

The Effects of Participatory Budgeting on Municipal Expenditures and Infant Mortality in Brazil

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Summary. — This paper investigates whether the use of participatory budgeting in Brazilian municipalities during 1990–2004 affected the pattern of municipal expenditures and had any impact on living conditions. It shows that municipalities using participatory budgeting favored an allocation of public expenditures that closely matched popular preferences and channeled a larger fraction of their budgets to investments in sanitation and health services. This change is accompanied by a reduction in infant mortality rates. This suggests that promoting a more direct interaction between service users and elected officials in budgetary policy can affect both how local resources are spent and living standard outcomes.

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1. INTRODUCTION

Public expenditures are a powerful tool to guarantee access to essential goods and services for all strata of society. However, in many cases distortion and misallocation of public monies—more often than the lack of resources—prevent this from happening. The lack of political accountability is a key problem in much of the developing world. Traditional mechanisms of horizontal accountability, via internal audits, checks and balances or constitutional constraints, are clearly not enough to make politicians take full responsibility and provide full justification for their actions and performance. Neither is electoral accountability in democratic countries: too often we see basic services failing to reach the poor even when they represent an important fraction of the electorate.

Identifying mechanisms to reinforce political accountability has been a key challenge for economists (and policy makers) and the object of intense research in the political economy literature. In the developing world several innovations to improve political accountability have been put into practice. Over the last decade these have tended to be bottom-up mechanisms that imply a greater involvement and participation of citizens, the ultimate service beneficiaries, in decision-making processes and service delivery.

One of the most famous innovations was the participatory budgeting model developed in Porto Alegre. This is an alternative budgetary process that allows citizens to negotiate with government officials over the municipality's budgetary allocation and its investment priorities. Participatory budgeting brings in two key elements to the traditional budgetary practices. First, it improves information flows between policy-makers and service users, leaving the former better equipped to provide goods and services that more closely match the citizens' needs and preferences. Second, it also strengthens accountability by functioning as a commitment device for the politicians as it stimulates more frequent checks on their (publicly promised) actions by the common citizen.

Despite having attracted considerable attention for the improvement in political accountability claimed to have been achieved,¹ and despite the fact that the participatory budgeting model spread across Brazilian municipalities in the 1990s and 2000s and was adopted in a number of other countries,

evidence of its impact on local public expenditures and living standard outcomes is still very limited. My contribution is to fill that gap by analyzing a panel of Brazilian municipalities for the period 1990–2004 in order to understand what effects participatory budgeting had on municipal public expenditures and associated living standard outcomes.

Brazil's decentralized politico-administrative system, in place since the late 1980s, provides an ideal setting for this analysis. All municipalities are entitled to ample powers in service delivery and can therefore be important players in fundamental sectors such as health or education. Furthermore, with the first experiences of participatory budgeting taking place in the late 1980s the data allow me to identify four different waves of adoption in the four legislative periods during 1989–2004, where each legislative period is bounded by a mayoral election. The decision to adopt participatory budgeting depends solely on the existing mayor, who is subject to election every 4 years, and it can be reversed.² For this reason, there exists substantial variation not only in the time of adoption but also in the length of the period in which participatory budgeting is in place. This variation in the use of participatory budgeting across municipalities will be important for the identification of the effects associated with participatory budgeting.

By observing the evolution of budgetary allocations across time in different municipalities I find a robust pattern linking the use of participatory budgeting to a change in the pattern of government expenditures within the period under analysis: the adopting municipalities tend to increase the spending on health and sanitation significantly more than their non-participatory counterparts. More precisely, my findings suggest that participatory budgeting increases the proportion of the public budget spent on health and sanitation by 2–3% points, which is as much as 20–30% of this category's budget share sample mean in 1990.³ This change in the pattern of government expenditures seems to be in line with the participatory meetings' outcomes that systematically place investments in

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sanitation (i.e., improving water and sewage connections, drainage and waste collection) as a top municipal priority. Crucially, this result does not seem to be a consequence of adopting units having larger fiscal budgets. Participatory budgeting appears to be a “budget neutral” mechanism as it is not significantly associated with greater per capita budgetary expenditures.

To show that these changes do generate real effects I further investigate whether there was any subsequent impact on living conditions among the adopting municipalities. It is a well accepted fact that poor sanitation is a leading factor in infant mortality, mainly driven by higher vulnerability of this age group to waterborne diseases (see, for instance, Black, Morris, & Bryce, 2003; Sastry & Burgard, 2004; Victora, 2001). If we believe that the new spending pattern brought by participatory budgeting did result in better sanitary conditions as demanded in the participatory forums, a consequent fall in the infant mortality rates might be expected. My data set allows testing for this hypothesis by using a panel of municipal infant mortality rates for the period during 1990–2004. My findings suggest that municipalities that adopted participatory budgeting registered a significant drop in infant mortality of between 1 and 2 infants for every 1,000 resident infants—about 5–10% of the total infant mortality rate at the beginning of the period in 1990.⁴ This is a significant result for a nation like Brazil, which at the beginning of the 1990s was one of the worst performers in terms of infant mortality rates in the Latin American and Caribbean region with an average infant mortality rate of 48 out of every 1,000 newborns (World Bank, 1990).

These basic results were subjected to a series of robustness checks in order to address concerns about potential endogeneity of the participatory budgeting adoption decision and the validity of its estimated effects. Overall, the pattern of estimated results holds throughout. I interpret these findings as evidence that participatory budgeting can be an important tool in improving information flows between citizens and their political representatives, enhancing government accountability, and ensuring that citizens’ preferences are reflected in the actual implementation of public policies on the ground.

The work presented in this paper contributes to two main strands in the political economy of development literature.

First, given the focus of the participatory mechanism on improving information exchanges between elected politicians and common citizens, this work contributes to the literature that views citizens having information on the actions of politicians and bureaucrats as being key to improving political accountability and government responsiveness (see Besley & Burgess, 2002; Ferraz & Finan, 2007; Strömberg, 2003 and Bjorkman & Svensson, 2009).

Second, and fundamentally, this work contributes to the literature on the analysis and evaluation of mechanisms of participatory development. Influenced by the work of authors such as Chambers (1983), Hirschman (1970), Hirschman (1984), Sen (1985) and Ostrom (1990), theories of participatory development focused on principles of bottom-up decision-making and community empowerment have gained increasing popularity over the past three decades in the realm of development management and substantially affected the policies of governments, donors, and development agencies, such as USAID, the UN, and the World Bank (Mansuri, 2012). Advocates of this model of development argue that greater citizen participation promotes information transfers between government/service providers and final service users and, as a consequence, results in greater allocative efficiency and accountability. These views have been challenged by different authors, who stress the potential for local capture and

exacerbation of pre-existing inequalities (Bardhan & Mookherjee, 2000; Mosse, 2001; Platteau & Abraham, 2002) and a loss of technical efficiency (Bardhan & Mookherjee, 2006; Brett, 2003; Oakley, 1995) that can result from “shifting the locus of decision making downwards” (Mansuri & Rao, 2012).

This work fits within the growing literature that attempts to provide empirical evidence of the effects associated with different participatory mechanisms. This ranges from the setting of political reservations for minority groups in order to ensure that their interests are reflected in policy-making (e.g., Besley, Pande, Rahman, & Rao, 2004; Chattopadhyay & Duflo, 2004; Pande, 2003); the introduction of service report cards (e.g., Bjorkman & Svensson, 2009); the direct involvement of community members in school and health sector management (e.g., Banerjee, Deaton, & Duflo, 2004; Jimenez & Sawada, 1999; Kremer & Vermeesh, 2005); involving citizens and community organizations in the monitoring of public programs (e.g., Olken, 2007; Olken, 2008) or the setting up of participatory institutions (such as the Gram Sabhas in India (e.g., Besley, Pande, & Rao, 2005)). Participatory budgeting is most similar to this last mechanism for encouraging participation in policy making but is truly innovative in its scope and scale. Participatory budgeting aims to improve accountability and responsiveness by opening up the “black-box” of budgetary design and implementation to the whole of society. This allows narrowing down the information asymmetries between policymakers and citizens and encourages further checks by the latter on the former’s activities—particularly relevant in a context characterized by wide-spread clientelistic and corrupt practices as is the case in Brazil.⁵ It has been implemented on a large scale in Brazil—by 2004 about 30% of the Brazilian population lived in municipalities which used participatory budgeting as a means of deciding the allocation of local resources. Its objectives line up with those outlined in the 2004 World Development Report, “Making Services Work for Poor People”, of “putting poor people at the centre of service provision: enabling them to monitor and discipline service providers, amplifying their voice in policy-making, and strengthening the incentives for service providers to serve the poor”. The scope, scale and ambition of participatory budgeting twinned with the distinct lack of concrete evidence of its effects makes evaluation of this new form of encouraging citizen participation in public policy making all the more urgent.

In addition, my findings also contribute to a wider debate on the merits of the decentralization of government. Empirical results in this area have been divergent and inconclusive and have not crystallized into a coherent whole. This paper focuses on an institutional refinement within a decentralized governance framework (that is, the enhanced community participation) and thus provides an additional test of the (argued) advantage of decentralized and participatory regimes for tailoring policies to the demands and needs of the local population (see Ahmad, Devarajan, Khemani, & Shah, 2005; Faguet, 2012; Faguet & Sánchez, 2008; Foster & Rosenzweig, 2001).

The remainder of the paper is organized as follows. Section 2 focuses on background and data. I provide the necessary institutional background regarding participatory budgeting, public expenditures, and main socio-economic context, describe the variables used in the empirical analysis and examine how they have evolved over the period under analysis. Section 3 presents the results of the empirical analysis of the relationship between participatory budgeting, public expenditures, and associated living standard outcomes for Brazilian municipalities over the 1990–2004 period, including a description of the robustness tests performed. Section 4 concludes.

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