



# Does NGO Presence Decrease Government Spending? A Look at Municipal Spending on Social Services in Brazil

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**Summary.** — Are NGOs becoming substitutes for government? In particular, as many NGOs have missions related to social outcomes such as education or health, what is their role in regard to government provision of these social goods? I examine municipal-level data from Brazil in order to explore the relationship between NGOs and social spending. I find that municipalities with higher concentrations of NGOs tend to have lower levels of social spending, except in areas of high poverty. This implies that NGOs may be crowding out the government in terms of social spending, at least in lower poverty municipalities.  
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*Key words* — Latin America, Brazil, NGOs, civil society, social spending, local government

## 1. INTRODUCTION

In recent decades, researchers and policymakers have begun to take note of a “third sector” emerging between the state and its citizens: that of non-governmental organizations (Uphoff, 1993). The NGO sector has experienced exponential growth in the past few decades, not only in wealthy countries, but in every region of the world. For example, by 1993, Brazil was home to approximately 110,000 NGOs- the most of any country in the developing world (Clarke, 1998). Furthermore, in 2002, more than 60% of all private foundations and non-profit associations in Brazil had been established since 1991, indicating extremely rapid growth (Koslinski & Reis, 2009).

This growth has been due to a number of structural, political, and economic factors. Urbanization, higher literacy rates, and the spread of advanced communication technology have made it easier for ordinary citizens to organize. The spread of democracy in the developing world has meant that citizens are also freer to form organizations independent of the state without fear of repression. In addition, non-governmental organizations have emerged to fill the gap in public services that opened when economic crisis in the 1980s forced many developing countries to severely cut back on state spending. This move toward private service provision was facilitated by international donors that increasingly preferred to channel funds through NGOs rather than governments in an effort to bypass perceived government corruption and inefficiency (Haque, 2002; Holzner, 2010).

NGOs may pursue seemingly apolitical goals, such as poverty alleviation or improved education and health outcomes. However, by acting as alternative public service providers, they are changing the mechanisms of political representation and accountability. Are NGOs becoming substitutes for government? In particular, as many NGOs have missions related to social outcomes such as education or health, what is their role in regard to government provision of these social goods? I examine municipal-level data from Brazil in order to explore the relationship between NGOs and social spending. I find that municipalities with higher concentrations of NGOs tend to have lower levels of social spending, except in areas of high poverty. This implies that NGOs may be crowding out the government in terms of service provision, at least in lower poverty municipalities.

The outline of the paper is as follows. Section 2 gives a background on NGOs in Brazil, including when they began to appear and where they tend to be located. Section 3 outlines the competing arguments connecting NGOs to municipal government spending. Section 4 lays out the hypotheses and explains the empirical models I use to test the relationship between NGOs and social spending. Section 5 presents my results, which show that NGOs are associated with lower levels of social spending except in very high poverty municipalities. I then discuss these results and conclude. The relationship between NGOs and social spending is complex. When poverty is not as high, government can take advantage of NGOs as service providers in order to focus on other spending priorities. However, when needs become overwhelming, municipalities respond with higher social spending regardless of NGO presence.

## 2. NGOS IN BRAZIL

I define an NGO in accordance with the definition elaborated by the United Nations Division of Statistics and the Johns Hopkins Comparative Non-Profit Sector Project. This definition has five criteria. The entity must be: (1) an institutionalized organization, (2) private (separate from the government), (3) non-profit distributing (profits not returned to owners or directors), (4) self-governing, and (5) voluntary (UNSTATS, 2003). This definition could include entities such as hospitals, schools, poverty relief agencies, arts and culture groups, sports clubs, advocacy groups, foundations, and religious congregations. This is also the definition used by the Institute for Applied Economic Research (IPEA) and the Brazilian Institute of Geography and Statistics (IBGE) from which my data come. For the purposes of this paper, only domestic, not international, NGOs will be considered.

NGOs began to sprout up in Brazil during the period of military rule in the 1960s and 1970s. Their presence continued to grow in the 1980s, and may have played an important role in pushing for the democratic transition (Fisher, 1998; Landim, 1997). After the end of the dictatorship in 1985,

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Brazil experienced a boom in NGO activity, with many citizens exercising their newly won civil liberties to form organizations autonomous from, or even antagonistic toward, the state (Koslinski & Reis, 2009).

In 2005, the mean number of NGOs per Brazilian municipality was about 2.7 per thousand people, with a minimum of 0 and a maximum of 28.6 (IPEA).<sup>1</sup> Figure 1 shows a standard deviation map of NGOs per capita by Brazilian municipality. There are six categories, representing three standard deviations above the mean and three below. The lightest areas of the map have below the mean concentration of NGOs, while the darker areas have more than the mean. NGOs are most numerous in the South region of Brazil, particularly in the states of Santa Catarina and Rio Grande do Sul, as well as the Northeast. Table 1 shows some other variables correlated with NGO concentration. Counterintuitively, NGOs tend to be most numerous (on a per capita basis) in municipalities that are wealthier and have higher literacy rates, as well as in rural areas. This could be because NGO donors feel more comfortable interacting with counterparts similar to themselves in terms of education and background. Therefore, employees of NGOs tend to also be educated professionals, and the organizations themselves are more numerous in areas with higher education levels due to availability of potential employees and access to potential donors (Brass, 2012).

Brazilian NGOs vary substantially in terms of their activities and goals. In 2005, about one-fourth of Brazilian NGOs were religious institutions, followed by organizations focused on human rights, culture, politics, social services, professional organizations, education, health, the environment, and housing (see Figure 2). Furthermore, the raw numbers of NGOs of different categories does not tell the whole story. Although education and health NGOs only make up about 9% of the total number of organizations, they tend to be much larger than the other types and employ many more people, about

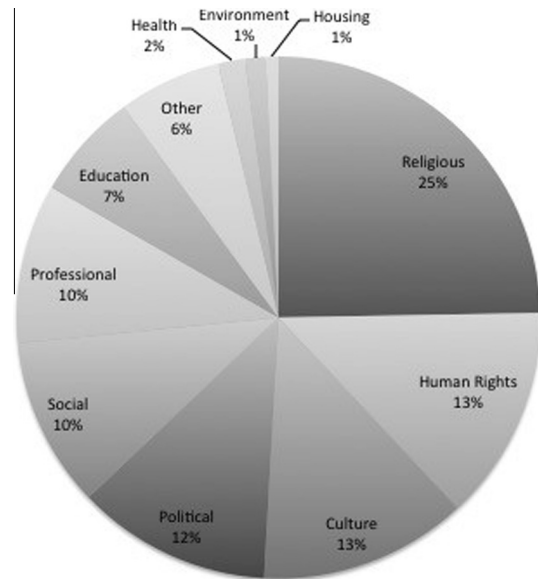


Figure 2. Brazilian NGOs by sector.

53.4% of the total number of NGO employees (IBGE, 2010). This large presence of education and health NGOs in Brazil could be reason to expect lower spending by the government in terms of education and health, as outlined in the next section.

### 3. WHY NGOS COULD DECREASE SOCIAL SPENDING

NGOs might spur decreases in social spending by providing services that had been traditionally provided by the state. In Latin America in particular, the debt crises of the 1980s brought about pressure from international lenders such as the World Bank and the International Monetary Fund for countries to make drastic spending cuts in order to balance their budgets. These cuts usually came from social sectors, such as health and education. As the state cut back its role, the private sector, including for-profit companies and not-for-profit NGOs, stepped into fill the gap.

In Mexico, for example, political and economic liberalization each played a role in spurring the growth of NGOs. Political liberalization allowed citizens to organize without fearing repression from the state, while neoliberal reforms shrunk the size of the state and made it less relevant as a target for citizen demands (Holzner, 2010). As the state was no longer capable of providing public goods, citizens instead turned to NGOs for help. At the same time that the state was cutting its budget, the World Bank began channeling funds to community organizations rather than governments, and international foundations began pouring money into NGOs (Holzner, 2010, p. 70).

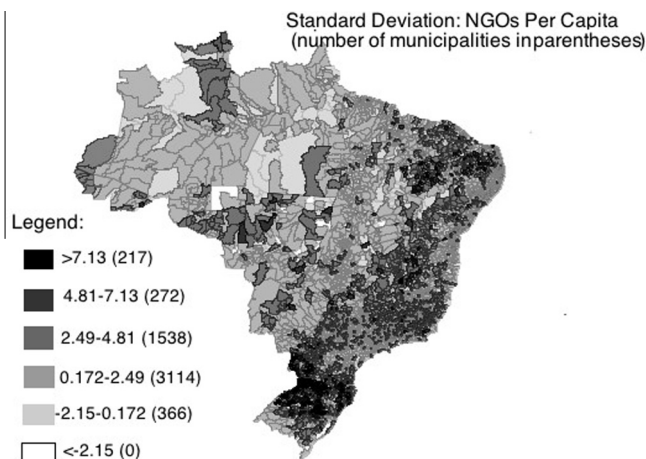


Figure 1. NGOs per capita in Brazilian municipalities.

Table 1. Where NGOs are found

	NGOs pc	Literacy	Poverty i	Come pc	South region
Literacy	0.29				
Poverty	-0.17	-0.8			
Income pc	0.24	0.82	-0.77		
South region	0.49	0.44	-0.34	0.34	
Percent rural	0.18	-0.44	0.41	-0.53	0.09

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