study shows that the OP has been unable to promote in-depth public scrutiny of critical fiscal situations or proposals for their concrete solution.

#### *Limitations of the OP with Respect to Service Monitoring*

**Despite the various spaces for citizens participation in Porto Alegre, user feedback on public services performance is ad-hoc and lacks a methodology.** Discussions between users and service providers currently occur through the OP, the Solidarity in Local Governance program, Municipal Public Councils, and direct contacts between “clients” and “providers.” None of these discussions employ structured methodological tools or systems for user feedback on service provision. Although an analysis of COP minutes shows that there have been debates on service quality, these debates have taken place only when a specific issue comes to the forefront, not as a result of a systematic procedure.

**The new municipal system of result-based management is not directed at social accountability, but at internal control.** The city is using management performance indicators to evaluate the quality of public services mainly for internal purposes. The selection of indicators has not yet been discussed with the actual users of the different services. As result, the system has not incorporated indicators that are important from a user perspective.

### **3.3 Main Challenges and Recommendations**

**There is room to improve the potential of the OP to contribute to downstream accountability of public expenditure.** Although the OP in Porto Alegre has contributed to greater understanding of pro-poor public spending and has directly engaged ordinary citizens in voicing their priorities for capital expenditure planning, it has not fulfilled its potential to improve budget literacy and has paid scant attention to budget oversight. The municipality offers positive conditions for budget oversight: it carries out different processes of account presentation; has a sophisticated e-government system; and provides information updates on budget planning, public expenditures, and local government programs, as well as detailed socioeconomic data through its Website. However, oversight on the part of COP members and municipality officials is neither well codified nor supported by a sustained effort, and thus takes place mainly in an ad-hoc manner. The following paragraphs identify challenges related to the OP’s ability to play a more effective role in monitoring public expenditures and providing feedback on the delivery of public works and services.

**Challenge 1: Strengthen budget literacy in Porto Alegre.** Currently, budget literacy is both limited and uneven among Porto Alegre citizens. Although the OP has contributed to a greater understanding of pro-

poor public spending, it has not fulfilled its potential to improve budget literacy. **Actions to address this challenge could include:**

- Make more frequent use of local radio to raise public awareness of basic municipal finances and budgeting. Similar radio programs have been developed by the World Bank in Peru, Ecuador, and Guatemala, as well as in Anglophone African countries.
- Include a supplement on fiscal and budget literacy in the annual OP Statute.
- Include detailed information on municipal revenue and expenditures in the OP Notebook of Investment Plan.
- Include detailed technical and financial information on each project being implemented in the various regions in the regional newsletters, allowing comparison between plan and execution.
- Include an overall evaluation of the implementation of all municipal programs in the Booklet of Municipal Account, using the performance indicators adopted by the new management system. Programs and activities that are under-performing should offer technical justifications for their performance in citizen-friendly language.
- Improve the articulation of different pages of the Municipal Website, particularly the OP, Management Portal, and ObservaPoA pages.
- Include issues of municipal finance and budgeting in the curriculum of Porto Alegre secondary schools (some states of Brazil have already instituted this step).
- Regularly conduct surveys and focus groups with users of these different budget communications tools to identify concrete recommendations that can make the platforms more users friendly.

**Challenge 2: Expand the scope of the OP to include independent budget oversight in a systematic manner.** Although the OP formally enables citizens to monitor the execution of the Investment Plan, oversight takes place mainly in an *ad-hoc* manner. The Commissions of Procurement and Accompaniment of Public Works function only in regions where councilors and delegates are more interested in oversight work, have prior knowledge of the projects, and enjoy better contacts with the municipal administration. **Actions to address this challenge could include:**

- Incorporate a phase for budget execution oversight and related activities into the OP cycle. This change in the OP Statute could be informed by a series of debates between the COP and the municipality to identify how the OP cycle could strengthen oversight of budget execution (e.g., tendering, bidding, and contracts). Representatives from municipalities where this process is already in place (e.g., Belo Horizonte) should be invited to share their experience.
- Create an effective reporting system and incentives to promote citizen engagement in monitoring the implementation of public works prioritized by the OP. This reporting system should be linked to incentive mechanisms. For example, OP regions could be rewarded for their efforts to ensure the technical quality and financial soundness of budget implementation of projects in their respective regions.
- In consultation with the COP, the municipality should develop a practical manual for citizens to monitor budget execution. This manual should provide simple tools for citizens to review public tenders and contracts (“*licitações*”), as well as to track the execution of these investments.
- OP councilors and delegates should receive training from the municipality on budget oversight each year, preferably at the end of the budget formulation cycle. Training modules should ideally

be made available online in order to explore the potential of the e-government platform and the accounting system to monitor revenues and public expenditures.

- The OP Website should include simple indicators that compare overall budget planning data (e.g., amounts, time of implementation, basic technical details) with budget execution data for different investments. These indicators should be developed to enable the use of benchmarks and cross-regional comparisons.
- The municipality should make citizen-friendly budget execution reports (e.g., the bimonthly Summary Budget Execution Reports, or RREO) available on a regular basis.

**Challenge 3: Strengthen mechanisms for the monitoring and evaluation of municipal services.** Porto Alegre citizens do not have systematic opportunities to provide feedback on service delivery. Moreover, this feedback is limited and lacks a structured methodology. It is important to note that, in theory, certain specific social accountability spaces, such as the sector-based municipal public councils and the Forum of Services, are more suitable for the discussion of service performance than is the OP. It is thus recommended to:

- Strengthen the capacity of sector-based municipal public councils and Forum of Services to monitor and evaluate service delivery. Citizen feedback mechanisms, such as community and citizen report cards, should be introduced to strengthen client power in monitoring service performance.
- Engage local civil-society organizations, academia, and research institutions to undertake more technical monitoring and evaluation of municipal fiscal policies, public expenditures, and services performance. These social actors could be instrumental in providing independent information to stakeholders engaged in the OP.
- The municipality should introduce clear indicators and benchmarks for service quality, reliability, and satisfaction into the new municipal program management system.
- The municipality should consider developing a Citizens' Charter of Municipal Services that would set citizen-friendly performance benchmarks for each service provided by the city, as well as a mechanism for user feedback.

## Chapter 4. Towards a System of Social Accountability in Porto Alegre

**During the last two decades, decentralization and democratization reforms have driven the creation of several governance innovations aimed at strengthening the voice of civil society at the local level.** The 1988 Constitution, also known as the Citizenry Constitution ("*Constituição Cidadã*"), defined clear instruments of direct democracy, among them, *public councils*, *referendums*, and *popular petitions*. These institutional mechanisms guarantee citizens the exercise of their constitutional rights to voice their preferences in public decision-making processes and exert social control over the management of public resources and the delivery of public goods and services. The synergy between collective action, democratization reforms, and the election of progressive mayors has been decisive in incorporating direct participation into different aspects of municipal management in Brazil (Avritzer 2002). Public municipal councils, participatory budgeting, and many other fora for dialogue have become common practice in most Brazilian cities.

**Although participatory budgeting in Porto Alegre is probably the most well-known mechanism of direct participation in Brazil, there are many other spaces for participation in local governance.** As is the case in many other cities, Porto Alegre has multiple spheres of interaction between the local government and civil society. Each of these spheres has a particular focus, ranging from expressing citizen voice in policy making, urban planning, and budgeting, to the co-production of public goods and services. Ultimately, these different spaces should be articulated in a coherent manner to create *a system of participation and social accountability* that can translate participation and mediation into development outcomes. As the previous chapter discussed, while the OP has become a vibrant practice of participatory governance, there is room to improve not only the OP per se, but other spheres of public participation in the city.

**This chapter looks at the interface between the OP and other mechanisms of participation in Porto Alegre to identify challenges to and possible recommendations for the creation of a coherent system of participation and social accountability.** The chapter starts by mapping the main spaces of public participation in local governance apart from participatory budgeting. Subsequently, it analyzes the nature and quality of the interfaces between the OP and these venues of participation, identifying unnecessary transaction costs, information failures, and other signs of weak coordination. Finally, it makes recommendations on how to strengthen the synergy between the different participatory mechanisms so that they can function as a coherent system.

### 4.1 The Multiple Spaces of Public Participation in Porto Alegre

**Innovative participatory governance and collective action have a longer history in Porto Alegre than does participatory budgeting.** As Baiocchi (2005) points out, participation in Porto Alegre has evolved over many decades to create multiple spaces of interaction between the municipal government and civil society. Baiocchi notes that the relationship between the state and civil society in the period 1945–1977 was marked by the tutelage of popular associations and limited participation in social programs. This relationship began to change with the increasing social mobilization that occurred as a result of the relaxation of the authoritarian regime in the period 1977–1985, a period followed by the first concrete attempts to institutionalize, albeit in limited form, public participation in local governance (1986–1988). With the election of a local government supported by a wide spectrum of social movements, Porto Alegre entered a new phase of empowered participatory local governance in the late 1980s.

**Table 15. Evolution of state-society interactions in Porto Alegre**

	<b>1945–1977</b>	<b>1977–1985</b>	<b>1986–1988</b>	<b>1989 to present</b>
<i>State-society relations</i>	Tutelage, authoritarian state	Tutelage	Tutelage with initial consultative local governance mechanisms	Proliferation of institutions of empowered participatory governance
<i>Formal state-society arrangements</i>	First sector councils	State-run community councils	Self-help programs, consultative fora	Establishment of Public Councils, OP, and city-wide consultative fora
<i>Civil society and political institutions</i>	FRACAB	FRACAB, UAMPA, and first popular councils ( <i>conselhos populares</i> )	UAMPA, popular councils, NGOs, and political parties	Citywide, territorial-based (district) and issue-based networks of civil society organizations, political parties
<i>Principal agenda</i>	“Social pacts” with the state, occasional anti-paternalist movements	Re-democratization and certain community participation in social programs	Initial acceptance of participation in local governance	Broad institutionalization of public participation

*Source:* Adapted from Baiocchi (2005).

### *Public Municipal Councils*

**One important innovation in social participation in Porto Alegre has been the creation of Public Policy Councils (*Conselhos de Políticas Públicas*).** Although these councils already existed in certain sectors and at various levels of government, the Constitution of 1988 made them a formal institutional space where civil society could exert its voice and control over policy making and public expenditures. Public Policy Councils can be generically defined as institutionalized mechanisms that allow civil society, service providers, and governments to discuss public policies at all three levels of the federation (national, state, and municipal). Their characteristics and powers range from consultative to deliberative. Particularly in those sectors with deliberative power, public councils have impacted municipal management in a profound manner because all policy decisions are first discussed and approved by the council before they are implemented by the municipal administration.

**The city of Porto Alegre currently has 20 Public Municipal Councils.** The first councils were established in the 1930s and subsequently expanded. With the re-democratization of the country after 1985, other venues with a more participative nature emerged. Most were reformulated to broaden participation or in response to new legislation. Current legislation defines these venues as "organizations of societal participation in public management with the finality of proposing, monitoring, and deliberating over materials referring to each sector of the administration."<sup>35</sup> Among the 20 councils, two could be considered multi-sectoral (the OP and the Urban and Environmental Development Council); the rest are sector-specific.

<sup>35</sup> Article 101 of the Organic Law of the City of Porto Alegre (2004).

**Table 16. Public Municipal Councils of Porto Alegre, as of 2004**

Acronym	Title
CMAA	Agriculture and Supply
CMAS	Social Assistance
CMC	Culture
CMD	Sports
CMDCA	Children's Rights
CMDH	Human Rights
CMDUA	Urban and Environmental Development
CME	Education
CMS	Health
COMAM	Environment
COMATHAB	Access to Land and Housing
COMPHAC	Historical, Artistic and Cultural Heritage
COMTU	Urban Transportation
COMUI	Senior Citizenry
CONCET	Science and Technology
CONCONT	Taxpayers
CONDIM	Women's Rights
CONEN	Drugs
CONTUR	Tourism
COP	Participative Budget Council

*Source:* Nahra (2005) and Alfonsin (2004).

**The composition of each council varies according to their history of social mobilization.** According to Nahra (2005), there are a total of 512 positions on the councils. Nearly 20.5 percent of these positions are taken by representatives of the municipal administration, while civil society holds about 69 percent of the seats. The 10.5 percent are shared by representatives of the Municipal Chamber and of the state and federal government.

**Table 17. Component sectors of the Public Municipal Councils, as of 2004**

Representatives	Council members	
	Number	%
Representatives of the city administration	105	20.50
Representatives of civil society	353	68.94
Others	54	10.56
<b>Total</b>	<b>512</b>	<b>100.0</b>

*Source:* Nahra (2005).

### *City Congress(es)*

**The need to engage civil society more evenly in local strategic development planning became an important topic in Porto Alegre.** At one point, previous municipal administrations and key social actors became conscious of the need to bring sectors of society into direct political participation in addition to those already involved in the OP. They were also aware that the city lacked a long-term, multisectoral perspective on local development. In order to fill this gap while maintaining direct participation processes, the city administration launched Project Porto Alegre, a discussion space where representatives of civil society defined action guidelines for the municipal government. This initiative culminated in the

First City Congress of December 1993, which used a strong participatory approach to establish major guidelines and strategic goals for the development of the city.

**Since 1993, citywide strategic planning debates have been organized periodically and draw growing numbers of participants.** The Second City Congress, discussed below, was almost entirely dedicated to discussing the revision of Porto Alegre's master plan. The Third Congress, held between November 1999 and May 2000, attracted more than 7,000 participants. The strong social mobilization for the congresses has established them as a public reference on the formulation of strategic goals for the future of Porto Alegre. With more than 10,000 participants, the Fourth City Congress (entitled "Democracy and Management of the State"), focused on making changes in the structure and culture of the municipal administration to accommodate the expanded number of spaces for political participation in city affairs.

**Smaller conferences have been organized by the Municipal Councils to follow up the resolutions of City Congresses in their respective sectors.** Organized annually or bi-annually, sector-specific conferences continue to debate public policies and monitor their implementation by municipal administrators. This process of sector-based conferences is complemented by district fora that focus on adapting sectoral policies to the realities of different territorial areas.

### *Urban Fora*

**The revision of the city's master plan led to a new space for political participation.** In 1995, during the Second City Congress, participants agreed on the need to reformulate the Master Plan of Urban Development of Porto Alegre (PDDUA). Describing the process by which the plan was formulated, the then mayor remarked, "[T]he innovation was in the adopted methodology, which had democracy in the urban planning process as its main ingredient, allowing and stimulating the widest possible participation of the population and its representative entities" (Genro 2005, 3). A variety of organizations from every field participated in the discussions of the Master Plan during the Second City Congress.<sup>36</sup> Its resolutions touched on the entire range of matters related to urban planning (e.g., housing, transport, zoning, environmental and municipal management) and explicitly incorporated public participation and decentralized municipal management.

**Urban Planning fora were then established to continue discussions of the master plan in a decentralized manner.** These public fora seek to encourage a more active participation of civil society in the review of the city master plan. They are usually attended by councilors and delegates of the OP regions, technical staff of the Municipal Secretariat of Planning (SPM), and representatives of civil society. Coordinated by the SPM, discussions of revisions to the PDDUA currently take place in eight different regions of Porto Alegre.

### *Solidarity in Local Governance Program*

**The current administration of Porto Alegre has introduced a new civil society-local government arrangement in the form of the Solidarity in Local Governance program – (PGSL).<sup>37</sup>** The program aims to create a new governance system by articulating social networks of democratic political participation in local areas. The program uses the same territorial structure of the OP regions, but then decentralizes further to the neighborhood level.

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<sup>36</sup> For 8 months, more than 200 organizations and a total of 2,600 people participated in the discussion groups and sessions of this Congress.

<sup>37</sup> *Programa de Governança Solidaria Local* in Portuguese.

**The initiative represents a new effort to address important challenges that key stakeholders in Porto Alegre were already debating in City Congress events<sup>38</sup> and other fora.** First, it seeks to address the problem of the city's limited capacity to solve all its problems with limited public funds by mobilizing social capital and public-private partnerships. By doing so, it also attempts to broaden social participation to include segments of the population that have not been active in existing spaces for public participation, particularly the middle class and the private sector. Ultimately, the PGSL aims to establish a holistic local governance platform that can better articulate the various needs of public, private, and civil society actors in common local development goals.

**Although during the research for this paper the PGSL was still in the early stages of implementation, it has already shown tangible results.** Launched in late 2005, all 17 regions of Porto Alegre have finalized implementation of the forum and 12 regions have validated their agendas<sup>39</sup>. Several investments have already been implemented by the PGSL through partnerships between the municipality, local community organizations, and the private sector. Usually, local businesses provide construction materials, the community provides labor, and the municipality provides machinery and financial resources.

## **4.2 The Interface between the OP and Other Spaces of Political Participation**

**The OP interfaces with the different venues of participation in Porto Alegre in several ways, although these interfaces are often neither clear nor systematic.** These channels of interaction can be ad hoc or take the form of a formal institutional structure. Many social activists and civil society organizations are active in more than one venue of participation, as each venue offers different opportunities to voice their interests. On a more formal level, *trilateral commissions* have been established to bring the OP, Municipal Councils, and local government representatives together to address the same agenda. However, as explored in Chapter 1, the weak participation of important social actors (e.g., the middle-class, private sector, local academia, and other professional associations) limited the potential of the OP to cooperate with other spaces of participation in the city.

**The priority given to each space of participation by the municipal administration also influences the ability of the OP to interface with other participatory venues.** Based on its privileged role, the municipal government influences the participation spaces to which it pays more attention. While under previous administrations, the OP was unquestionably the backbone of the entire structure of citizen participation, the current administration seems to give a more balanced weight to each participation space. Indeed, previous administrations saw the OP as probably the most important channel for empowering traditionally disenfranchised social groups to participate in local policy making and therefore contributed to a hierarchy in which the OP was more important than other spaces of participation. The current administration, however, invokes a more "holistic" approach to participation and focuses its efforts on promoting voice in all the city's various participation channels, including previously existing channels and the newly created PGSL.

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<sup>38</sup> For example, the need to establish a new model of municipal management based on program budgets, local management committees, public observatories (i.e., sources of information), local governance networks, a municipal capacity-building system, etc.

<sup>39</sup> Monitoramento do PGSL (*Programa de Governança Solidária Local*), September 2007.

**However, the interface between different spheres of participation remains fragile.** Although the topic is not new,<sup>40</sup> local actors have been unable to establish clear “rules of the game” to organize the different spheres of participation in a positive way. Serious concerns about conflicting agendas make it difficult to establish a system that links policy formulation, capital investment planning, budget execution, and service delivery. In order to create synergy among the different participation spaces, Porto Alegre must establish a way to overcome the current fragmentation of these spaces, which limits its capacity to capitalize on the potential of participatory local governance.

### *The OP and Municipal Councils*

**The interface between the OP and the Municipal Councils is not always positive.** The relationship between the OP and the councils is marked by both cooperation and conflict. According to studies undertaken at the Fourth City Congress, practically 60 percent of municipal council participants believed there were conflicts between the councils and the OP. The same study pointed out that there was a positive integration between the OP and the councils on issues of education and social assistance. On the other hand, it noted clear conflicts between them on issues of land and housing, urban transport, children's rights, and women rights and health. During the focus group discussions conducted for this study, it became clear that the nature of these conflicts varies and the problem of conflicting organizational interests has not yet been resolved.

**Although the OP has functioned for 18 years, questions remain about its real legal power vis-à-vis the municipal councils, whose power is established by law.** Most municipal council participants emphasize the legal status of the councils, a perception that clearly contrasts with the OP, which is not defined in a legal framework. The difference is thus a distinction between *de jure* bodies (the municipal councils) and a *de facto* body (the OP) over the prioritization of capital investments.

**Participants in the OP and municipal councils clearly diverge on the issue of integration.** Several representatives of the councils feel the municipality should play a more active role in coordinating the bodies. According to one interviewee, “*The Municipal Council of Science and Technology has the role of assisting the municipality in formulating policies in the area. Although independent, the council plays a part in the municipal management in [this sector]. Therefore, it is not up to the . . . council to go to the OP meetings to dispute resources for this sector. It's the administration that has to take the proposals from the council to OP meetings.*” The city government has not, however, consistently tried to coordinate the OP and the councils.

**There is also a dispute between the OP and the councils over social legitimacy.** Quite often, the COP does not recognize municipal councils, which have more limited grassroots mobilization. Councils that have been established more recently, or do not have an active social base, experience greater difficulties in establishing positive relations with the OP. As one member of the Senior Citizen Council noted, “*The Senior Citizen Council is new and therefore has difficulties in becoming integrated with the OP.*” This means that councils with weaker social bases do not have a strong voice in investment planning deliberations and are not able to approve demands that reflect their distinct needs.

**The OP and municipal councils rarely reconcile long-term sector policies with short-term investment planning.** The logical connection between policy making and budgeting breaks down when each issue is debated in a different venue of participation. According to several municipal council representatives, “*The councils focus on sector policies for the city as a whole, while the people in the OP have a narrow focus on localized and short-term demands.*” It is important to highlight that the creation of thematic areas in the OP and the opening of venues for the OP and municipal council representatives to

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<sup>40</sup> This was a key topic during the 4<sup>th</sup> City Congress.

meet are intended to connect sectoral policies to investments. However, as several OP participants recognize, the focus of thematic meetings on citywide investment has been gradually lost. As discussed in Chapter 3, many investment proposals approved in the thematic areas are clearly regional in nature because OP councilors who fail to win approval of their communities' demands at regional meetings treat thematic discussions as a second chance to do so.

**The hierarchy between the OP and municipal councils varies according to the decision-making power of the council.** Councils that have legal deliberative power, such as the Council on Health, rank higher than the OP, while those with only consultative power rank lower. According to one member of a council with deliberative power, “[It is] the council that decides the use of R\$2.5 million from the social assistance fund, whereas the Budgetary Programming department has defined R\$500,000 for social assistance investment through the OP.” Another council member reflected, “The council receives a list of demands from the OP per region and attaches the deliberations of the OP. The CMAS makes the final decision considering the OP demands, but it has to go through the CMAS.” The story is different with councils that have only consultative power. According to a member of one of these councils, “The budget proposal doesn't come to the council directly, it first goes through the OP and then we have to chase after it.” This situation creates a serious problem, as in some cases, sector-based policy clearly sets priorities for investment. In other cases, sector investments are not tied to broad policies and policy-making bodies thus lack the muscle to influence public investments.

**The establishment of “Trilateral Commissions” is an attempt to encourage greater harmony between budgeting and policy.** These commissions include representatives from the OP, sector councils, and different agencies of the municipal government. Their main function is to discuss specific criteria for OP investments, as well as to promote partnerships among different sectors. For example, in the case of the Council on Primary Care, Social Assistance, and Health, the commissions are restricted to discussing criteria for partnership agreements between day care centers, family social assistance, and basic health care units. Although the role of the commissions as an interface between two different dimensions of participatory governance (budgeting and policy making) is restricted, they have achieved some results in terms of downstream inter-sectoral coordination.

### *OP and Urban Fora*

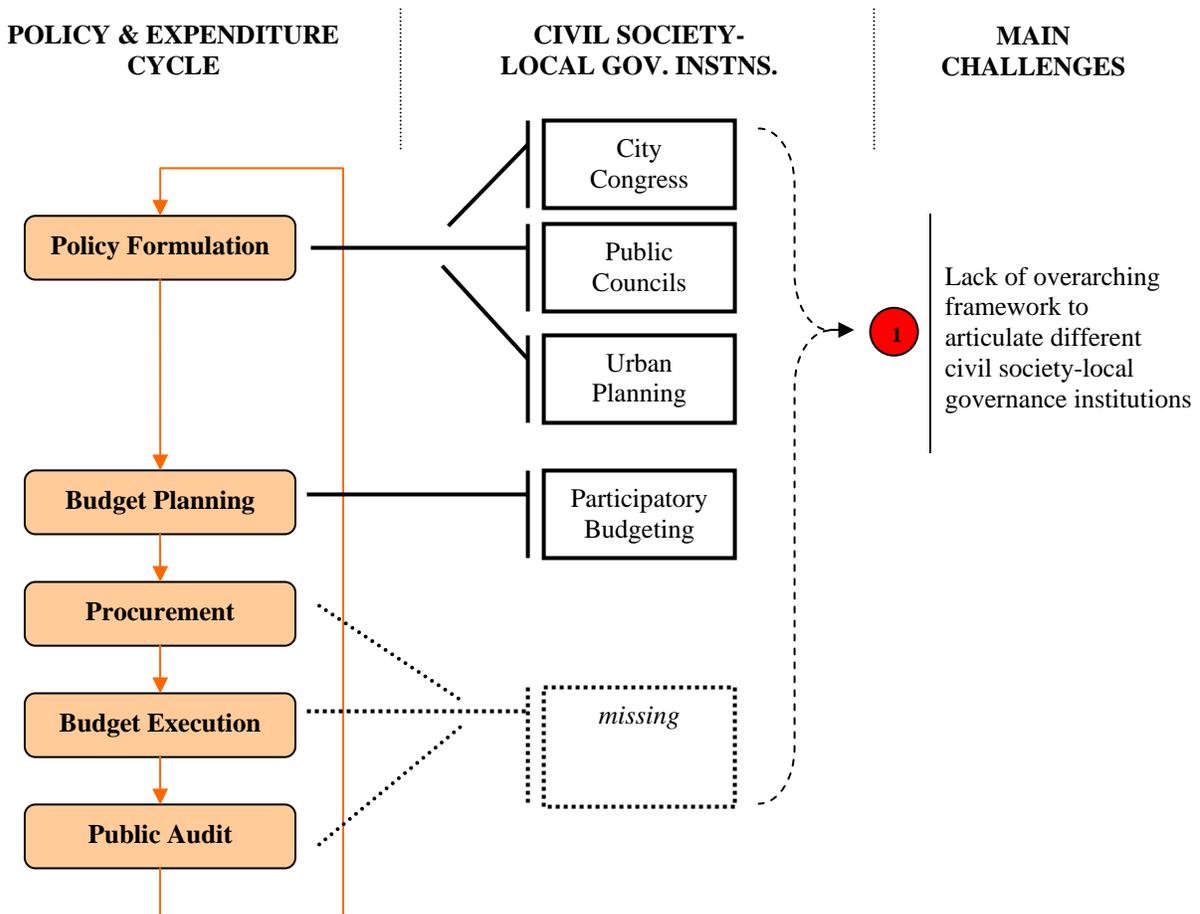
**The interface between the OP and other public fora regarding reformulation of the city master plan is plagued by similar problems of failing to link policies to investments.** During the Fourth City Congress of 2003, there was nearly unanimous agreement among the regional urban fora that the failure to integrate participative planning with participative budgeting was a fundamental problem. One of the examples cited by representatives of these fora was a region that had drawn up a regional plan, but did not receive the necessary investment to implement it because the plan wasn't approved by the OP.

**Lack of discretionary power over the allocation of resources has undermined participation in urban fora.** Civil society evidently loses interest when issues debated in the regions must be taken to the Municipal Council on Urban and Environmental Development (CMDUA) for decisions. For example, regional discussions were held on the multi-annual plan of the city to generate proposals. The suggestions were not, however, considered by the government nor incorporated into the Multi-Annual Plan, thereby causing the fora to feel excluded from the decision-making process. Their frustration eventually led to a gradual demobilization of the local community.

**The foregoing analysis clearly indicates that Porto Alegre lacks a coherent local governance system for participation and social accountability.** While the city is a champion of deepening democracy at the local level, it has ended up creating a number of different spaces for direct participation without an

overarching framework (see Figure 20). In fact, in several situations, duplication of roles, competition, and real tensions exist between different venues. Certain important functional gaps in the current constellation of participatory venues also exist, such as in revenue and expenditure tracking, procurement oversight, and performance monitoring and evaluation. Although many of these problems are known, there has been limited progress towards making the various spaces of public participation more coherent and effective. Ironically, failing to address this fundamental challenge seriously undermines the basic principles and goals of Porto Alegre’s participatory local governance model.

**Figure 20. The policy and expenditure cycle and civil society-local government institutions**



**The PGSL was, to a large extent, created to cope with the fragmentation of spaces for public participation.** As the current local government and many other actors point out, Porto Alegre has developed a network of participation over the past several decades that significantly deepened local democracy, increased social control over policy making and investment planning, and promoted more socially inclusive public policies. However, the organic evolution of these different spaces of participation has created a complex and fragmented network that does not always express the richness of the city’s social fabric or fulfill its potential for cross-sectoral synergies. The PGSL seeks to address these challenges through multi-stakeholder engagement and cross-discipline dialogue, broadening consensus on local development goals and actions to achieve them.

**However, the Solidarity in Local Governance program was initially greeted with misgivings by a significant number of OP councilors.** On several occasions during research for this study, COP members expressed their discontent with the new program because they could not understand the need for an additional mechanism for public participation in the city. They were also concerned that the program would increase competition for scarce municipal resources. One important factor contributing to this mistrust was the perception of certain OP participants that the new political alliance that came to power in the city could potentially weaken the OP process by legitimizing other venues of participation. The idea of using non-public resources to address city problems (i.e., through public-private partnerships encouraged by the PGSL) was also perceived as a proposal in line with a “minimum state” model, as opposed to the welfare state concept that inspired social reforms in past.

**The relationship between the OP and the Solidarity in Local Governance program has improved since the launch of the latter, although certain coordination problems remain.** As the program is being rolled out and initial results have begun to appear, OP participants have become more receptive to the PGSL and have started to engage in its activities more systematically. However, certain OP participants find it difficult to participate in the Solidarity in Local Governance program due to limited free time. For instance, while most OP meetings take place after business hours and on weekends, meetings of the governance program are held during normal office hours. The high cost of participation in other spaces of participation, such as district fora and sector-based public councils, thus creates a critical trade-off between different spaces.

### **4.3 Main Challenges and Recommendations**

**Although participatory budgeting in Porto Alegre is probably the most well-known mechanism for direct participation in Brazil, there are many other spaces for participation in local governance.** As is the case in many other cities, the multiplicity of spheres of interaction between the local government and civil society lends itself to overlapping roles, competition, and undesirable tensions between different venues. At the same time, the absence of an overarching framework allows for functional gaps in the current constellation of participatory mechanisms (e.g., in revenue and expenditure tracking, procurement oversight, and performance monitoring and evaluation).

**It is important to recognize, therefore, the limits of the OP within this complex network of citizen participation in Porto Alegre.** Since its inception, the main objective of the OP has been to include citizen input in capital investment planning. Over time, and as a result of its success and permanence, but also as a response to its need to understand and scrutinize the municipal budget, the OP developed some capacity to monitor the execution of prioritized public works. However, this capacity is weak and requires strengthening. On the other hand, other spaces of participation were created before and after the OP. Although these other channels have specific purposes, such as the Public Policy Councils (which focus mainly on sectoral policy making) and the PGSL (which has a more holistic approach to local governance), many overlaps and conflicts clearly exist. It is therefore useful to recall that there may be limits to the ability of the OP in Porto Alegre to expand its role to include other areas of participatory local governance, particularly if it is to strengthen its current role. It is also clear that the municipality and the different non-governmental stakeholders that play an active role in the various channels of participation have not yet created a harmonizing framework for a more effective and efficient system of civic engagement and social accountability for the city.

**Challenge 1: Reconsider the relationship between the OP and Municipal Councils to ensure maximum synergies.** Currently, the interface between existing institutions of direct participation is weak,

undermining the possibility of a coherent system of social accountability that would support the local policy and expenditure cycle. Options to achieve better synergies could include taking action to:

- Establish an overarching agreement framework between the different municipal councils and the COP to clarify formal and informal functions and remove overlapping roles in budget planning and oversight.
- Strengthen the interface between the different municipal councils and the thematic axis of the OP. This goal could be achieved by assigning representatives of the municipal councils to relevant OP thematic areas.
- Better integrate the Urban Fora (i.e., public debate on the city's master plan) with OP investment prioritization through a specific OP thematic group.

***Challenge 2: Strengthen the alignment of long-term sectoral development objectives with OP annual capital investment planning.*** Although certain important resolutions have been adopted, City Conferences have not generated sufficient momentum or direction to strategically influence the different spaces of public participation in the city and hence guide the development of Porto Alegre. To address these challenges, the following suggestions are offered:

- Use the City Conference to implement a well-structured strategic planning process among existing civil society-local government institutions. Such a process would establish clear long-term goals that would align policy making and budget planning.
- Establish a permanent governance structure to oversee the formulation, implementation, and revision of the city's strategic planning process. In addition to the City Conference, this structure should include a multi-stakeholder coordination committee, an executive secretariat, a technical team, and thematic task forces.
- Task forces should be comprised of representatives of the municipal public councils, thematic areas of the OP, urban fora, and the Solidarity in Local Governance program (according to the specific sector with which they are aligned), together with representatives of the municipality (direct and indirect administration), the local legislature, and the private sector.
- Organize public debates on the implementation of the city development strategy at the beginning of each OP cycle
- Create special task forces for (i) local economic development and (ii) municipal financial management and administrative modernization. These two areas are presently undermined by the multiplicity of participative spaces, yet remain critical for helping Porto Alegre overcome its underperformance in fiscal policy and economic growth.

***Challenge 3: Support organized civil society to undertake independent oversight of municipal policies, public expenditures, and service delivery.*** Although certain spaces of participation undertake these oversight activities, they are largely marginal to their core agendas. The experience of many other countries with independent oversight shows that it produces clear development outcomes, such as reduction of budget leakages, better alignment of policies with public expenditures, and greater responsiveness of services providers. Recommendations include:

- Given that Porto Alegre, together with most Brazilian municipalities, has only nascent capacity in independent oversight, it is recommended that local authorities promote a series of seminars and public debates where national and international experience could be presented.

- Engage local professional organizations and academia to establish independent coalitions to analyze municipal policies, scrutinize public procurement, and undertaken routine evaluation of the performance of different service providers.

## Chapter 5. Evaluating Participatory Budgeting

**This chapter presents an estimation of the impacts that participatory budgets have had on Brazilian municipalities.** Since the late 1980s, municipalities in Brazil have experimented with participatory mechanisms in budget preparation. The analysis that follows will use popular econometric techniques to evaluate the impact of the OP on intended variables. Isolating the causal relationship is the most important aspect of econometric analysis, allowing it to make compelling arguments about the usefulness of a given program. As the OP has a functional objective of expanding public participation, the focus of analysis will be whether the ultimate intended variables are impacted by the OP participatory processes.

**It is important to underline on the methodological limitations of an econometric analysis of the OP,** given that in addition to operational participation, it promotes accountability, transparency, and other major institutional changes (some of which have been achieved and others are currently under way). By definition, the breadth of the OP makes it extremely difficult to isolate its impacts. The overall impact of the OP on the structure of governance in Porto Alegre may thus not be fully captured by econometric analyses. In view of those limitations, this chapter thus adopts a rather simple approach of explaining changes in final outcomes by changes in determinant variables, which include the OP. Many other important dynamics are consequently not accounted for.

**Impact evaluation using econometric techniques presents several challenges because of the need to isolate the influence of OP from that of other variables which affect fiscal and social outcomes.** The very decision to adopt OP in some municipalities and not in others can produce a bias in the identification of impacts. For example, in Brazil there is a trend to find OP processes in cities with a stronger presence of the Workers' Party (PT), which in itself may entail the promotion of similar social goals and outcomes independently of the adoption or not of a OP process (Baiocchi et al. 2006). In this chapter, the analysis does not test whether these two political processes—OP and votes for the PT—have common roots, but it does seek to isolate the impact of OP from other elements of the political process, thereby permitting greater certainty that OP caused the observed changes in outcomes. The percentage of votes for PT is, therefore, a permanent control variable. Another, perhaps simpler, control would be to make compare OP municipalities with municipalities that tend to be equally affluent. In other words, the impact of OP must take into account differential initial conditions in order to isolate the effects of participatory budgeting. Moreover, certain impacts are likely to occur over a longer time period than that for which data are available; in other cases, insufficient data exist on given variables to positively confirm expected effects of OP.

**As shown below, the findings of this econometric analysis are mixed, suggesting that: (i) expectations of the OP process should be managed; (ii) the OP process could usefully be strengthened in both Porto Alegre and other cities; and (iii) further empirical impact analysis is warranted.** The econometric studies undertaken to date point to different results, depending on the specifications and outcome variables considered. They show that the OP has positive impacts on reducing corruption and achieving certain other outcomes (e.g., increasing water access), but less positive impacts with respect to other variables. The chapter begins by discussing the expected results from OP implementation and summarizes the main findings of earlier econometric studies. It then explains the methodological challenges of analyzing OP impacts and the approach used in this study. It then examines fiscal and social outcomes for OP versus non-OP municipalities in Brazil since 1992, using panel data. The chapter closes with concluding remarks.

## 5.1 Expected Results of OP and Earlier Econometric Impact Studies

**The major underlying assumption of this chapter is that the introduction of OP changes municipal governance structures and public management and, consequently, municipal outcomes.** The second underlying assumption is that formalized popular participation in budgetary decision making will cause citizens to be more willing to pay local taxes since they have more control over allocation decisions. Similarly, the incentive of elected officials to improve tax collection is larger when a broad base of citizens has concrete public investment expectations. OP can also be assumed to lead to better social outcomes, as it opens channels of participation to all citizens (and not just elites, where lobbying power is concentrated) and thus increases the opportunity for government investments to be targeted to social needs. That is, the local government may not enhance public budget allocation unless it directly consults its citizens.

**While there is a consensus that the OP in Porto Alegre has been responsible for more progressive expenditures and fostering a stronger sense of citizenship, few quantitative studies have sought to estimate whether these impacts are associated strictly with OP.** Analyses to date include Marchetti (2004), Baiocchi et al. (2006), and Zamboni (2007). Marchetti's (2004) evaluation concludes that the OP in Porto Alegre has improved the spatial distribution of public goods. However, his analysis is limited to Porto Alegre and it does not have a counterfactual with which to compare results. This study also takes into consideration the existence of a technical rule in Porto Alegre that privileges regions of the city with larger populations and lower average incomes, a rule that may compromise his results, given that his analysis does not make clear whether it is the rule or the OP that drives observed results. These issues are addressed in the present analysis by comparing changes in outcomes in OP municipalities with changes in non-OP municipalities, rather than comparing the intra-municipal distributional impacts of the OP in Porto Alegre alone.

**One econometric study points to a reduction in the prevalence of corruption in municipalities with OP.** Zamboni (2007) suggests that municipalities which implemented OP were likely have less corruption than municipalities that did not implement the program. Using audit reports, Zamboni analyzes a set of Brazilian municipalities using a pair-wise matching approach. He concludes that in municipalities where OP was implemented, the likelihood of corruption was lower than in non-OP municipalities. The author also suggests that participation in local public administration is more relevant to governance than voting in elections. These results also suggest that participatory budgeting may act as an effective constraint on the executive during budget implementation.<sup>41</sup>

**Another study points to positive outcomes in OP versus non-OP municipalities in Brazil, drawing on cross-sectional data for municipalities across the country.** The study of Baiocchi et al. (2006), for example, estimates the impact of implementing OP in the periods 1993–1996 and 1997–2000, using non-OP municipalities as the counterfactual. The authors use a cross-sectional data set of Brazilian municipalities to compute changes in outcome variables between 1991 and 2000, with a dummy variable approach employed to estimate the impact of implementing OP in either the 1993–1996 or 1997–2000 period. They also compare pairs of similar OP and non-OP municipalities and find that OP municipalities demonstrated improved outcomes for revenues and the provision of social services. This study adopted the same methodological approach used in Baiocchi et al. (2006). However, the sample of municipalities is not the same. Furthermore, whereas he uses a set of variables to make municipalities comparable based on physical characteristics, this study uses the same outcomes in years prior to the baseline so to compare

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<sup>41</sup> Although Zamboni's (2007) analysis does have certain methodological similarities with the analysis presented in this chapter, the variable of interest to Zamboni is corruption, while this study focuses on fiscal performance, municipal resource allocation, and welfare changes.

municipalities that had the same dynamics in the intended outcomes before the OP was implemented. As such, this study claims that any impact from OP could have had the same probability of being observed in either group of municipalities.

**The evaluation of OP impacts must begin by reviewing the intended results, or outcomes, of the introduction of participatory budgeting.** Many intermediate results could have been achieved by a different budget allocation; however, such results may not be sufficient justification for the introduction of a policy. Instead, the evaluation of impacts should look at whether implemented policies have contributed to the ultimate goals they intended to achieve. Table 18 describes the expected effects of OP.

**Table 18. Expected outcomes of participatory budgeting**

What effects are expected from OP?	What are the mechanisms through which it causes the expected effects?	What variables are proxies for outcomes?
Strengthened pro-poor capital investments	OP is a municipal governance approach that <i>aims</i> to close the gap between the preferences of the poor and decision making on investments by empowering the poor to voice their needs in capital budget formulation. In the short term, OP is <i>expected</i> to result in a capital budget more consistent with the real needs of the <i>poor</i> .	<ul style="list-style-type: none"> <li>- Access to water</li> <li>- Access to sewage</li> </ul>
Reduction in poverty	By means of redirecting the capital budget to pro-poor investments, it is expected that OP can have a <i>mid- to long-term</i> positive impact on reducing poverty.	<ul style="list-style-type: none"> <li>- Poverty headcount</li> </ul>
Strengthened budget transparency and literacy	OP is a municipal governance approach that <i>aims</i> to strengthen budget transparency and citizen awareness. It is thus <i>expected</i> to result in increased local tax compliance and a better balance between current and capital expenditure. The OP may also increase municipal public investment <i>vis-à-vis</i> operational expenses.	<ul style="list-style-type: none"> <li>- Total municipal revenues including the collection of property taxes</li> <li>- Municipal investments</li> <li>- Operational expenditures to capital investment ratio</li> </ul>

**Living conditions are estimated by examining income poverty, access to potable water, and access to sanitation.** The rationale for this analysis lies in the fact that OP opens space for the participation of the poor, who may traditionally have lower access rates to improved living conditions and less lobbying power and voice than the better-off. Secondly, the OP has the potential to improve the quality of public spending, since citizen involvement in the municipal budget will increase scrutiny of government expenditure. An indirect way to check the pro-poor capital investment hypothesis is to look at the outcome, i.e., to verify whether OP municipalities reduced poverty rates at a faster pace than non-OP municipalities. As discussed above, the channels through which these impacts are achieved are not tested here.

**The “willingness to pay” argument is tested by examining fiscal impacts.** The rationale for fiscal impacts goes back to the assumption that citizen influence over allocation decisions will increase willingness to pay taxes, as well as create pressure on the municipal government to collect taxes to ensure that resources are available for investments. If this argument holds, one can expect OP municipalities to display better fiscal performance than non-OP municipalities, reflected in property tax collection (not service taxes<sup>42</sup>), since the focus of OP is individual participation, although small and medium enterprises

<sup>42</sup> The main sources of municipal revenue in Brazil are property taxes and a tax on services (i.e., a sales tax applied solely to companies in the service industry).

may be well represented by their owners in the OP process. Accordingly, the analysis tests if there is any significant impact on the growth of total revenue, property taxes, and service taxes.

**OP may also induce a different allocation of resources in cities that adopt it, since their budget decisions are expected to differ from those of other municipalities.** In particular, it may be that OP favors municipal capital investment over operational expenses. This hypothesis is tested comparing the per capita investment of OP municipalities with that of non-OP municipalities. Other possible differences in budget allocation are tested for all main expenditure items. The analysis does use an a priori hypothesis, but participation may induce different expenditure emphases.

## 5.2 Methodological Approach

**A standard method for evaluating social programs uses the outcomes of non-participants to estimate what participants would have experienced had they not participated in the program.** The difference between participant and non-participant outcomes is the gross impact of the program. The net impact is obtained using the same approach, but computing the difference in time so unobservable (unmeasured) determinants are cancelled. For instance, changes in an outcome for participants are compared to changes in the same outcome for non-participants. The analysis in this chapter uses this approach to measure the impacts of OP on selected outcomes, which together account for net impact of the OP, measured by the time difference in outcomes observed in municipalities that adopted OP versus the time differences for the same outcomes in municipalities that did not adopt OP. Such an analysis is possible because of panel data that exists for Brazilian municipalities for the years 1991–1992 and 2000, which permits a comparison of OP municipalities versus proper control municipalities.

### *Non-OP Municipalities, or the Control Group*

**The key question behind these methods is whether observed impacts can be attributed to the policy under analysis, in this case, participatory budgeting.** That is, does a causal relationship exist between the implementation of OP and the observed changes (expected to be positive) in outcomes? To answer this question, a control group of non-OP municipalities was constructed. One can selectively pick a control group that performs poorly compared to OP municipalities and attribute the difference in performance to OP. The analysis must, however, prove that both OP and non-OP municipalities had the same opportunity to observe improvements in outcomes prior to the implementation of OP. In this analysis, OP municipalities are compared to a distribution (kernel) of non-OP municipalities—the equivalent of being compared to a theoretical distribution of the same outcomes, given similar initial conditions. A traditional analytical alternative,<sup>43</sup> also presented in the tables below, is to compare one or a few non-OP municipalities to each OP municipality. This approach is not, however, the preferred option in this chapter because there are relatively few OP municipalities (11 before 1996, 37 after 1996) among the more than 5,000 Brazilian municipalities. Instead, all non-OP municipalities are included in the control group, but are given different weights depending on how close their initial conditions were to those of OP municipalities. To do so, a propensity score was obtained using a kernel distribution of weights for all non-OP municipalities. Variables that define these similar conditions in the baseline are described below.

**First, the control group is controlled for whether other political processes are taking place at the same time as OP.** Such parallel processes prevent econometric analysis from separating out the source of the impact. For instance, as discussed by Baiocchi et al. (2006), there seems to be a high correlation

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<sup>43</sup> For example, through Propensity Score Matching.

between the percentage of the population voting for Labor Party (PT) candidates and the existence of OP in a specific municipality. Therefore, either the improvements produced by channeling voice through a formal participation process (the OP) and/or the political process (including strong participation through informal channels of voice), both of which were associated with a substantial adherence to the PT, actually caused the impacts or they did not. From 1989 to 1992, more than half of the municipalities that adopted the OP process were managed by a PT mayor (during that tenure, the PT had just 1 percent of the mayoralties in the country). PT-managed cities continued to be prevalent among municipalities that adopted the OP. During the periods 1993–1996 and 1997–2000, the share of these cities was similar to the period 1989–1992 (around 50 percent). The proportion diminishes to 30 percent only in the most recent period (2001–2004). Considering that the percentage of municipalities managed by the PT have also increased considerably from the first to the last period under analysis, the sample is most even in the last period analyzed, but still highly concentrated. Furthermore, in certain municipalities that implemented OP where a PT mayor was not elected, the party nevertheless had a large share of total votes or was part of the winning coalition. The specific issue of votes for the PT is extensively tested in this chapter, but there may be other issues that the analysis here not fully addresses. Health sciences, for example, usually deal with potential contaminations by randomizing who receives treatment, which was by no means possible here because OP is the result of a political process. The identification of the causal relationship is improved by introducing votes for the PT in the construction of the control group. Both results, with and without votes for the PT, are presented in order to illustrate that failure to model the political process could lead to a bias in estimated impacts.

**Second, the group of non-OP municipalities is controlled for the outcome variable in the baseline year and its dynamics before OP implementation.** For example, when analyzing changes in poverty, a distribution of municipalities is selected that had poverty levels comparable to those of OP municipalities. (An improvement in poverty must be related to a city's initial poverty level.) The dynamics of poverty between 1980 and 1991 are also included to determine whether or not a process that began before OP implementation actually helped improve poverty. Conversely, each outcome analyzed has a control group distribution comprised of both baseline levels and poverty dynamics prior to the introduction of OP.

**Third, the non-OP municipalities are controlled for the potential differential effects of the Constitution of 1988.** This constitution could have created differential impacts on different sized municipalities because it changed the way federal fiscal resources were allocated. Specifically, small municipalities were granted larger resources relative to the preceding distribution of resources. In order to control for this situation, population size in 1990 is included in the construction of the control group.

#### *The Difference in Difference Equation*

**With the control group at hand, a model is estimated to analyze the determinants of changes in outcomes.** The model includes a constant for each municipality and differentiates or cancels the unobservable term, assuming that it remains constant over the period of analysis. All other variables, dependent and independent, are treated as time differences. A dummy variable is set to zero for all municipalities for the first data point, or baseline. For the second data point for 2000, the dummy is switched to 1 for OP municipalities; it therefore captures the dynamic impact of the implementation of OP. Other determinants, or independent variables, are included in order to control for whether the change in the dependent variable was caused by traditional determinants of improved outcomes. Specifically, economic growth measured by GDP per capita and transportation costs to Sao Paulo are included. Transportation costs measure the relative location of the municipality within the Brazilian territory, which control for the differential impact that national processes, as opposed to economic growth, can have on municipalities, depending on their spatial location within a country. For instance, the Constitution of 1988 could have created differential impacts among municipalities beyond those captured in the control group through population size, thus favoring poor northeast Brazilian municipalities.

### 5.3 Results for OP and Non-OP Municipalities

The econometric analysis suggests that participatory budgeting as a mechanism for improving pro-poor capital investments has contributed to ameliorating the living conditions of the poor in the municipalities where it has been adopted. In this study, Brazilian municipalities that adopted OP are compared with a group of non-OP municipalities that had the same opportunity to observe improvements in final outcomes, like poverty and access to basic services, before the advent of OP. The analysis controls for the fact that in most municipalities where OP was implemented, the PT was a key political actor, either by running the major's office or being the second most important political force in a city. In this way, the analysis accounts for whether estimated impacts were the results of OP and not the result of the same political process that brought the PT into power. Therefore, the analysis is able to determine whether it was OP, and not the political process (including the presence of strong social movements and informal mechanisms of voice) that enacted OP, which caused the impacts. The impact can be read in Table 19 according to the sign and significance of the dummy OP. Highlighted columns on the right are models with a control group that were constructed using votes for the PT along with the other abovementioned variables. The OP sign is expected to be negative because the poverty rate is reduced, while the sign for access to piped water and improved sanitation should be positive, as they are expected to increase. The size of the coefficient is not meaningful here. Note that results are consistent when the control group is constructed by including votes for the PT. Only municipalities that implemented OP before 1996 were included in this analysis.

**Table 19. Impacts using only municipalities that implemented OP before 1996**

	Matching without votes for PT						Matching with votes for PT					
	Poverty Rates		Access to Piped Water		Sewerage		Poverty Rates		Access to Piped Water		Sewerage	
OP	-4.82	**	0.06	***	0.29	***	-11.06	***	0.11	***	0.34	***
GDP per capita	-0.85	***	0.00	**	0.00		-2.93	***	0.02	***	0.00	
Transport costs to Sao Paulo	0.01	***	0.00	***	0.00		0.00		0.00	***	0.00	***
Constant	0.00		0.00		0.00		0.00		0.00		0.00	
R2	0.19		0.51		0.28		0.52		0.39		0.41	

Note: \* p < .1; \*\* p < .05; \*\*\* p < .01.

**It should be noted, however, that OP helps reduce poverty rates when implemented for a decade.** A second analysis was performed to include the 37 municipalities that implemented OP between 1996 and 2000. A dummy was switched to 1 for municipalities that had implemented OP during the entire 10 years between 1990 and 2000. A second dummy was switched to 1 for those municipalities that implemented OP after 1996. The objective of breaking the dummy into two periods was to capture which one better explained the variance in outcomes. It seems that impacts on better access to basic services were positive in both cases, but positive impacts on poverty reduction were present only in those municipalities where OP had been in place longer.

**Table 20. Impacts using municipalities that implemented OP before and after 1996**

	Matching without votes for PT						Matching with votes for PT					
	Poverty Rates		Access to Piped Water		Sewerage		Poverty Rates		Access to Piped Water		Sewerage	
OP before 1996	-8.69	***	0.07	***	0.25	***	-19.85	***	0.11	***	0.28	**
OP after 1996	3.95		0.05	***	0.19	**	0.00		0.18	**	0.48	***
GDP PIB per capita	-1.02	***	0.00	**	0.00		-3.61	***	0.00		0.00	
Transport costs to Sao Paulo	0.00		0.00	***	0.00		0.00		0.00	***	0.00	***
Constant	0.00		0.00		0.00		0.00		0.00		0.00	
N	3,479		4,256		7,479		36		82		109	
R2	0.30		0.50		0.18		0.72		0.63		0.33	

Note: \* p < .1; \*\* p < .05; \*\*\* p < .01.

### Fiscal Performance

**Participatory budgeting does not have a consistent impact on fiscal performance.** The second hypothesis tested was that OP empowers the poor, creates more transparency, and strengthens budget literacy among the population. The assumption is that giving citizens influence over allocation decisions will increase their willingness to pay taxes, as well as create pressure on the municipal government to collect taxes to ensure that resources are available for investments. The ratio of IPTU (local taxes on capital) to GDP measures the capacity of the local municipal administration to collect taxes in relation to the city's economic potential. When municipalities that implemented OP both before and after 1996 are included in the treatment group, there appears to be an apparent positive impact of OP on fiscal performance. However, this impact disappears when only municipalities that implemented OP before 1996 are included in the sample. Nevertheless, there seems to be a positive impact on tax collection, but this result would need to occur among the different specifications to ensure that it is not a spurious result.

**Table 21. Impacts on fiscal performance (IPTU/GDP)**

	OP before/after 1996				OP before 1996			
	Matching without votes for PT		Matching with votes for PT		Matching without votes for PT		Matching with votes for PT	
OP before 1996	1.42	*	3.82	**	0.61		2.04	
OP after 1996	0.94		1.85	**				
GDP PIB per capita	-0.52	**	-0.19		-0.58	**	-0.18	
Transport costs to Sao Paulo	0.00		0.02	***	0.00		0.01	**
Constant	0.00		0.00		0.00		0.00	
R2	0.26		0.33		0.23		0.19	

Note: \* p < .1; \*\* p < .05; \*\*\* p < .01.

**The impact of participatory budgeting on the investment to current expenditure ratio is negative.** Regarding the share of resources expended on the operation of municipalities, as opposed to resources devoted to capital investments over which the OP has influence, the results of analysis show a negative impact. A possible explanation of this result is that the OP is financing social infrastructure, which creates staffing and maintenance needs that drive up current expenditures.

**Table 22. Impacts on fiscal performance (investment /operational expenditure)**

	OP before/after 1996				OP before 1996			
	<i>Matching without votes for PT</i>		<i>Matching with votes for PT</i>		<i>Matching without votes for PT</i>		<i>Matching with votes for PT</i>	
OP before 1996	-0.08	***	-0.08	***	-0.09	***	-0.11	***
OP after 1996	-0.13	*	-0.02					
GDP per capita	0.00		0.00		-0.001		-0.001	*
Transport costs to Sao Paulo	0.00		0.00	***	0.00		0.00	***
Constant	0.00		0.00		0.00		0.00	
R2	0.14		0.09		0.14		0.20	

Note: \* p < .1; \*\* p < .05; \*\*\* p < .01.

## 5.4 The Case of Porto Alegre

In order to analyze the specific impacts of OP on Porto Alegre, this study compares actual city data with averages for the other comparable municipalities, i.e., the analysis seeks to answer the question: how does Porto Alegre compare to the control group, on average? The first idea is to compare Porto Alegre with a group of other state capitals weighted in such a way that they resemble Porto Alegre (in terms of the observables or measured variables) as much as possible. In other words, weights are larger for more similar municipalities. The weighted sum, that we call “synthetic Porto Alegre,” is the control group.

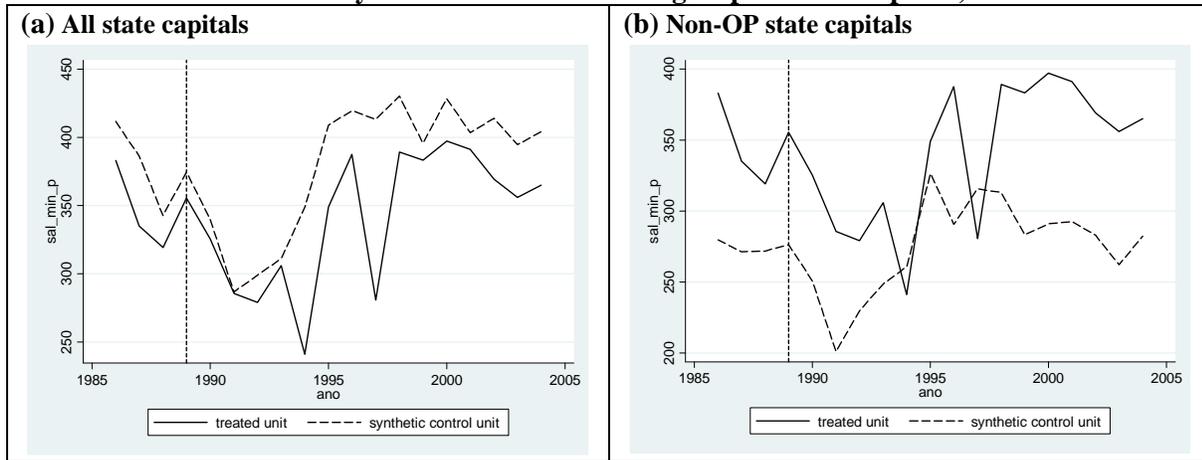
This strategy follows the work of Abadie and Gardeazabal (2003) and Abadie, Diamond, and Hainmueller (2007). These authors deal with the same methodological problem: how to analyze an event (or policy intervention) that happens at the aggregate level and affect individual entities. So they compared the aggregate effect with effects on individual municipalities. Despite the benefits of comparing Porto Alegre with a non-OP group, there are two main shortcomings in this type of analysis. First, it is difficult to choose the municipalities for the comparative group without being arbitrary. Second, given that the comparison is between one group and one municipality, inference techniques do not apply.

Abadie and Gardeazabal (2003) address the methodological shortcomings of comparative case studies with a data-driven procedure to reduce discretionary bias that the researcher can impose to the comparison. It forces researchers to demonstrate affinities between treated and control units (in our case municipalities). However, it is usually very difficult to find a single or “best” control group. The synthetic control represents a very similar group (but no identical because nothing can be two units of observation at the same time), that better resemble the treated unit. The analysis here therefore uses data from 1986 to 1989 for all 27 capitals (and the Federal District) to construct a synthetic Porto Alegre and then compares this synthetic unit to the actual Porto Alegre in the period 1990 to 2004.

### *Living Conditions*

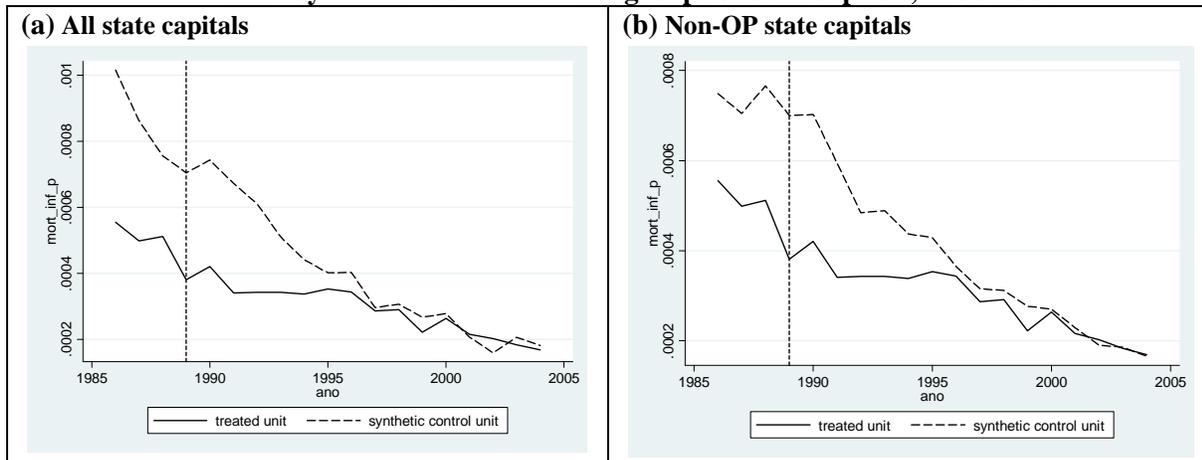
Since time series data is required to conduct the analysis described above, available data limits the comparison to one of average wages and infant mortality as broad proxies for living conditions. Figure 22 below show the difference in average formal wages between Porto Alegre and the synthetic control for two alternative groups of state capitals. One with all Brazil state capitals (with the exception of Porto Alegre) and another that includes only capitals that did not implement OP between 1986 and 2004.

**Figure 21. Average wages in Porto Alegre and “synthetic” control for two groups of state capitals, 1986–2004**



Looking at Figure 21a it is very difficult to correlate the OP to the dynamics of formal wages in Porto Alegre. The vertical line represents the first year of OP. Comparing with all municipalities; it does appear that wages in both, the synthetic control and Porto Alegre, followed approximately the same trend. Once the control group is built just using non-OP municipalities (Figure 21b), it does not resemble Porto Alegre very well before the OP cut of 1989, thus it is not possible to say very much about the performance of wages in Porto Alegre. Figure 23 compares Porto Alegre with the same two synthetic controls for infant mortality.

**Figure 22. Infant mortality rates in Porto Alegre and “synthetic” control for two groups of state capitals, 1986–2004**



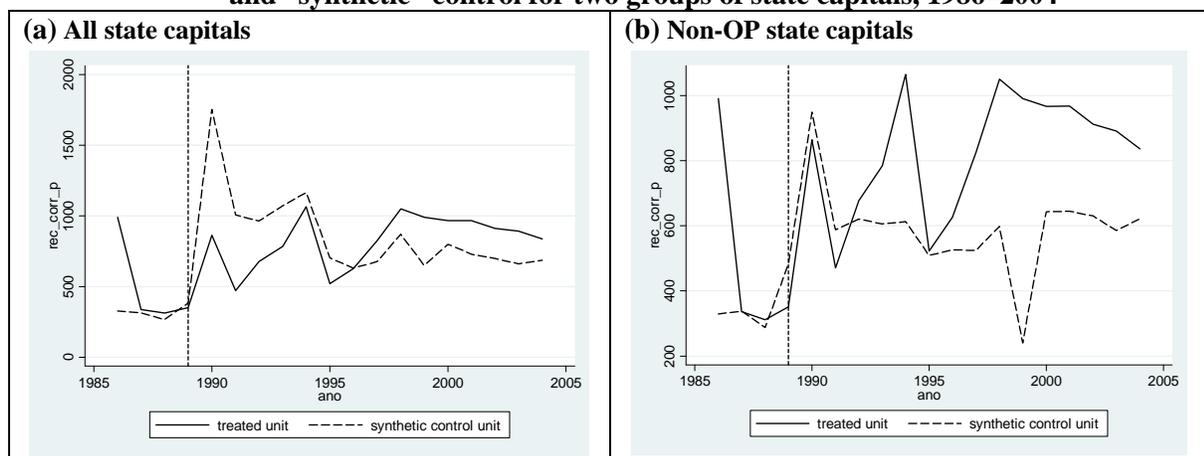
The results for infant mortality are the opposite than what was expected. According to the analysis on Figure 22a, other (weighted) state capitals reduced infant mortality at a faster pace than Porto Alegre. However, the graph also makes it clear that Porto Alegre started at a much lower mortality rate than other, very similar state capitals. Since it is difficult to reduce infant mortality beyond a certain threshold, this may explain why the impacts on this variable for Porto Alegre are not significant. For instance, certain impacts on this variable could be expected as a result of sanitation improvements.

In conclusion, it cannot be said that Porto Alegre performed better than **either** synthetic Porto Alegre in terms of average wages and infant mortality using available data. It is also difficult to say that the impact on the two variables was worse in Porto Alegre than the two control groups, given that the impact on average wages is unclear and the impact on infant mortality is blurred by the fact that Porto Alegre started at a much lower level than the control groups.

*Fiscal Performance*

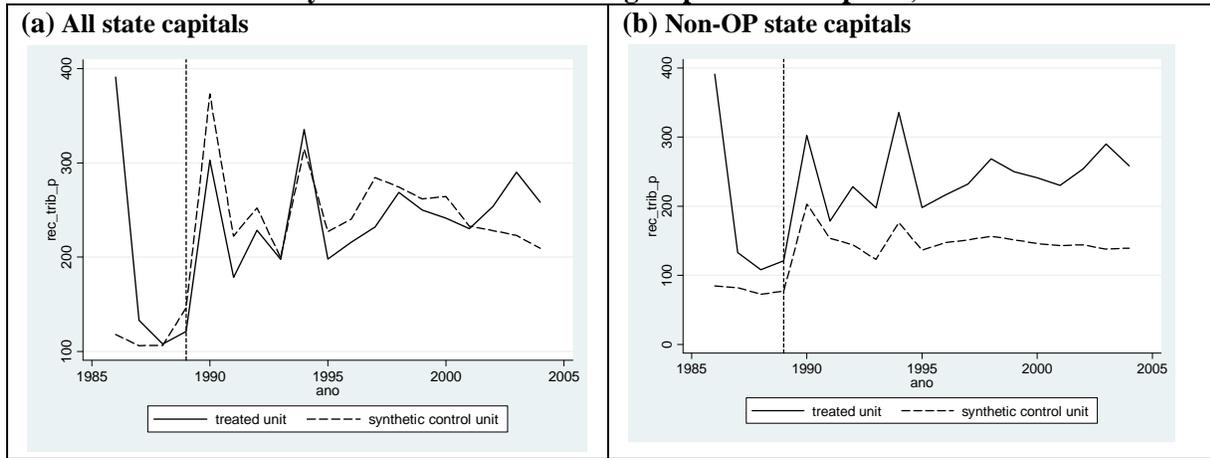
It was expected that analysis of fiscal performance in Porto Alegre and the two synthetic control groups would find greater differences, since this variable is more sensitive to changes in the short run and represented the primary target of the program. If we examine current revenues, however, it seems that the OP had the opposite impact. Right after the program began current revenues in the synthetic control for all state capitals increased faster than in Porto Alegre. However, the result is unclear when Porto Alegre is compared with the synthetic control for non-OP state capitals. In any case, this indicator seems to demonstrate a reversion in behavior in the years 1995–1996, when Porto Alegre revenues started to grow faster than the synthetic controls.

**Figure 23. Current revenues in Porto Alegre and “synthetic” control for two groups of state capitals, 1986–2004**



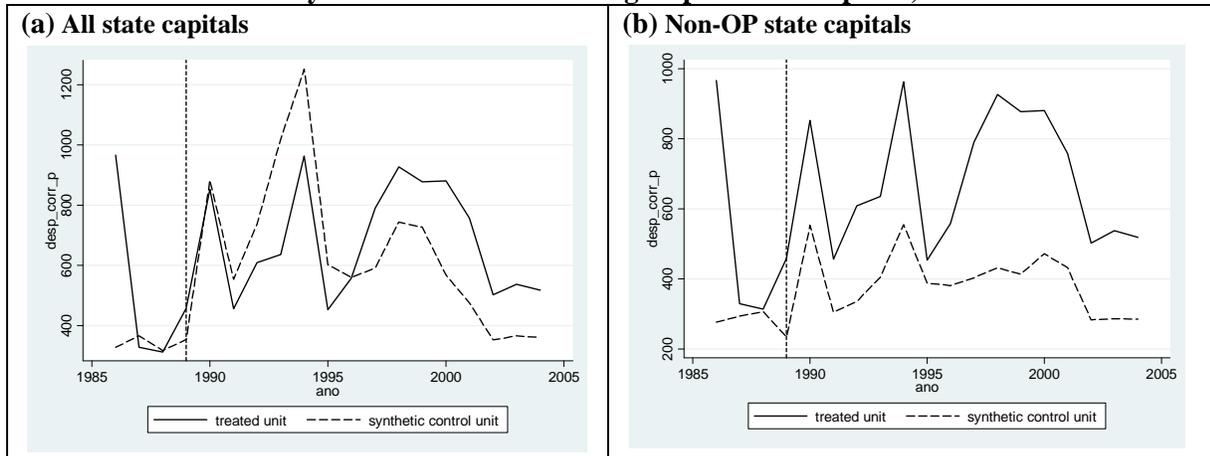
Looking at total revenues in Figure 24, no considerable difference is found between Porto Alegre and the two synthetic control groups. They seem to follow a very similar path, except after 2000, when Porto Alegre seems to perform better than either control. The difference around 2000 is very clear when Porto Alegre is compared to all other state capitals, but less clear when the city is compared to non-OP municipalities (where the break seems to occur in 1995). This result is puzzling. First, it is difficult to relate the difference in performance to the OP, given that the break occurred long after the introduction of OP. Second, we know that Porto Alegre had a fiscal problem after 2000, but this analysis suggests that its fiscal performance was not worse, but probably better, than other state capitals in this period. It is thus more likely that the explanation thus lies with expenses and not revenues.

**Figure 24. Total municipal revenues in Porto Alegre and “synthetic” control for two groups of state capitals, 1986–2004**



With respect to current expenses, shown in Figure 25 below, both comparison groups suggest that Porto Alegre spent more than the synthetic controls after the years 1995–1996. A jump occurs from 1995 to 1996 that then stabilizes, i.e., Porto Alegre follows the path of the two synthetic control groups but remains at a higher level. This finding may explain the fiscal problem observed from 2002 on. Porto Alegre was systematically expending more than it should (comparing to other state capitals) and, although it was able to increase its own revenues (especially after 2000), these revenues were insufficient to compensate for the (accumulated) extra expenditure. Given that the OP was implemented in 1989, it is difficult to accept that these additional expenses were indeed connected to the OP. However, the OP itself could have changed around this time, putting pressure on the municipal budget. If this is the case, the data should show an increase in investments in Porto Alegre in the period around 1995–1996.

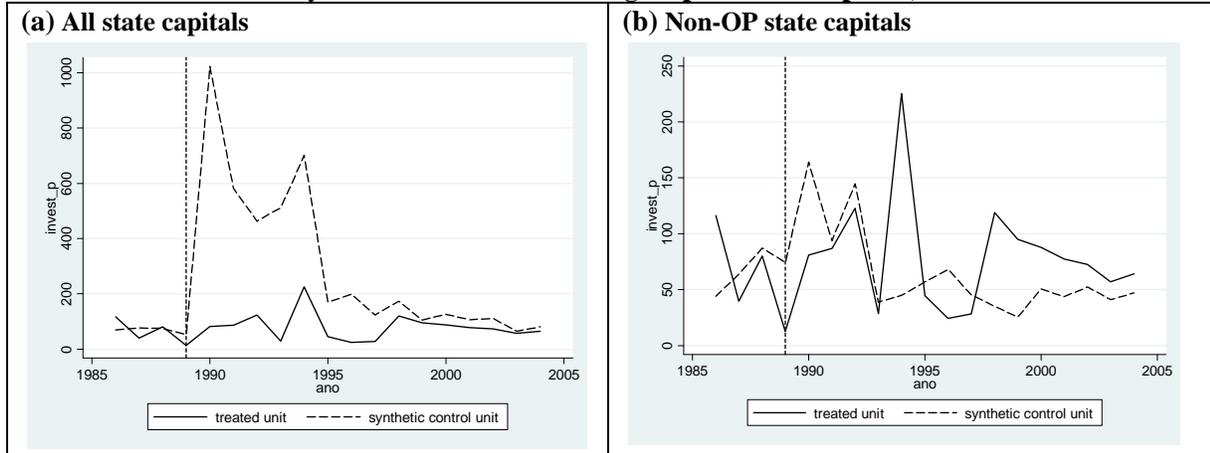
**Figure 25. Current expenses in Porto Alegre and “synthetic” control for two groups of state capitals, 1986–2004**



Examination of Figure 26 below, however, shows that the expectation of greater investments (implied here by the variable “total expenses”) in Porto Alegre in 1995–1996 is incorrect. Right after 1989, investments in the synthetic control group for all state capitals is much larger than in Porto Alegre, whereas there is no clear difference in investment dynamics when the city is compared only to the state capitals that have never implemented the OP. The difference might therefore be explained by another

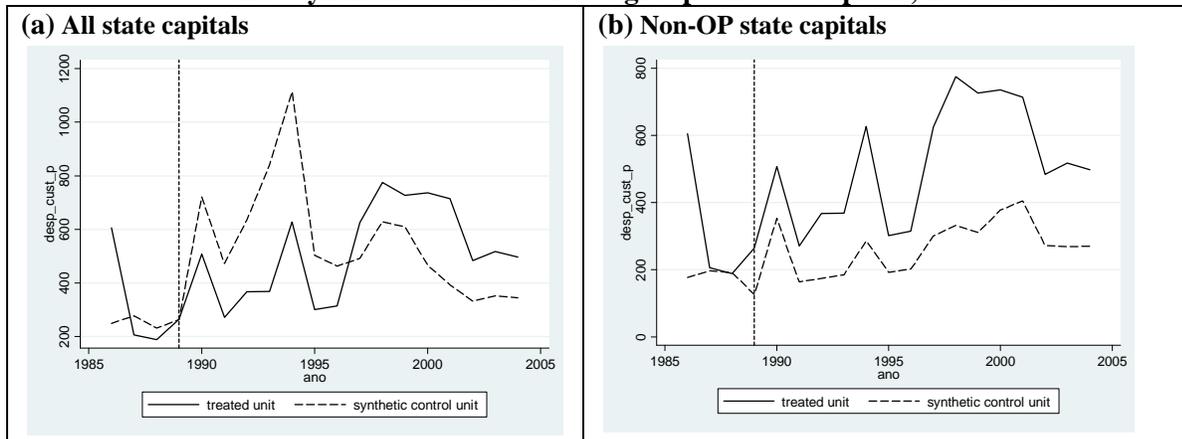
variable, or it may be connected to the debt dynamics that are not observed when using the variable of current expenses.

**Figure 26. Investments in Porto Alegre and “synthetic” control for two groups of state capitals, 1986–2004**



When the comparison uses the variable of operational expenses (see Figure 27), the same jump from 1995 to 1996 occurs as it does in the comparison of current expenses. This finding suggests that it is unlikely that the fiscal problem in Porto Alegre was actually connected to the OP, which is related to investments. It is more likely that Porto Alegre increased its operational expenses after 1996 for some other reason and that it was unable to solve the problem of growing expenses even with the (relative) increase in revenues observed after 2000.

**Figure 27. Municipal operational expenses in Porto Alegre and “synthetic” control for two groups of state capitals, 1986–2004**



## 5.5 Conclusions

**The analysis conducted for this study isolated the fiscal and social impacts of OP in order to establish whether they were in fact caused by participatory budgeting.** Based on econometric findings to date, it is important for municipalities that are implementing OP to have clear expectations with respect to expected impacts. Since the institutional reforms involved in the application of OP continue to be relatively new, there may also be genuine potential for improving the impacts from OP in Porto Alegre and in other cities of Brazil.

**The analysis in this chapter compared Brazilian municipalities that adopted OP to a group of non-OP municipalities that had the same opportunity to observe improvements in poverty, access to basic services, and fiscal performance before the advent of OP.** The analysis controlled for the fact that in most municipalities where OP was implemented, the PT was a key political actor, either by winning the mayor's office in elections or being the second most important political force in a city. The analysis thus accounted for whether the estimated impacts were the result of OP and not a political process (including strong participation through informal channels of voice) associated with substantial support of the PT. The analysis thus ensured that OP was the instrument that caused the impacts.

**The econometric analysis suggests that participatory budgeting, as a mechanism to improve pro-poor capital investments, has contributed to a reduction of poverty rates in the municipalities where it was adopted prior to 1996.** It is worth noting that this poverty impact occurred despite a reduction in GDP per capita in these municipalities, suggesting that the OP can contribute to a redistributive impact over the long run. To date, it seems that the impact on better access to water and sanitation is positive for all OP municipalities.

**Current findings do not indicate consistent positive impacts of OP on municipal fiscal performance.** The second hypothesis tested the impact of the OP on fiscal performance, assuming that the OP empowers the poor and, therefore, leads to more transparency in the way the public budget is allocated, as well as increased budget literacy. Participatory budgeting was not, however, found to have a consistent impact on fiscal performance, although there is an apparent positive impact when municipalities that implemented OP before and after 1996 are included in the same treatment group. However, this impact disappears when only municipalities that implemented OP before 1996 are included in the sample. The impact of OP on fiscal performance, as measured by the ratio of operational expenditure to total expenditure, furthermore appears to be negative. The absence of positive impacts on fiscal performance associated with the OP can be explained by the exclusive focus of the OP on investment capital allocations and its weak connection to other fiscal management decisions, such as current expenditure allocations, expenditure execution, and revenue collection.

**A simpler analysis, but one consistent with the logic of treatment and control group evaluation, shed light on the specifics of OP in Porto Alegre.** It compared Porto Alegre with two synthetic control groups, one comprised of all state capitals and one comprised only of non-OP state capitals. The findings of this analysis were, however, inconclusive. Using available data, it cannot be said that Porto Alegre performed better than the two control groups (synthetic Porto Alegre) in terms of living condition. It is also difficult to say whether the impact of OP on average wages in Porto Alegre was worse than in the control groups. Its impact on infant mortality is, moreover, blurred by the fact that Porto Alegre started at a much lower level for this variable. With respect to fiscal performance, comparative analysis suggests that it is unlikely that the fiscal problem in Porto Alegre was actually connected to the OP, which is related to investments. More likely, the city increased its operational expenses after 1996 for some other reason and was unable to solve this problem of growing expenses even with the (relative) increase in

revenues observed after 2000. The causes of the Porto Alegre fiscal situation are most likely not connected to OP.

## Chapter 6. Main Conclusions and Recommendations

### 6.1 Main Conclusions

**Participation in the OP is substantial in Porto Alegre, but certain social groups suffer from a lack of incentives to participate.** Around one-fifth of the population reports having participated in the OP at some point in their lives. Women and low-income groups show high percentages of representation. Ethnic minorities and people with disabilities are also well represented. Under-represented groups include the extremely poor, youth, middle- and high-income groups, as well as certain professional groups, such as entrepreneurs. Time requirements, the use of complex language, and limited understanding of the OP process present barriers to participation, especially at higher levels of representation (COP). For the very poor, the opportunity cost and expense of participation is very high. Higher-income groups lack incentives to participate because the OP has a narrow focus on infrastructure provision for the poor and participation in the process is time-consuming.

**The OP enjoys credibility among its participants and the population of Porto Alegre as a whole, despite certain shortcomings regarding its internal upstream and downstream accountability.** There is an uneven playing field for OP participants in the delegation to upper levels of representation. Participants with more years of experience, time availability, and knowledge of the complex procedural rules of the OP are more likely to be elected as regional delegates and councilors, which has led to low levels of rotation among delegates. Additionally, reporting mechanisms between delegates and their constituencies are unsystematic and characterized by the absence of records. The prevalence of a verbal culture among OP constituencies, which demands and expects less accuracy than a written culture, and the fact that the OP is itself perceived as a net gain in public accountability, may explain the existing mismatch between OP credibility and shortcomings regarding its internal accountability.

**Despite enjoying high levels of participation and credibility, the analysis of the interface between the OP and municipal financial management yields mixed results.** Contrary to popular belief, the OP in Porto Alegre does not lead to suboptimal resource allocation or investment fragmentation. When it comes to the risk of investment fragmentation posed by regional pressures, which seek to allocate resources to finance small public works, the OP also performs quite well: although the number of demands for small investments has increased in the last few years, it has not affected the overall share of resources allocated to satisfy those demands. However, there is no evidence that the OP has played a positive role in contributing to fiscal balance in Porto Alegre. In different years, estimates of expenditure and revenue did not match actual values. This fiscal gap was usually covered by generating current deficits and/or postponing capital investments. Inconsistencies between the OP cycle and the actual budget calendar have also contributed to the formulation of capital investment plans based on weak fiscal data. This problem created a backlog of non-implemented OP demands and consequently generated strong public discontent.

**The OP in Porto Alegre has worked mainly as an instrument for interested citizens to voice their preferences regarding capital investments, rather than as a space of public debate to discuss the municipal fiscal policy and revenue and expenditure management as a whole.** An analysis of minutes of key meetings of the COP (Participatory Budgeting Council) showed that it has not undertaken substantive assessment of municipal fiscal policies and revenue capacity, particularly at critical moments. This behavior of the COP can be attributed to the absence of a clear motivation among its members to give priority to these issues over including the demands of their respective communities in the Investment

Plan. The lack of regular training of COP members is another possible explanation, as the LDO, LOA, and PPA are of a technical complexity that laymen find difficult to understand.

**There is room for improving the potential of the OP to contribute to downstream accountability of public expenditure.** Although the OP in Porto Alegre has contributed to a greater understanding of pro-poor public spending and to directly engaging ordinary citizens in voicing their priorities in capital expenditure planning, it has not fulfilled its potential to improve budget literacy and has paid scant attention to budget oversight. The municipality offers positive conditions for budget oversight: it offers different types of budget account presentations, has a sophisticated e-government system, and provides updated information related to budget planning, public expenditure, local government programs, and detailed socioeconomic data through its Website. However, oversight is not well codified or supported by sustained efforts on the part of COP members and municipality officials, and thus takes place mainly in an ad-hoc manner.

**Although participatory budgeting in Porto Alegre is probably the most well-known mechanism for direct participation in Brazil, there are many other spaces in the fiscal cycle for participation in local governance.** As is the case in many other cities, the multiplicity of spheres of interaction between the local government and civil society lends itself to overlapping roles, competition, and undesirable tension between different venues. At the same time, the absence of an overarching framework leads to functional gaps among the current constellation of participatory mechanisms, such as revenue and expenditure tracking, procurement oversight, and performance monitoring and evaluation.

**It is important to recognize, therefore, the limits of OP within the complex network of citizen participation in Porto Alegre.** Since its inception, the main objective of the OP has been the inclusion of citizen input in capital investment planning. Over time, and as a result of its success and permanence, but also as a response to its need to understand and scrutinize the municipal budget, the OP has developed a certain capacity to monitor the execution of prioritized public works. However, this capacity is weak and requires strengthening. On the other hand, other venues were created as major spaces of civic engagement, both, before and after the OP was established. Although these other channels have specific purposes, such as the Public Policy Councils (which focus mainly on sector policy making) and the *Programa de Governança Solidária Local* (Solidarity in Local Governance Program, which has a more holistic approach to local governance), there are clearly many overlaps and conflicts. It must therefore be recognized that the OP in Porto Alegre may be limited in its ability to expand to other areas of participatory local governance, if it is to first strengthen its current role. However, the municipality and various non-governmental stakeholders that have an active role in the city's various channels of participation have yet to come up with a harmonizing framework for a more effective and efficient system of civic engagement and social accountability in Porto Alegre.

**The econometric analysis conducted for this study isolated the fiscal and social impacts of OP in order to establish whether they were in fact caused by participatory budgeting.** Based on econometric findings to date, it is important for municipalities that are implementing OP to manage expectations with respect to anticipated impacts. Since the institutional reforms involved in the application of OP continue to be relatively new, there may also be genuine potential for improving the application of OP both in Porto Alegre and other cities in Brazil.

**Econometric analysis compared Brazilian municipalities that adopted OP to a group of non-OP municipalities that had the same opportunity to observe improvements in poverty, access to basic services, and fiscal performance before the advent of OP.** The analysis controlled for the fact that in most municipalities where OP was implemented, the PT was a key political actor, either by winning the mayor's office in elections or being the second most important political force in a city. The analysis thus

accounted for whether the estimated impacts were the result of OP and not the result of a political process (including strong participation through informal channels of voice) associated with substantial support of the PT. The analysis thus ensured that OP was the instrument that caused the impacts.

**The econometric analysis suggests that participatory budgeting, as a mechanism to improve pro-poor capital investments, has contributed to a reduction of poverty rates** in the municipalities where it was adopted prior to 1996. It is worth noting that this poverty impact occurred despite a reduction in GDP per capita in these municipalities, suggesting that the OP can contribute to a redistributive impact over the long run. To date, it seems that the impact on better access to water and sanitation is positive for all OP municipalities.

**Current findings do not indicate consistent positive impacts of OP on fiscal performance.** The second hypothesis tested using econometric analysis was the impact of the OP on fiscal performance, assuming that OP empowers the poor and, therefore, leads to more transparency in the way the public budget is allocated, as well as to increased budget literacy. Participatory budgeting was not, however, found to have a consistent impact on fiscal performance. The impact of OP on fiscal performance, as measured by the ratio of operational expenditure to total expenditure, furthermore appeared to be negative. The absence of positive impacts on fiscal performance associated with the OP can be explained by its exclusive focus on investment capital allocations and its weak connection with other fiscal management decisions, such as current expenditure allocations, expenditure execution, and revenue collection.

**A simpler analysis, but one consistent with the logic of treatment and control group evaluation, shed light on the specifics of OP in Porto Alegre.** It compared Porto Alegre with two synthetic control groups, one comprised of all state capitals and one comprised only of non-OP state capitals. The findings of this analysis were, however, inconclusive. Using available data, it cannot be said that Porto Alegre performed better than the two synthetic control groups in terms of living conditions. With respect to fiscal performance, this comparative analysis suggested that it is unlikely that the fiscal problem in Porto Alegre was actually connected to the OP. More likely, the city increased its operational expenses after 1996 for some other reason and was unable to solve the problem of growing expenses even with the (relative) increase in revenues observed after 2000.

**The above findings help identify the potentials and limitations of OP.** The findings on the poverty and fiscal impacts of OP in Brazil described in chapter 5 suggest that the OP is a participatory mechanism with significant potential for achieving pro-poor distributive impacts, such as poverty reduction outcomes, over the long run. Its ability to have a positive impact on fiscal performance is less evident. This apparent limitation has important consequences for the sustainability of pro-poor investment. The results of the impact analysis confirm the overall findings of this study: the OP in Porto Alegre constitutes a representative and credible conduit of voice for the poor to inform the allocation of public investments, but it is limited in its ability to enhance the fiscal performance of the city. The cycle mismatch between the OP and the municipal budget and the narrow scope of the OP on investment allocations prevent it from significantly enhancing budget literacy, accountability, the quality of expenditures beyond investment allocation, revenue collection, or overall fiscal and service delivery performance in Porto Alegre.

## **6.2 Main Recommendations**

**There are changes and improvements in OP methodology that can help overcome some of its limitations.** Yet the OP's structural limits must be acknowledged by social actors and municipal authorities alike. Other participatory mechanisms are better suited to improving the accountability of

certain stages of the public expenditure cycle, such as sectoral councils (which can be used to ensure the accountability of sectoral policies and service delivery). The following recommendations are intended to contribute to improving the performance and impacts of the OP in Porto Alegre, as well as to involve other organizations and mechanisms in the establishment a system of social accountability in which the OP would play a leading role. The recommendations are organized to respond to each of the questions that originated this study.

*How can the “quality of participation” in the OP be improved?*

**Create incentives and remove barriers to make the OP more inclusive.** Measures to address these challenges could include expanding the OP’s focus to address issues of strategic importance for the city as a whole, including budgetary oversight, municipal revenues, and current expenditures that affect the space for OP investments and would attract interest from the middle class and professional groups (such as entrepreneurs). Furthermore, participation could be made more convenient to attract those who currently do not participate, for instance, by making online voting on investment priorities available or reimbursing the financial cost of participation borne by the poorest groups (e.g., the cost of bus tickets for participants below a certain income level). Improving the effectiveness of OP council meetings by reforming meeting procedures would also save participants’ time. Finally, improving the training and education of participants is essential to fully realize the OP’s potential as a mechanism for broadening citizen understanding of the municipal budget process. Training needs should be identified as an integral part of the OP process at each level of participation (e.g., general, delegate, and councilor) and for each stage of the OP cycle.

**Make OP representation more legitimate and accountable to maintain its credibility.** Simplifying its procedural rules and making them more accessible to OP participants would level the playing field among participants and prevent knowledge of the rules becoming concentrated in only a handful of OP representatives. Furthermore, establishing simple guidelines and formats for presentations by councilors and delegates would enhance the system of reporting to constituencies and enhance downstream accountability.

*How can the interface between OP and municipal fiscal management be strengthened?*

**Tackle the temporal mismatch between the OP prioritization process and the municipal budget cycle.** Moving the OP cycle one month forward to ensure consistency with the Organic Law of the Municipality would offer the best results in terms of the quality of information available during the prioritization process and would consequently enhance the effectiveness of OP demands. An alternative solution would be to ensure that the executive arm of the municipality provides a reasonably accurate revenue estimate for the period for which OP investment demands are prioritized. Between May and July, each region and sector should thus receive a more precise estimate of the budgeted caps for capital expenditures in the coming year.

**The articulation between municipal fiscal management and the OP could be further enhanced by expanding the OP cycle to two years for complex public works,** while maintaining an annual time frame for OP investments that can be executed in a shorter time period. This step would increase the capacity of OP participants to engage in the oversight of public works by reducing the time pressure of the current one-year cycle. Yet, it must be acknowledged that a possible tradeoff of a bi-annual OP process is a reduction in the interface between the population and the local government.

**Introduce a mechanism in the OP cycle to allow for adjustments to the Investment Plan during budget execution, which would prevent the accumulation of a backlog of investments in the event of**

**unforeseen decreases in revenue.** This measure can be complemented with measures to strengthen municipal capacity in budget planning, such as collecting and publishing indicators on the accuracy of revenues and expenditure for each budget cycle, as well as an indicator to measure the accuracy of disbursement estimates for each item in the Investment Plan. These indicators can then be used as benchmarks which the OP Council can track.

**Improve fiscal and budget literacy and create spaces for overall fiscal policy dialogue in the OP cycle. These steps are essential for maximizing the potential of the OP to have a positive impact on fiscal management.** This goal can be achieved through a set of measures, including the incorporation of in-depth public discussion of the overall fiscal policy of the municipality and its budget execution at the beginning of the OP cycle. This change should go hand in hand with providing basic training to OP councilors in various topics of municipal finance, including Multi-Year Plans (PPA), Budgetary Guidelines Law (LDO), Annual Budget Law (LDO), bimonthly Summary Budget Execution Reports (RREO), and Fiscal Management Reports (RGF). These measures can be complemented by partnering with local universities and think tanks to assist the COP to undertake independent fiscal policy and budget analysis, together with developing the ObservaPoA Website into a system that offers statistical information to assess budget priorities and monitor OP impacts.

*How can the capacity of the OP to monitor budget execution be improved?*

**Strengthen budget literacy in Porto Alegre, which is the precondition for enhancing the capacity of the OP to monitor budget execution.** Currently, budget literacy is limited and uneven among Porto Alegre citizens. Although the OP has contributed to a greater understanding of the need for pro-poor public spending, it has not fulfilled its potential to improve budget literacy. To raise awareness of basic municipal finances and budgeting, the OP could make more frequent use of local radio, emulating the experiences of Peru, Ecuador, and Guatemala, as well as of Anglophone African countries that have been piloted such dissemination strategies with the support of the World Bank. The OP in Porto Alegre could also include in its Statute a supplement on fiscal and budget literacy, and ensure that the OP Notebook of the Investment Plan publishes detailed information on municipal revenue and expenditures. Moreover, OP Regional Journals could include detailed technical and financial information on each project being implemented in the respective regions, allowing for comparison between planned activities and their execution. In addition, an overall evaluation of the implementation of all municipal programs could be included in the Booklet of Municipal Accounts, using the performance indicators adopted by the new municipal management system.

**Expand the scope of the OP cycle to systematically include budget oversight.** The OP Council can use and publish simple indicators on its Website that compare overall budget planning data (e.g., amounts, time of implementation, basic technical details) with budget execution data for different investments. These indicators could be developed to enable cross-regional comparisons and benchmarking. It is also advisable that the municipality make available on its Website regular budget execution reports (i.e., the bimonthly Summary Budget Execution Reports, or RREO) in citizen-friendly formats.

**Finally, strengthen mechanisms for civil society monitoring and evaluation of municipal services as a way to enhance overall social accountability.** These functions may well be beyond the scope of the OP, but they can be performed by other civil society organizations and spaces of dialogue in which user organizations, civil society, and the municipality of Porto Alegre participate, such as sector-based municipal public councils and the Forum of Services. It is thus advisable to strengthen the capacity of these mechanisms to monitor and evaluate service delivery. Citizen feedback mechanisms, such as community score cards and citizen report cards, can also be introduced to strengthen client power in monitoring service performance. By establishing a citizens' charter of municipal services that sets citizen-

friendly performance benchmarks for each service provided by the city, together with appropriate feedback channels, these mechanisms become powerful tools for enhancing the quality of service delivery.

*How can a more coherent system of social accountability be established in the city, improving the articulation between participatory governance fora?*

**First, it is essential to re-examine the relationship between the OP and Municipal Councils to ensure maximum synergies.** Currently, the interface between existing institutions of direct participation is weak, undermining the possibility for a coherent system of social accountability. Options to achieve better synergies could include the establishment of an overarching framework for the different municipal councils and the COP, which would clarify formal and informal functions, remove overlapping roles in budget planning and oversight, and strengthen the interface between different municipal councils and the thematic assemblies of the OP. These steps could be complemented by better integration of the Urban Fora (spaces of public debate on the city's master plan) with OP investment prioritization via a specific OP thematic group.

**Finally, strengthen the alignment of long-term sectoral development objectives with OP annual capital investment planning. This alignment is essential for coherence and efficiency.** This goal could be achieved by using the City Conference to implement a well-structured strategic planning process among existing civil society-local government institutions. Such a process would establish clear long-term goals that would align policy making and budget planning. Moreover, the development of a system of social accountability in Porto Alegre would benefit from the establishment of a permanent governance structure to oversee the formulation, implementation, and revision of the city's strategic planning process. In addition to the City Conference, this structure should include a multi-stakeholder coordination committee, an executive secretariat, a technical team, and thematic task forces comprised of representatives of the municipal public councils, OP thematic groups, urban fora, the Solidarity Local Governance program, the municipal administration (direct and indirect), the local legislature, and the private sector.

*How can understanding of OP impacts be improved?*

**The econometric analysis conducted for this report suggests that further analytical work is necessary to better understand the impacts of the OP and optimize its results.** It is advisable that universities and think tanks in Brazil continue to assess the social and fiscal impacts of the OP. The model and database developed for the impact analysis conducted by this study have the potential to be further explored and expanded to shed light on impact causalities surrounding the OP, as well as the value that the participatory process for poverty reduction, local governance, and development.

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