

The People's Budget? Politics, Participation and Pro-poor Policy

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Recent moves towards 'participatory' budgeting have raised hopes and expectations that spending and revenue generation can be made more pro-poor if informed citizens and their non-traditional political organisations participate directly in budgeting decisions. This article reviews experiences of participatory budgeting and pro-poor policy-making in Brazil, Ireland, Chile, Mauritius, and Costa Rica. It draws attention to several important issues: Who participates? What kind of institutional framework is necessary? What happened to the revenue-generation side of pro-poor budgeting? It points out that making spending and taxation more 'pro-poor' has historically depended on pro-poor political parties gaining power.

1 Introduction

Participation is a central element of democracy and, increasingly, citizen participation in economic policy is advocated as a way of making government spending more 'pro-poor'. People's budgets, alternative budgets, women's budgets, and participatory budgeting have raised hopes and expectations that greater participation by ordinary citizens, NGOs, and other civil society organisations in spending and revenue generation can lead to better outcomes for the poor. Cases of participatory budgeting at the municipal level, as in Porto Alegre in Brazil, support this. But does participatory budgeting offer hope for a substantial positive impact on fiscal policy at the national level in developing countries? Conversely, is participation of this sort commonly a feature of pro-poor spending in lower-income countries?

To anticipate the argument below, this review suggests that citizen participation might lead to pro-poor spending, but that it is neither sufficient nor even necessary when other factors are present. Three central issues stand out: (i) *Who participates?* Participation can involve civil society organisations, and the more traditional tripartite organisations of labour and business, donors, and political parties. The successful cases of 'pro-poor' spending seem to share one characteristic: they have all involved pro-poor political parties' gaining power. This aspect of participation is likely to be neglected by many programmes supported by the donor community, who operate under assumptions of apolitical involvement. (ii) *What kind of institutional framework is necessary for participation to be pro-poor?* Several institutional features seem to have been shared by

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the cases of pro-poor spending, whether or not they involved participatory budgeting. As mentioned above, pro-poor spending was initiated by strong, democratic, and ideologically left-of-centre political parties. These governments had strong and independent auditing arms, and institutions (media, internet, pamphlets, public meetings) that enabled information about spending to be shared with the public and problems to be aired, all essential for building accountability in the budget. (iii) *Participation focused on the social expenditure side of the budget may neglect the revenue side; this might miss opportunities to strengthen the sustainability of pro-poor spending as well as accountability.* Experiences in some countries suggest that a sustainable pro-poor economic strategy might require the inclusion of the business sector as a partner in participation – and in providing the revenues necessary for the pro-poor spending. Likewise, citizens who understand the link between revenue generation and spending can better hold their governments to account.

2 Analytical framework

Citizen participation in the budget can take many forms. It can be direct, as when informed citizens meet, debate fiscal priorities, and forward their conclusions to decision-makers. It can be indirect, when citizens elect members of parliament, who meet to debate priorities. Participation also takes place through formal and informal ‘tripartite’ mechanisms (usually labour, business, and government, but increasingly including other civil society organisations). Often citizens are listened to or ‘consulted’ and this is called participation, but in such cases it is not uncommon for both the citizens and those who consult them to be aware that decisions are not likely to be changed and that the process is more akin to information dissemination than genuine solicitation of input. Protests, lobbying, and other forms of voice are also examples of participation; we shall not be considering these.

Given the many forms participation can take, this article proceeds inductively and in an exploratory manner, to examine cases of pro-poor policy-making and participatory budgeting. It interrogates two sets of cases which should in theory provide similar lessons. The first includes two of the better known cases of direct participation in fiscal policy: Brazil’s Porto Alegre and Ireland’s National Economic and Social Council. Here it asks whether participation has led to pro-poor outcomes. The second includes three cases of democratic pro-poor economic policy-making: Mauritius, Costa Rica, and Chile after Pinochet. Here it asks whether pro-poor outcomes were the result of participation. In both, it searches for lessons that will shed light on efforts to make fiscal policy more pro-poor. These cases are mainly national in scope, although the experience of Porto Alegre is included since it is the most famous and the earliest example of participatory budgeting at the municipal level.

In all cases, two questions are asked. First, who participates, when and how? The question of ‘who’ participates is one of the most commonly raised issues whenever the talk turns to civic engagement in fiscal policy. Bresser Pereira (1993) suggested that participants in economic policy should be (at the least, perhaps) ‘representative’, which suggests that he was thinking of parliament. Frieden (1991) notes that it is ‘interest groups’ that need to be involved in negotiations over policy, and although he does not specify which interest groups he means, the rest of the book suggests that they are generally those whose interests are most at risk in policy changes: trade unions and

producer groups. The World Bank (n.d.) focused more on the role of private sector interest groups in its study of ownership, suggesting that, in that instance at least, it saw business associations and economic groups as key in participation and ownership. How representative are the people and groups who speak on behalf of their fellow citizens? At what point in the process does participation occur? What form does it take, and how might this affect the pro-poor impact of participation? Second, what institutions seem important in ensuring that fiscal policy is pro-poor? Does effective pro-poor policy-making *require* complementary institutions, such as pro-poor political parties, a strong and independent auditor general, and free media. This article also looks for any unintended consequences of participation. For example, what might be the result when NGO participation substitutes for the participation of parliament? What happens when only some kinds of social partners and not others are included in consultations?

3 New emphasis on citizen participation in economic policy

Over the past fifteen years, the idea that development requires 'good governance' has gained considerable momentum. Good governance is variously described as governance that is accountable and transparent, follows the rule of law, and allows for participation or citizen voice. The rising emphasis on participation as a core component of good governance has many sources, among them the 'third wave' of democratisation, and a parallel increase in the power and influence of local and global civil society organisations. It has led to changes in development practice, from the level of macroeconomic policy to the level of municipal budgeting.

A decade ago, the reigning assumption among academics and many development policy advisers was that macroeconomic policy-making, and, indeed, many areas of revenue and expenditure management, needed to be somewhat exclusionary in order to allow technical considerations, and not 'politics', to dominate. Studies of development performance in East Asia pointed out that both growth and social improvements for the poor in the region were put in place during an earlier period of exclusionary policy-making, in which business was consulted in 'deliberation councils' but labour was largely controlled, and opposition parties were absent or impotent. A World Bank study edited by Stephan Haggard and Steven Webb (1994: 13) found that 'in every successful reform effort, politicians delegated decision making authority to units within the government who were insulated from routine bureaucratic processes, from legislative and interest group pressures, and even from executive pressures'. It was thus assumed by many that (even in democracies) difficult policy reforms needed to be undertaken by decree, through insulated technocracies, or in secret negotiations with international banks.¹

Concern with making macroeconomic policy processes more open, transparent, and participatory increased as a reaction to this exclusion. Many believed that this non-transparent, closed style of policy-making could threaten the consolidation of the new democracies of the developing world. Former Brazilian Finance Minister Luiz Carlos Bresser Pereira and his co-authors warned: 'if democracy is not to be undermined as a consequence of economic reforms, the representative organisations and institutions must participate actively in the formulation and implementation of the reform program, even if this participation weakens the logic of the economic program or increases its cost'

1. This paragraph and the next draw on a previous article (Bräutigam, 2002).

(Bresser Pereira et al., 1993: 10). Furthermore, a more inclusionary approach involving, at a minimum, consultation with affected groups was thought to influence the sustainability of policies and improve the prospects for their design and implementation. Jeffrey Frieden's 1991 analysis of the economic reform in Latin America pointed out that when 'important interest groups were left out of negotiations, they disrupted the implementation of whatever decisions were made' (Frieden, 1991: 252).

Researchers at the World Bank found that greater participation by affected social groups in policy formation and implementation was likely to boost two elements found to be associated with successful management of economic policy: ownership and credibility. 'Borrower ownership' of economic policy was strongly associated with the success of structural adjustment programmes, and the most significant factor influencing the degree of borrower ownership was the nature of public-/private-sector relations and the political influence of interest groups (Johnson and Wasty, 1993).

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

The experience of the PRSPs is recent, and it has not been possible in most cases to measure the actual impact of greater participation on the design and implementation of actual (as opposed to proposed) economic policies, and their impact on poverty reduction. Some aspects of the PRSP process have raised questions. For example, although civil society (both local and international) has gained entry into the PRSP processes, many question the level of real impact it is able to exercise through this participation, and the extent to which it can influence policy, in the face of entrenched interests.² In addition, the PRSPs have not emphasised the inclusion of representative institutions in the process. A 2002 review of the PRSPs by the World Bank and the IMF noted that 'the role of Parliaments in the preparation, approval, and monitoring of country strategies has generally been limited and is a concern that has been expressed by a number of development partners' (World Bank and IMF, 2002: 9).

The challenges of participation are perhaps even more acute at the level of fiscal policy and the budget, as illustrated by the following quotation from Kenya, where civil society organisations were attempting to influence the budget process, something that 'was shrouded in mystery', as Achim Chiaji, from the Kenya Christian Partners Development Agency explains:

Technocrats at the Treasury monopolised the entire process of formulation and implementation of Kenya's Budget with disastrous consequences. The budget is not sufficiently debated before presentation and non-state participation results in too many

2. See, for example, Hakikazi Catalyst (2001).

donor-generated proposals. There has been considerable concern following revelations that the donor organisations led by the IMF are playing a major role in determining the 2001/2002 Budget proposals. Another weakness is that budget debate is neither integrated nor systematic, hence it is often inexhaustive. Parliamentarians see the proposals for the first time when the Minister for Finance presents it for debate in parliament. The period allowed for debate is also too short considering the fact that the report is usually broad and over 400 pages. Furthermore, the budget is crafted in a technical language that makes it difficult for ordinary *wananchi* to interpret its real implications. (Chiaji, 2001)

Technical difficulties, lack of transparency, the reluctance on the part of some donors and some governments to cede tight control over a vital political process make the challenges of participation in fiscal policy and budgeting particularly acute. In the brief cases that follow, two sets of efforts are examined: participatory processes that have focused on economic and fiscal policy (Ireland's National Economic and Social Council; Porto Alegre's participatory budgeting experience), where we focus on the factors that affected whether or not spending became more pro-poor; and three cases of pro-poor budgeting, where we focus on the nature of the participation that accompanied the policy decisions.

4 Participation and pro-poor policy: interrogating the cases

4.1 Participation, but is it pro-poor? Ireland and Porto Alegre

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

The overall goal is not explicitly 'pro-poor' and, indeed, the outcomes of this process have been lauded more for their impact on growth and macroeconomic stability than for their success in addressing problems of social exclusion. In 1996, the list of civil society partners was expanded to include eight community and voluntary organisations, and since then, it is said, the focus of the agreements has shifted to include a greater emphasis on fighting exclusion and poverty.³

3. Today, '[t]here are 19 social partners in total, who were selected by the government to broadly represent the four "pillars" of Irish society as follows: Employer and Business Organizations: Irish Business and Employers Confederation, Small Firms Association, Chambers of Commerce of Ireland, Construction Industry Federation, Irish Exporters Association, Irish Tourist Industry Confederation; trade unions: Irish Congress of Trade Unions; farm organizations: Irish Farmers' Association, Irish Creamery Milk Suppliers Association, Irish Cooperative Organization Society, Macra na Fierme; Community and Voluntary Organizations: Irish National Organization of the Unemployed, Congress Centers for the Unemployed,

Several other aspects of the Irish experience are likely to be important. This participation takes a specific form: an institutionalisation of a 'tripartite' system where members meet regularly, year after year. As one analysis noted, this means that participation in this process is shaped by the 'shadow of the future' – the fact that the parties know they will meet again – and has generated an environment of patience and trust, which, as has been argued by Robert Putnam and others, 'nurtures reciprocity, facilitates communication, improves flow of trustworthy information and increases cost of defection' (World Bank, n.d.). This trust has worked, but it has worked to reinforce a limited goal: of growth and macroeconomic stability. Not surprisingly, the trade-offs that were negotiated so effectively were able to push the costs of the strategy onto those who were not at the table. Even with unions present, there was little evidence that a pro-poor agenda resulted from this participation. Progress on social issues has not been impressive. The Gender Development Index in Ireland, for example, remains the lowest of the EU countries (*ibid.*). This underlines the importance of the question: 'Who participates?' The inclusion of poverty-focused organisations in the Council some twenty years after the founding of the NESC may gradually lead to moves towards pro-poor spending, although this remains to be seen. A final point: in Ireland, some have criticised the NESC process as having 'extra-constitutional' influence, with the unintended consequence of weakening a democratically elected government. Others counter that all of the 'four major parties in parliament have participated in government and operated the agreements with undeterred enthusiasm' (*ibid.*).

We turn next to a different model of participation, but one that also involves a parallel system set up outside the normal channels of government. Porto Alegre in southern Brazil was the first of a growing number of interesting experiments at the municipal level, and in particular it suggests that participation by poor citizens in budgetary decision-making can lead to sharp increases in the reach and coverage of essential services, particularly to the poor. In 1989, the Brazilian Workers Party (PT) won the municipal elections in Porto Alegre, and proceeded to implement an experiment of decentralised decision-making in the city. Brazilian cities are governed by mayors, together with a legislative branch (Chamber of Deputies). Cities have a fair degree of local control over revenues, whether federal transfers or local taxes and fees.

In Porto Alegre, the participatory budgeting process began with the PT organising two rounds of assemblies, 'to gather demands of individual citizens and mobilise the community to select regional delegates' (Waglé and Shah, 2003). These delegates eventually elaborate – in debates with the mayor's technical officers – decisions on investment spending for the municipality, which are embedded in the budget that the mayor's office presents to the Chamber. The outcome in Porto Alegre has been impressive. As the World Bank reported:

Between 1989 and 1996, the number of households with access to water services rose from 80% to 98%; percentage of the population served by the municipal sewage system rose from 46% to 85%; number of children enrolled in public schools doubled; in the poorer neighborhoods, 30 kilometers of roads were paved annually since 1989; and

The Community Platform 1, Conference of Religious Ireland, National Women's Council of Ireland, National Youth Council of Ireland, Society of Saint Vincent de Paul, Protestant Aid' (World Bank (n.d.).

because of transparency affecting motivation to pay taxes, revenue increased by nearly 50%. (ibid.: 3)⁴

Participatory budgeting (PB) has since spread to some 140 of the smaller of the 5,500 Brazilian municipalities, and recently the PT, which won the governorship of the State of Rio Grande do Sul (where Porto Alegre is the capital), instituted participatory budgeting at the state level. Although other efforts to try PB in larger cities or at the state level have failed (in Brasília, São Paulo, or Vitória, for example), the Rio Grande do Sul seems to be working successfully in much the same way as the system works in Porto Alegre (see Schneider and Goldfrank, 2002). Nevertheless, participatory budgeting has limits. It seems to require a partnership between the executive branch and an activist civil society. It does not appear to be reaching the 'poorest of the poor', whose priorities are more likely to be survival issues such as income generation and jobs, rather than sewage systems and services, and the amount of the budget that is typically available for discussion – after fixed expenses such as salaries, debt payments, and maintenance on earlier investments – may only be 5% of the total (Souza, n.d.; GTZ, n.d.). And some have argued that by pre-empting one of the legislature's key functions, and also eliminating the incentive for civil society groups to interact with the legislative branch, PB is failing to consolidate the institutions of representative democracy at a time when they are fairly new and fragile.

Both cases suggest that the question of 'who participates' is critical. Although participation took a different form in the two cases (a tripartite Council in Ireland; a system of tiered people's assemblies in Porto Alegre), there are some commonalities. Both depend on commitment by non-governmental organisations to maintaining a long, staged process of consultation and debate. Both substitute a creative innovation for the institutions of representative democracy.

4.2 Pro-poor outcomes: Costa Rica, Chile, and Mauritius

The next set of cases was selected because all three are exemplars in their regions for their performance in the kinds of areas that are likely to reflect pro-poor spending: education, sanitation, and health infrastructure (see Table 1). In the UNDP's Human Poverty Index (an index that includes only developing countries), Chile ranks third from the top and Costa Rica second, while Mauritius is ranked 17th (but is the highest in sub-Saharan Africa). All three are also robustly democratic (Costa Rica and Mauritius, in particular, have held regular elections with universal suffrage for approximately 50 years). Each is examined to see whether these commendable outcomes are associated with citizen participation in setting budget priorities, and what lessons they might provide.

For Costa Rica and Chile, there is some direct evidence on the degree of participation in budgeting. In 2003, the Center on Budget and Policy Priorities, a think tank based in Washington, DC, conducted a study of ten Latin American countries, seeking to discover their degree of budgetary transparency and citizen participation in the budget. It asked panels of country experts to give their opinion on a number of different aspects of transparency and participation, which were aggregated into rankings. Citizen

4. Souza (n.d.) points out that this revenue figure may not reflect the impact of the constitutional changes that gave cities like Porto Alegre increased revenues. These changes were phased in gradually.

participation in the budget, said by the project to be ‘indispensable not only to strengthen democracy in a country, but as an effective way to assure that the most pressing needs of the population are reflected in the governmental budget’ (Briseida et al., 2003), was very low in Costa Rica, with only 8% of those interviewed affirming that there was citizen participation at the time of the study. Chile scored only slightly better, with 14% responding affirmatively. These low scores indicate that there were few if any mechanisms for citizens to make an input as the budget was being formulated or approved, little in the way of a reporting mechanism, and little transparency regarding changes in the budget after it had been approved, or the actual impact of spending decisions. On the other hand, both countries scored better (although they ranked only in the middle of the sample) regarding perceptions of the ability of the legislative branch to participate in analysing, debating, and modifying the budget proposals put forward by the executive branch. Costa Rica also scored well (and highest of the ten countries) in the degree to which the executive branch reports to the legislature on the changes it makes in the budget as it is executed.

Table 1: Outcomes of pro-poor spending in comparative perspective (most recent year)

	Mauritius	Sub-Saharan Africa	Chile	Costa Rica	Latin Am. and Caribbean
Adult literacy rate (%)	84	63	96	96	87
Improved sanitation, % of pop. with access	99	54	96	93	77
Improved water source, % of pop. with access	100	58	93	95	77
Under-5 mortality rate (per 1000 live births)	19	174	12	11	34
Life expectancy at birth	73	46	76	78	71
Human Development Index (value)	0.785	0.465	0.839	0.834	0.777

Source: UNDP (2004); World Bank (2004).

Costa Rica and Chile also scored highest among the ten countries in the ‘degree of trustworthiness around the auditing of public spending’ (ibid.: 22).⁵ The report notes that, in the case of Costa Rica, the office of General Comptroller of the Republic has been in place for more than 50 years, and is responsible for supervising public funds. Attached to the Legislative Assembly, it is fully independent and enjoys a high degree of public trust (ibid.: 23). Although the report on Costa Rica recommended that there should be more opportunities for civil society groups to participate in the budget cycle (health sector unions and other organised groups were specifically mentioned), it did not consider the possibility of Costa Rica having evolved a system that works to reduce poverty, as well as to maintain fiscal stability. Similarly, the report recommended that Chile should strive to

5. This refers, in fact, to ‘public spending destined for government-owned or semi-official enterprises, decentralized entities, defense, and the contracting of foreign debt’ (Briseida et al., 2003).

widen the budget debate 'beyond the circles of analysts and experts that monopolize the discussion' (ibid: 52). Yet some might argue that the current system in Chile, with its autonomous experts, actually ensures that spending is targeted on the poor more effectively. Below, we look more closely at the transition to pro-poor spending (and revenue generation) in post-Pinochet Chile for its lessons on participation, finding an important association of pro-poor spending with a negotiated increase in revenue.

As Chile was democratising in the late 1980s, the business class agreed to a temporary increase in taxation in order to remedy the 'social deficit' resulting from the policies of the Pinochet regime (Boylan, 1996: 7-32). Delia Boylan recounts how this pro-poor spending shift came about. Chile's democratic transition brought to power a centre-left, social democratic *coalition* which quickly negotiated the tax increases. The number of tax payers paying the highest marginal rate of income tax was increased; the corporate income-tax rate went up temporarily from 10 to 15%; VAT was raised from 16 to 18%, and all of the new revenue was earmarked for social spending, including higher family allowances and nutritional supplements for the poor.

To what extent were the tax reforms carried out in a genuinely participatory manner? Chile's new leaders had stressed that public policy-making would now be participatory. Opinion polls confirmed citizens' expectations of consultation: '70 to 80 percent of the public felt that it was important or very important that the government consult the opposition, the banks, the unions, and business groups when making decisions regarding the political economy' (Boylan, 1996: 24).⁶ Did this in fact happen? Boylan asked this question, and found that the proposed reforms were 'broadly discussed with various interest groups that included labor, business, and agriculture'. The major negotiations, however, were with the more right-wing opposition, the Renovación Nacional party: 'beyond the details worked out in discussions with the RN, it is not clear that the other social and political actors involved had much voice in this reform ... In the end, the participatory rhetoric was much more symbolic than real in value.'

The cases of Costa Rica and Chile both suggest that pro-poor political parties and coalitions are important actors in pro-poor budgeting, and it might be *their* participation that matters most. This is reinforced in the Porto Alegre experience, where the participation of the PT was essential for the entire process to become both participatory (for citizens) and pro-poor. The Chile case also emphasises the importance of considering taxation as well as spending, when focusing on pro-poor policy. It brings the business sector back into the consultations and highlights the importance of getting its agreement. Pro-poor spending needs to be matched by pro-poor revenue generation. This is also reinforced in the case of Mauritius where citizens express acute awareness that they are the source of the public revenues used for social spending.

As Table 1 indicates, Mauritius has impressive development indicators, particularly when compared with those of other African countries. It has been a parliamentary democracy since independence in 1968, and is also frequently praised for its economic competitiveness and growth performance. We thus have a further example of a country that, in its region, seems to do well at constructing budgets that show relatively pro-poor results. To what extent is this due to innovative mechanisms of participation in economic policy-making?

6. All quotations in this paragraph are from this source.

Mauritius does, in fact, practise a form of participatory budgeting, but it leans more towards the Irish corporatist than the Brazilian activist model. As part of the political handling of the oil price shocks of the mid- and late 1970s, the government began to consult more openly with the main 'social partners' on economic and social policy, and, in particular, on the budget, which in Mauritius, as in many countries, encapsulates the major policy intentions for the coming fiscal year. This process was initiated by Finance Minister V. Ringadoo of the Mauritian Labour Party, and intensified after the election in 1982 of a progressive political party, the *Mouvement Militant Mauricien*.⁷ The MMM's Finance Minister, Paul Bérenger, vowed explicitly to break away 'from the secretive practices of the past'.⁸ The government was in the midst of contentious negotiations with the World Bank and the IMF, and the MMM decided that transparency and openness would benefit its efforts to build support for reform – or at least understanding and tolerance – from the Mauritian people. Bérenger announced:

Ministers have invited everyone with an interest and involvement in the affairs of their ministry to participate in preparing and implementing policy... In my own case, since assuming office, I have met as many organizations and persons as I could to discuss the economic situation... Every section of society has been invited to participate in the preparation of this Budget... trade unions, employers, taxpayers, parastatal bodies, banks... To make these consultations as fruitful as possible, the Government has published all documents necessary for a full understanding of the economic situation.⁹

Although the MMM fell from power in a no-confidence vote about eight months after this budget, these consultations were further institutionalised. For the past two decades, all governments have practised consultation in the Spring budget cycle. The Minister of Finance makes the rounds of the country's major stakeholders, listening to their views, exchanging comments, accepting their written analyses. Each evening, these consultations are reported on the state-run television news: union members meet the minister one day; business associations another; the major social welfare NGOs and other groups have their days. When the budget is finally presented to Parliament, all local newspapers highlight its details. Almost instantly (since 1996/7), the budget speech and the entire budget (including all loans) are accessible on the Ministry of Finance's website on the internet.¹⁰ It is difficult to know just how much the pre-budgetary consultations

7. At the time of the 1982 election, the MMM put up Anerood Jugnauth as its prime ministerial candidate, believing that Bérenger, a Franco-Mauritian of European ancestry, would not be electable by the largely South Asian population.

8. This and the other quotations in this section come from Bérenger (1982). In a 1999 interview, Bérenger told me: 'We were real radicals. We wanted direct democracy!'

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

10. Interviews suggest, however, that many people in Mauritius believe the pre-budgetary consultations to be a 'mere formality'. As a newspaper editor said to me, 'This is part of the national folklore. But in reality, some private sector people have privileged channels. In any case, deep discussion of reorganising the workplace can't be done in two days with journalists present.' Interview with Gilbert Ahnee, editor, *Le Mauricien*, 3 May 1999, Port Louis.

actually affect the budget. As far as participation goes, this is nothing like the long period of work that goes into participatory budgeting in Porto Alegre, for example. Compared with the Irish example, the consultation and negotiations are much more one-sided. And yet they do have benefits.

Participation in the budgeting cycle, and a visible link between taxation and spending in Mauritius, forced groups outside the government to enhance their own capacity, in order to interact with the government as credible co-operators, and gain an audience for their analyses. It also allows Mauritians to challenge specific areas of expenditure. Not long ago, this happened with a proposed education project. An open letter in the country's major newspaper pointed out that the project was flawed, and reminded the Minister: 'If the government borrows millions of rupees from the World Bank for your project, it is done in the name of *All* the Mauritian people ... If it is necessary to repay this debt of millions of rupees for a project, it is each one of us ... who are going to pay by our taxes.'¹¹ Here, we see a strong link between social expenditures and the revenues that must be generated to pay for them. Ordinary citizens pay taxes – 'each one of us' – and therefore, because of their *revenue* role and not just their *citizen* role, have a right to hold the government accountable for its spending.

5 Issues raised by these cases

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

5.1 Who participates?

This question arises most clearly in the Porto Alegre and the Irish cases. The Porto Alegre experiment seems to involve 'lay citizens' organised by the Workers Party (PT), and its community activist allies, and so we have 'citizens' and a 'party' participating. In Ireland, the initial work of participation included the 'social partners': trade unions and producer groups. Only late in the game was the table enlarged to include social service organisations. In Mauritius, Costa Rica, and Chile, levels of direct citizen participation in budgeting were low (although Mauritius had institutionalised consultations with civil society groups).

Two further issues are raised by the question: who participates? When participants are elected citizen volunteers, as in Porto Alegre, their opportunity costs are high, and there may be systematic self-selection. For example, women may not participate as much, due to their multiple responsibilities. The poorest may not have the resources to participate, and may be at a disadvantage. In addition, when participants are not elected but rather come from civil society organizations, their representativeness can be questioned, particularly when they are actually making budget decisions that traditionally are the business of parliaments. In these cases, lobbying, providing information, being

¹¹ 'Lettre Ouverte à M. le Ministre de l'Education et à ses Conseillers,' *Le Mauricien* (Port Louis), 14 April, 1999, p. 11 (my translation).

consulted, can all serve to enhance the government's effort to spend the people's resources wisely, as in Ireland. But it may not make the process pro-poor.

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

In Porto Alegre, some municipal council members (legislators) resent a system that allows the Council of Participatory Budgeting (COP – a 44-member council which includes representatives from the different neighbourhoods, as well as from the civil servants trade union and community organisations) to exercise more influence over the budget details than does the elected city council.¹² For example, the COP can debate specific projects or public works, whereas the council cannot. This in effect allows the executive to interact directly with the neighbourhood representatives, by-passing the council whose participation is limited to voting yes or no on the budget package. These legislators contend that the COP does not have the constitutional legitimacy of the parliament, and that elections to the COP involve a minority of voters, unlike the elections to the city council.

From South Africa, we also hear concerns that civic engagement with the budget is not enough, without involving the legislature. As the South African Council of Churches has pointed out, although governance has become more transparent with majority rule, the executive branch still controls the budget tightly. 'Parliament still cannot amend the budget, but only vote it up or down ... Limiting opportunities for Parliamentary comment also reduces the role of civil society, *which would normally seek to influence the process principally through interactions with Parliament*' (South African Council of Churches, n.d.: 3) (emphasis added).

The World Bank's experience in developing the Comprehensive Development Framework with developing countries, a process that has also focused on civil society-donor-executive branch interaction, also notes that some groups are being left out: 'Parliaments are mostly absent from the debate, thus omitting a central actor from political discourse' (World Bank, 2001: 4). The successful example of Ireland has also raised similar criticisms: that the process is 'extra-constitutional', and that it 'undermines democratic processes' (World Bank, n.d.).

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

12 In this paragraph, I draw on Waglé and Shah (2003: 4).

5.2 Institutional framework

A left-of-centre political party

Many of the successful examples of pro-poor spending mentioned in this article took place under the direction of a left-of-centre political party. In some, such as Costa Rica, there was very low institutionalisation of participation by civic groups.¹³ Parliament, on the other hand, was an active participant in budget decisions. In Mauritius, although consultation with civic groups does occur as the budget is being prepared, the degree to which this is seen as substantive as opposed to *pro forma* varies, depending on the political party or coalition of parties that hold power. These have been almost invariably parties that describe themselves as 'social democratic'. Chile's pro-poor budget reforms were spearheaded by a left-of-centre coalition. In Porto Alegre, a key actor was again a left-of-centre political party, the Workers' Party. To what extent does participatory budgeting need direction and commitment from a left-of-centre political party in order to make it genuinely pro-poor? And if the party in power is genuinely pro-poor, is extensive civil society participation in budgeting and economic policy still necessary?

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

Effective auditing and transparency

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

The cases of Costa Rica and Mauritius bring up another institutional issue: does pro-poor policy require transparency, in particular, the marriage of a robust independent government auditor and the media, to keep the public informed about the impact of spending decisions? Transparency is necessary for accountability – for ensuring that expenditures are having their desired impact. The World Bank echoes this, in its admonition that public expenditure systems need 'a transparent process of formulation, approval, implementation and reporting among the formal institutions – the cabinet, finance ministry, line ministries, office of the auditor generals – is a primary requirement. This should be complemented by information disclosure and press freedom laws' (Waglé and Shah, n.d.: 3). A system of auditing is needed to close the circle between participatory budgeting and accountability. Some degree of capacity is probably necessary in both civil society and the media in order to make sense of auditing reports, but governments

13. Costa Rica does have examples of civic groups (often producer groups such as farmers) being consulted about policy changes.

themselves can go a long way towards meeting this need by making budgets and audits easier to understand.

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

5.3 What about revenues?

Chile's tax reform reminds us that budgets are about taxation, as well as about spending. This simple fact is not always appreciated. Whereas new forms of participation strongly emphasise the role of NGOs and civil society associations, the private sector sometimes takes a very back seat. A review of the participatory processes underpinning the World Bank's Comprehensive Development Framework suggests that the private sector and its associations may not be very involved in the process of developing the long-term development agenda (World Bank, 2001). By 2001, in two-thirds of the countries that had developed CDFs, the private sector did not participate in the process at all. As the review pointed out, being left out meant that 'private sector commitment to the national strategy, a key pillar of any long-term development agenda, is therefore generally weak' (ibid.: 4).

The weak commitment of the private sector is not a feature of the Irish model, but, as the case study on that model noted, spending has not been notably 'pro-poor' in Ireland. There is very little information about the role of the business sector in Porto Alegre, but it does not feature as a prominent part of the discussions. Mauritius does have strong commitment from the private sector in its development agenda, but most of the private sector's participation takes place in bilateral discussions between the government and the apex business federation, the Joint Economic Committee (JEC), a part of civil society with greater access to policy-makers than the unions or the community-based NGOs.¹⁴ The budgetary consultations are only one of many meetings between the JEC and the government over policy.

The role of the business sector becomes particularly important when we remember that budgets include not only expenditures, but revenues.¹⁵ It is frequently the business class that will be taxed in order to fund expenditures. As the Chile case points out, their negotiated agreement to support pro-poor budgets may be an important part of a sustainable pro-poor spending agenda in a democracy.

6 Conclusion

As Joseph Schumpeter pointed out, 'the budget is the skeleton of the state stripped of all misleading ideologies'.¹⁶ When the misleading ideologies are stripped away, what is left is the actual ideology of those who hold power. The successful cases of pro-poor spending outlined above were put in place when a pro-poor, left-of-centre political party won power, and when it then used that power to negotiate a shift in priorities. Participation in

14. For more on the role of the JEC in Mauritius, see Bräutigam et al. (2002).

15. In Brazil, much of the municipal budget is made up of transfers from the federal government.

16. I borrowed this wonderful quotation from an unpublished paper by Mick Moore (2003).

the absence of the combined power and agenda of a committed political party may, as in the Irish case, have little impact on pro-poor spending.¹⁷

Participation can have other benefits. Increases in information and greater transparency may make it easier to put pressure on and embarrass a government that is not pro-poor. Participatory budgeting can serve an important public education function. Combined with a strong auditor general, informed media, and civil society organisations with the capacity to deconstruct current spending patterns, it may yet be a novel pathway to making economic policy more pro-poor.

Donors like to jump on bandwagons. The move towards greater participation in budgeting and other areas of fiscal policy is showing signs of this trend. All of the usual precautions should be applied to this new strategy for pro-poor spending: avoid blueprint prescriptions, emphasise a menu of possible strategies and, most importantly, support a learning process in which states and civil societies can study what is working elsewhere and themselves adapt these strategies to their own environments. Ownership, as always, is essential for sustainable change. In this case, a sustainable shift in pro-poor spending, taxation, and macroeconomic policy is probably still going to require the old-fashioned tools of partisan politics, and the difficult negotiations over a sustainable, democratic, development strategy will require the inclusion, not the exclusion, of the business sector as well as the poor.

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17. The inclusion of NGOs and community groups in the Irish process may yet lead to more pro-poor policy shifts; this is a natural experiment that should be watched closely.

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