

IDS RESEARCH SUMMARY

Research findings at a glance from the
Institute of Development Studies

IDS WORKING PAPER 266
MAY 2006

Get What You Want, Give What You Can

Embedded Public Finance in Porto Alegre

Financing public spending is a big challenge for governments in Latin America. This paper looks at how one local government, in Porto Alegre in Brazil, managed to overcome this problem.

In the late 1980s the city's government introduced an innovative participatory decision-making model – participatory budgeting. This resulted in enhanced participation in local democracy, increased investment in the city's poorest areas and improved governance. Porto Alegre's government managed to balance the books by building political support among middle-class and poorer residents. It achieved this by targeting different social groups with the benefits each wanted in exchange for the contributions each could offer.

Participatory budgeting was introduced in Porto Alegre when the left-wing Workers' Party (Partido dos Trabalhadores or PT) took office in 1989. It is a method of budgeting that brings communities into the decision-making process around how revenue is raised and how public money is spent. When the PT took control the municipality was bankrupt, and

participatory budgeting offered a way of addressing the city's financial problems while increasing public support for the party.

For the purposes of participatory budgeting, Porto Alegre (one of Brazil's biggest cities) was divided into 16 regions. The annual cycle of discussion and decision-making begins with neighbourhood meetings that feed into the 16 regional assemblies and, ultimately, the city's budgetary council. The council, which is made up of both government and community representatives, then decides how to spend the city's resources most effectively. The distribution of funds is partly determined by the use of a formula that prioritises socially deprived neighbourhoods. There are also citywide assemblies on thematic issues (such as education, health and transport) that also feed into the budgetary council's decision-making process.

Implementing participatory budgeting entailed reorganising the structures and processes of local government. Support for the process has grown steadily over the years. At first some local government officials were hostile to the changes, and the party responded by raising the profile and influence of government departments involved in participatory budgeting. In addition, the process eventually won over the public, who have seen that participation can make a difference to priorities and how public money gets spent. By 1999, over 20,000 of the city's residents were involved.

In terms of public finance, the city increased income from tax and raised investment. This led to improvements in the delivery of local services (such as street paving, refuse collection and sewage systems) particularly in the city's poorer and under-served districts. Public engagement with local democracy was

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also enhanced, with poorer households making up a significant share (around 40 per cent) of those participating in all meetings.

The paper highlights key achievements around tax and spending in Porto Alegre:

- tax receipts rose by 338 per cent between 1988 and 2004
- tax became more progressive (linked to ability to pay), for example by increasing receipts from property taxes
- spending on public servants' wages was brought under control
- spending on public services (particularly education) and investment in poorer neighbourhoods increased significantly.

A public opinion survey carried out in 2003 revealed differences in the ways middle sector and poor groups came to support participatory budgeting, tax increases and the PT:

- high levels of trust in participatory budgeting was linked to satisfaction with tax contributions and support for the PT for both social groups
- poorer residents were motivated to participate by the potential to secure material benefits, whereas middle-class residents were more interested in non-material benefits (improved governance)
- for middle-class residents (whose tax contributions matter most because they hold wealth) satisfaction with tax was linked to

improvements in the efficiency of the public sector

- for poorer residents (whose political support matters most because there are more of them) support for the PT was linked to more investment in poor neighbourhoods and better services.

Latin American governments have a poor record of drawing on the wealth of their richest citizens. But the effective mobilisation of domestic resources, particularly through taxation, will be essential to combat the severe inequality that persists in the region. Some of the lessons from Porto Alegre's experience should therefore be of interest to the left-wing parties currently coming to power across Latin America.

- Participatory budgeting can strengthen the links between revenues, spending and legitimate government.
- People will support participatory budgeting when they see it influencing decision-making and delivering the services and outcomes they want.
- The state should customise messages and outcomes to meet the demands of different social groups.

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Credits

Schneider, Aaron and Baquero, Marcelo (2006), *Get What You Want, Give What You Can: Embedded Public Finance in Porto Alegre*, IDS Working Paper 266, Brighton: IDS

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