

AN ISSUE PAPER ON PARTICIPATION IN PUBLIC EXPENDITURE SYSTEMS¹

1. THE ORIGIN OF PUBLIC EXPENDITURE

The mainstream public economics literature makes the case that government intervention ought to be considered in two instances, i) when market failures occur because of externalities, public good properties, incomplete information, and lack of competition, or ii) when market activities worsen distribution of income. After establishing at least one of these, the government chooses among a range of instruments to redress the resultant allocative as well as productive inefficiency. The instruments include regulation, tax or subsidy redressal, and public-funded private provisioning. In developing countries where absolute poverty, often rural and agro-based, is the biggest development challenge, provision of basic services like primary education and health, infrastructure, income generating and employment activities warrants state involvement for reasons stated. Because public spending is financed by domestic and international taxpayers (in the form of development credit), efficacy of public spending is not only important from a development effectiveness lens, but also because of accountability to the financiers of public spending which includes the poor who pay indirect taxes.

That governments step in to correct market failures does not mean, however, that they themselves don't fail. Their typical constraints are:

- *Information constraints:* the distance between the state apparatus and poor people can distort both the content and speed of the flow of information required for effective anti-poverty planning and intervention.
- *Capacity constraints:* Even if it was known what ought to be done, states in developing countries may lack the financial and human resources to undertake desired development actions.
- *Incentive constraints:* Unlike the private sector that is primarily guided by pursuit of profits, bureaucratic and political incentives are not as clearly defined, and may be misaligned with development objectives, making anti-poverty interventions less effective.

Formal prescriptions to redress these problems include capacity strengthening, decentralization, and institutionalization of accountability systems. But because past experience has shown that these are inadequate, civic engagement - *a process that organizes citizens or their entrusted representatives to influence, share, and control public affairs and development initiatives, implementation and resources* - has emerged as an effective complementary development instrument. It is both a means and an end to better development. It is an end because in open societies democracy ideally encompasses more than the ritual of competitive elections; and it is a means because, subject to conditions, it contributes to redressing some government failures by bridging the information divide, alleviating capacity constraints by making available alternative channels of service delivery, and checking growth of perverse incentive regimes through demands on accountability. The process of civic engagement is additionally potent when it becomes a constructive contributor to an alliance of three most important agents in public policy and management: *bureaucratic* action, *political* action, and *citizen* action.

There are, of course, limitations to what participation can bring, most noteworthy of which are, i) costs in terms of money, time and management, ii) risk of elite capture, iii) possibility of instability, and iv) illegitimate representation. While because of these pitfalls, participatory processes don't lend themselves to an automatic endorsement in all grassroots activities, a compelling body of empirical evidence exists today which makes a strong case for people's participation at the micro level. A relevant question to ask now is whether the micro successes can be scaled up to the macro level.

2. SCALING UP PARTICIPATION

Attempts have been made in some countries to scale up – or out – processes of civic engagement to the macro level, the domain of adopting, implementing, and evaluating aspects of socio-economic policy, e.g., multi-year macro economic packages (Ireland), municipal budget formulation (Brazil), and civic evaluation of public sector performance (India). Here, while the evidence is not as conclusive as at the micro level because country specific experiments vary in scope, and outcomes are preliminary. But there are encouraging

¹ This Note is prepared by Swarnim Waglé and Parmesh Shah, Social Development Department, The World Bank.

results in some areas. Public Expenditure Management - systems that deal with the collection and allocation of public resources, is one of them, especially in view of the biggest development goal of the new century, which is to reduce absolute levels of poverty for over 1.3 billion people, mostly in Africa and South Asia.

If financial resources are a necessary but insufficient ingredient for modern socio-economic development, then the first question to ask, even before exploring options for increasing the volume of resources is whether governments use existing resources prudently or not. Are resources being targeted to the right sectors? Do they flow to the designated sectors? Should they be flowing to the sectors in the stipulated amounts at all? In other words, all good public expenditure systems must pass the test of Accounting, Monitoring, Auditing and Evaluating on a sustained basis. It is then that participation becomes an integral component in Public Expenditure Management because citizen's engagement can assist in processes that lead to better targeting, allocation, and tracking of resources. They can also help in reconfiguring sets of development policy choices. Tools of Public Expenditure, like national budgets, are themselves important policy statements expressed in money terms. However, beyond the development effectiveness argument, the issue for participation in PE is also one of accountability.

3. ACCOUNTABILITY AS A CITIZEN RIGHT

Guided by ideological or other policy choices, governments may be active in areas not necessarily characterized by market failures. Irrespective of motivations, governments universally tax citizens to undertake expenditures on their behalf. Since the beginning of civilization, taxes have been the most practical way of revenue generation to finance public spending. Taxes are raised domestically, although they may also be received in the form of international transfers from taxpayers in other countries as is the case with development lending. Because most sources of government spending are citizen entitlements, in money or in kind, a basic case can be made to see transparent accounting of public expenditures as not only a means to an efficient development outcome, but also as a fundamental citizen right - an end in itself.

4. REFORMING PUBLIC EXPENDITURE SYSTEMS

Budgets – national, provincial or municipal - represent a government's statement of expected revenues and expenditures over a period of time. While poverty can be reduced through multiple channels (such as growth spurred by private investment) public spending in basic service provisioning remains one of the most direct instruments. Further, budgets serve numerous socio-economic purposes by allocating resources in ways that promote or hinder growth and equity. Despite this overarching importance, budgets in developing countries have not been as effective as they should be. This is why the agenda to reform public expenditure systems has been given such a high priority. As the Bank's Poverty Reduction Strategy Sourcebook summarizes, a number of urgent technical reforms needed in existing PE systems include the following.

- *Better resource planning*: a longer term planning horizon where policy choices are disciplined by realistic resource availability. Government programs should compete for funding, not rely on routine increments. Cost Analysis of public projects ought to be a re-iterated exercise.
- *Better accounting, auditing and procurement*: 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.
- *Better performance*: allocation alone does not ensure impact. Greater link between resources and performance guided by measurable indicators.

Formal institutional remedies of these kind are necessary to strengthen national public expenditure systems, and this has been the focus of most public sector reform programs. But incorporating elements of civic engagement to complement these institutional reforms has so far been an under-appreciated and under-tried innovation. Drawing on a number of successful cases and tested models from around the globe, the World Bank is presenting a framework for Participatory Public Expenditure System, where civic groups influence stages of the budget process in a cyclic and iterative manner.

The framework proceeds with a caveat that what is sought is not an ad-hoc institution of a participatory channel that subverts established politico-legal processes which have constitutional recognitions, but draw on inputs that civic engagement affords to make the public expenditure system more transparent, accountable, and efficient toward the end of poverty reduction.

5. PARTICIPATION IN PUBLIC EXPENDITURE MANAGEMENT

This spans four key stages in a cyclic manner: Formulation, Analysis, Expenditure Tracking, and Evaluation.

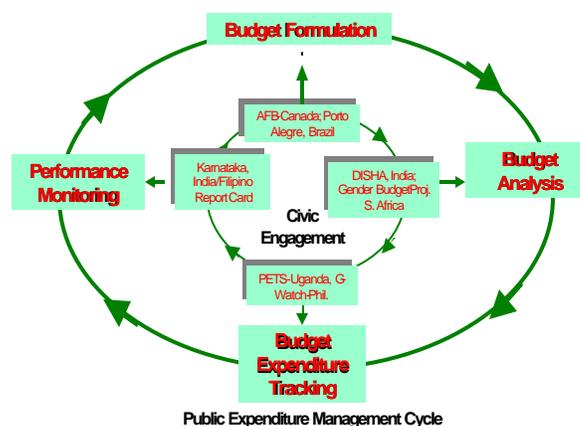
Formulation. When revenue and expenditure estimates are being prepared, processes of civic engagement can influence how the expenditure proposals are made – to which sectors and in which amount. But opening up the formulation process also helps the government present policy and resource options to the public, so that participation simply doesn't create a wish-list of conflicting demands or over expectations. Cases here include the Participatory Budget Formulation in nearly 100 Brazilian municipalities. Civic Engagement can also involve preparation of Alternative budgets to pressure changes in the official budgets. Alternative Federal Budget of the Canadian Center on Policy Alternatives presents a case study on this front. Formulation phase of the budget involves the Ministry of Finance, Cabinet, and the Sector Ministries.

Participatory Budgeting in Porto Alegre: Promoting Responsive Government

A city in an indifferent financial state before 1989 because of de-industrialization, in-migration, indebtedness and poor revenue base, major fiscal and other reforms were initiated between '89-'91, yielding spectacular achievements in subsequent years, credit for which has been given to the participatory budget process. Since 1989, the Workers Party has won three consecutive municipal elections in Porto Alegre which has been called by a leading journal 'the city with the best quality of life' in Brazil. Between '89 and '96, 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 because of transparency affecting motivation to pay taxes, revenue increased by nearly 50%. Over 80 Brazilian cities are now following the Porto Alegre model of participatory budgeting.

Analysis. This stage arrives post-presentation of the budget in the legislature, and involves review of the impact and implication of different policy proposals and allocations. Civic engagement is used to demystify the seemingly technical content of the budget, create general awareness, and even inform and train parliamentarians to pressure the executive for pro-poor changes. There are numerous examples of civic engagement in improving budget literacy: Institute for Economic Affairs in Kenya, DISHA in India, IDASHA in South Africa.

Diagram 1. Conceptual Framework: PARTICIPATORY PUBLIC EXPENDITURE MANAGEMENT



Tracking. After the budget appropriations are debated and approved by parliament, allocations are disbursed to ministries and tiers below. But because of institutional weaknesses such as opportunities for rent-seeking and leakages, disbursed amounts may not reach the intended beneficiaries in developing countries, with the link between sound planning and good implementation being tenuous. By identifying the elusive bureaucratic channels through which funds flow, civic groups can highlight bottlenecks in the flow of resource, and other systemic deficiencies. The work of Uganda's World Bank funded Public Expenditure Tracking System, G-Watch project in the Phillipines, and the Majdoor Kisaan Shakti Sangathan of Rajasthan, India, offer examples of how tracking has been used to upset the status quo by allowing a more efficient use of public funds for the poor. This stage may involve triangulation of information received from independent enquiries, funds released by finance ministries and accounts submitted by line agencies to the exchequer.

Tracking Expenditures in Uganda: Promoting Efficiency

Once revealed that less than 30% of allocated capitation money was reaching the schools on average at the end of 1995, the government acted immediately to improve the flow of information, and make budget allocations transparent by: i) publishing amounts transferred to the districts in newspapers and radio broadcasts; ii) requiring schools to maintain public notice boards to post monthly transfer of funds; iii) legally provisioning for accountability and information dissemination in the 1997 Local Governance Act; and iv) requiring districts to deposit all grants to schools in their own accounts, and delegating authority for procurement from the center to the schools. By 1999, capitation grants received by the schools had almost reached 100%.

Performance Evaluation. The fourth stage of the cycle is evaluation where the performance of selected publicly-funded agencies (sometimes the entire government) is assessed. One of the more analytically robust and powerful instruments to evaluate public performance draws on a private sector practice of soliciting feedback from citizens, and compiling 'report cards'. The methodology involves administration of a survey to intended clientele of public services to determine quality of, access to, and satisfaction with such services. There are two practices: one where an independent groups conducts the survey for government or donor agency; the other is one where citizen groups conduct the surveys. These exercises provide rich information on where and how basic services are failing the poor.

Bangalore Report Cards: Promoting Accountability

Complementing a body of anecdotal evidence on the incompetence of public agencies, quantification of user perceptions in Report Cards provided credible indicators of the extent of dis-satisfaction triggering internal reforms. Although the quality of service could not have been radically overhauled in Bangalore between 1994 and 1999 just as a result of one Report Card findings, of the 8 agencies surveyed in 1993, 4 made attempts to respond to public dissatisfaction. The worst rated agency – the Bangalore Development Authority (BDA) – reviewed its internal systems for service delivery, introduced training for junior staff, and along with the Bangalore Municipal Corporation, began to host a joint forum of NGOs and public agencies to consult on solving high-priority problems such as waste management. The Karnataka Electricity Board, too, formalized periodic dialogues with resident associations to garner feedback from users. Two other public agencies tried to strengthen their grievance redressal systems. However, the remaining four stayed indifferent to the results demonstrating how public outcry alone is not sufficient to overcome bureaucratic inertia. It is clear that report card initiatives need to be complemented by systemic political reforms and citizen action.

The institutionalized works of the Public Affairs Center in Bangalore, India, and the Bank-funded Filipino Report Card 2000, among other examples, offer useful precedents. The Report Cards usually identify the key constraints the poor face in accessing public services, their views about the quality and adequacy of services, and the treatment they receive in their interactions with public service providers. Civic input at this stage can influence both the internal reform measures of the evaluated government agencies as well as external evaluators such as the report of the Auditor General to the parliament.

6. INSTITUTIONALIZING CYCLIC PARTICIPATION IN PUBLIC EXPENDITURES

The two sets of critical success factors for participation in public expenditures are, i) technical skills and overall capacity of intermediary civic groups who analyze, track, and evaluate different stages of the budget process, and ii) conducive political environment in the form of free and able media, information disclosure laws, and political will to make government systems more open. One-off engagement at any stage of the cycle can be useful, but participatory public expenditure systems only deliver when the feedback loop is institutionalized and space is given to external voice at each stage. Experiences show that a culture of accountability can only be fostered if sustainable alliances among a reformist executive, and legislature, an active civil society and a responsible media can be forged. As an illustration, credibly executed report card findings can not only be used by auditors and the public accounts committees in parliaments, but the media can be a powerful ally to healthily nudge the state into acting.

As with instances of participation in grassroots projects, it has to be recognized, however, that these processes can be costly in terms of money, time and management intensity. But because the entire premise rests on the fact that public spending is crucial for poverty reduction, and because conventional modes of priority setting and fund use can be ineffective, they need to be complemented by innovative instruments of civic engagement. This is necessary because, i) social accountability is a right, and ii) civic engagement can help make public expenditure systems save and use scarce resources to fight poverty better.