

PARTICIPATORY BUDGETING: THE APPLICABILITY OF THE PORTO ALEGRE MODEL TO BUCHAREST, ROMANIA

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Submitted to
Central European University
Department of Public Policy

In partial fulfillment of the requirements for the degree of Master of Public
Policy, Decentralized Governance Stream

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Budapest, Hungary
2008

Abstract:

This study shows that despite the differences between Porto Alegre and Bucharest, the experience of the participatory budgeting system first implemented in Porto Alegre can be a policy learning opportunity for Bucharest as well, as it was for a number of other cities around the world. The level of institutionalization and the success of the Porto Alegre model in terms of public service provision, have transformed the latter into a best practice story based on which a system for Bucharest can be developed. This study employs both qualitative and statistical data in order to identify the main difficulties that the implementation of participatory budgeting faced in Porto Alegre and ways to avoid them when developing a model for Bucharest. The results of this study show that the Porto Alegre model can be followed by Bucharest as well, and it can prove to be successful if the implementation methodology is the proper one. Special attention has to be given to the internal administrative reform process, to building citizens' trust in democratic institutions and to ensuring the independence of the system.

*For Fabiano,
who changed my life*

Further Acknowledgements:

Special thank you needs to be addressed to a number of people and organizations without the help of which this research would not have been possible:

CIDADE, Center for Urban Studies, Porto Alegre, Brazil, thank you Sergio, Vera, Marcia and Dani, for making me feel at home, for your patience and your constant attention

Dr. Giovanni Allegretti, Center for Social Studies, University of Coimbra, Portugal, for all the good advice, unconditional support and contacts

Center for Public Participation Resources, Bucharest, thank you to Oana, Sinziana, Cristina, Florina and Cristinica

Romanian Academic Society, thank you to Sorin Ionita and Suzana Dobre for their effort to actively introduce me to participatory policy making in Romania

Ernesto Morales, thank you for considering me your colleague researcher

Prof Dr Demise Leite, UFRGS, for helping me understand participatory reform processes

Local Government Initiative and *Central European University*, for partially supporting the cost of my trip to Brazil

The Correa family, for providing the most warm research environment in Porto Alegre

My family, for their trust, moral and financial support

All my interviewees, who kindly shared their time and experience with me

Professor Valentina Dimitrova – Grajzl, CEU, for her unconditional academic availability, motivation, inspiration, forgiveness, and nonetheless friendship

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CHAPTER 1. Introduction

According to the data provided by the monthly bulletin of the National Statistical Institute, the investment index on Bucharest has grown by more than 20% in the last quarter of 2007, compared to the last quarter of 2006. Out of the total amount of the investment, three quarters was directed to constructions and the rest to acquiring new technological equipment. These figures, along with a 1,8 unemployment rate in 2007, an average salary which is double the national mean, indicate that the Bucharest economy is experiencing a significant growth. But is Bucharest really going the right way?

Behind the figures, lies a Bucharest that looks like a construction site. The never-ending public works and the corruption that most of the procurement processes are suspected of have created high distrust in the local government, coming from citizens as well as from foreign investors. Moreover, the city is experiencing constant expansion since 1995. Estimates indicate an approximate number of 500,000 unregistered migrants from poorer regions of Romania to be living in Bucharest now. The garbage dumps at the outskirts of Bucharest are slowly being illegally occupied by poor Roma, and transforming these areas into neighborhoods would require at least a sewage system, electricity, and water and gas provision. Under these circumstances, the need for public investment is continuously growing.

How can the Bucharest local government improve its public service performance? Can it ensure more transparency of the decision making process when it comes to public procurement and beyond that? How can the local government prevent a decrease in the level of investment? How can a legitimate redistribution mechanism be successfully implemented? Drawing on a similar experience I will try to assess the feasibility of a system that might be

able to solve these problems. To be more precise, the aim of this paper is to analyze the relevance and applicability of the Porto Alegre participatory budgeting model to the case of Bucharest, Romania.

Participatory budgeting is a model of bottom-up decision making that was first implemented in 1989 in Porto Alegre, Brazil. Since then, the model was adopted by more than 500 municipalities all over the world, proving its efficiency in public service delivery and in legitimizing local governments. As most scholars and practitioners (Allegretti 2007; Baierle 2007; Fedozzi 2001) strongly emphasize, participatory budgeting is not a tool, but a concept. The international experience to which the system was exposed proved that it was the methodology that counted for its success and not a particular fiscal policy or a particular administrative system. As it will be discussed further in this paper, it cannot be denied that these can highly influence the decision of its implementation. On the other hand, once implemented, its functionality depends strictly on the system's design and on the extent to which the participation methodology is adequate for the social and economic conditions a municipality presents.

Bucharest and Porto Alegre have very different histories, but still the comparison is legitimate. Both cities are in countries that have experienced totalitarian political regimes, have a highly fragmented political system and share the same experience of urbanization through forced industrialization. Still, a serious number of differences exist and need to be explored. That is why, as scholars indicate (Allegretti 2007; Baierle 2007), a direct transplantation of the system is out of question. On the other hand, out of what Porto Alegre is teaching, what could be applied to a city like Bucharest, for example? What makes the two comparable? If the Bucharest local administration would want to implement a participatory budgeting system, why would it want to make such a choice and how would such a system look like? Considering the post-socialist urban development dynamics what methodology

would the system have to follow in order to reach the best results? This paper will attempt to answer all these questions, first by reviewing the literature related to the meaning and development of participatory budgeting. Chapter 3 will present the research design and methodology of this paper. Chapter 4 will contain the results of the Porto Alegre case study. In Chapter 5, based on the results of the case study in Chapter 4, the answer to the applicability question will be given, followed by the final conclusions in Chapter 6.

CHAPTER 2. Literature review

2.1. Decentralization and democracy

Any efficient and democratic process of decentralization assumes a high degree of coordination between revenue collection and expenditure assignment (Tiebout 1956; Musgrave & Musgrave 1989; WB 1998). The tie between the two is extremely important as it could ensure the legitimacy of a certain governing system. That is why theoreticians argue that within the broader theoretical framework of “fiscal federalism”, decentralization can improve the quality of democracy (Tiebout 1956: 416 - 424). Moreover, successful decentralization needs to go beyond setting in place a fiscal legislative framework, towards building a sustainable institutional setup that would support it. A study conducted by the World Bank shows that successful decentralization processes aim towards building capacity, good governance and accountability (Litvack, Junaid and Bird 1998), traits which all have to do more with the expenditure assignment part of the budget, than with tax collection.

In one of his studies Musgrave (1989) proves that voters’ preferences are strictly related to their willingness to accept a certain tax or a certain rate. He analyzes the dynamics of this behavior in both direct and representative democratic setups and he reaches the conclusion that the efficiency of the tax system is dependent on expenditure assignment (Musgrave and Musgrave 1989: 88 - 108). His finding has a relatively simple explanation: since direct democracy implies citizens voting directly to influence the decisions taken regarding the distribution of tax revenues, the political costs of reform implementation are significantly lower than the ones within a representative democracy framework, where the population is simply presented with the result. What Musgrave’s research indicates is that as the political

decision is closer to voters' real preferences, the implementation of a certain tax reform is easier. Still, according to Musgrave's research, and in line with previous studies (Tiebout 1956: 416 – 424), none of the two systems is able to identify the real preferences of the voters. No tests were made on other democratic setups.

Restraining democracy to the boundaries of "fair and free elections", as it is frequently defined, seems narrow in the new context of a local development policy. Governance led according to people's will, can be a misleading concept especially, as mentioned above, when it comes to identifying citizens' real preferences. But democracy is not a static concept. The emergence of new public spaces is an example of how democracy was able to respond to the demand for legitimacy. Further on, I will discuss the relation between participatory and deliberative democratic processes, as the relevant literature describes it.

2.2. Participation and deliberation as democratization tools

In their attempt to re-legitimize democratic theory and practice, Thompson and Gutmann (1996: 12-18) argue that shifting the democratic discourse towards a deliberative approach could determine a decrease in the moral deficit that democracy is facing. They structure their arguments on two axes. At the politics level they highlight three principles that have to guide the process - reciprocity, publicity and accountability, and at the polity level they consider the existence of basic liberties, basic opportunities and fair opportunity as *sine qua non* principles (Thompson and Gutmann 1996:12). All these principles are subject to a certain set of policies, thus underlying the interdependence of the three platforms of decision making – politics, polity and policy (Thompson and Gutmann 1996:16).

Theoreticians of deliberative democracy (Dahl 1971; Habermas 1974) emphasize the horizontality of the democratic process. The principles they set are meant to be enacted at the

same institutional level, either high politics or citizens, but through a horizontal system of checks and balances. On the other hand, scholars of participatory democracy emphasize the importance of checks and balances that would work vertically (Baiocchi 2003; Putnam 2000; Skocpol 1999). This bottom-up approach implies maintaining the existing platforms of debate, but also adding new ones. In other words, by ensuring a deliberative and a participatory democracy, the emergence of new public spheres is inevitable.

Participatory budgeting is one of the models of participative democracy that was created through a top-down approach in order to create a bottom-up deliberative public space (Abers 1996; Baiocchi 2003; Wampler 2000). In one of his studies Baiocchi (2003) shows how participatory budgeting makes citizens engage voluntarily in open-ended debates regarding the priorities of their community. That, he argues, corresponds to Harbermas' definition of the "public sphere" (Baiocchi 2003: 53). Therefore, participation and deliberation can work together towards re-legitimizing the democratic systems in large, despite the maintenance of their representation component.

2.3. Voluntary associations, local civil society development and Participatory Budgeting institutionalization

Studies on participatory budgeting (Avritzer and Wampler 2004) show that the number of voluntary associations grew tremendously upon the early system's implementation in three Brazilian cities – doubled in Recife, increased by one third in Belo Horizonte and tripled in Porto Alegre. The importance of voluntary associations for the democratization process has long been in the attention of democracy theoreticians. In his book "Bowling Alone: The Collapse and Revival of the American Community", Robert Putnam (2000)

identifies two effects that voluntary associations might have on democracy: *internal effects* on participants and *external effects* on the polity. But besides the learning effect and the establishment of a bottom-up system of checks and balances that civic participation can generate, Putnam (2000; 2002; 2003) also reinforces the idea that Gutmann and Thompson (1996) were putting forward: voluntary associations are also a deliberative space.

Going back to the definition of deliberative democratic spaces, some clarifications are required. As previously mentioned, Thompson and Gutmann (1996) define the idea of democratic deliberation itself through *reciprocity*, *publicity* and *accountability*. Ernesto Isunza (2006: 265-291) argues that the development of the civil society in Latin America as a whole, but particularly in Brazil and Mexico after 1985 has worked as a “society – state interface” between government and citizens, one that first and foremost would generate accountability. Moreover, he develops a model of analysis of these interfaces. He puts forward an actor focused model, which he claims should generate a modern theory of the civil society that eventually leads to a new “ethnography of the state”. Through this model Isunza (2006) identifies six types of state – society interfaces. In his model, as well as in previous researches (Abers 2000: 1999; Baierle 2007: 41), participatory budgeting is considered a type of *co-management* interface, under which the civil society and the state interact and have a constant exchange of information (Isunza 2008: 7 - 8).

One cannot stress enough the importance of voluntary associations for the democratization process. Nonetheless, there are other aspects that need to be addressed when it comes to the growth of the number of voluntary associations upon the implementation of participatory budgeting in Brazil. Wampler and Avritzer (2004: 305) emphasize on the role of voluntary associations as decision making venues that citizens can recur to. The authors point out that once the participatory budgeting model was introduced, the channels through which citizens expressed their demands had changed. The clientelistic and patrimonial distribution

of public goods and resources was now replaced, they argue, with participation in the debates taking place in citizens' forums (Wampler and Avritzer 2004: 305-6). Moreover, the survey data they employ shows that the percentage of citizens that were using voluntary associations as a platform to make their public goods demands increased from 40% before the implementation of participatory budgeting to 90% after its implementation.

At least in the case of Porto Alegre which will be in depth examined in this paper, voluntary associations are highly institutionalized (Abers 2000: 3; Baierle 2005: 277). Some scholars, such as Wampler (2000), point to this as a reason for the efficiency of the system in delivering high quality public services. Others (Marquetti 2003) relate it to the redistributive effect that participatory budgeting tends to have, that subsequently increased the participation base while generating a certain profile of the civically engaged citizen (Baiocchi 2003; CIDADE 1999). In another one of his studies Brian Wampler (2004) argues that the institutionalization of participatory budgeting can be due also to the high degree of legitimacy that the system has gained by presenting itself as an accountability ramp in the local representative democratic setup (Wampler 2004:74). This goes back to the issue of accountability that Isunza (2006), Thompson and Gutmann (1996) were referring to as well.

Scholars' opinions are divided when it comes to the capacity of participatory budgeting alone to hold accountable local governments. Jonathan Fox (2002: 95 - 133) in a study on World Bank development grants in rural Mexico argues that the implementation of participatory budgeting was able to draw more funds towards a community. In her book Nadia Urbinati (2006: 1), in line with Boaventura de Souza Santos' (2002) arguments, argues that PB is meant to complement and not substitute representative democracy. On the other hand, Wampler (2004: 73) suggests that even though citizens' involvement has significant positive effects on raising local governments' accountability, it can also have negative effects. Considering that in the Brazilian local administrative system the mayor's office is the main

decision making institution, having too much pressure from citizens' associations, Wampler (2004) argues, can create instability at the local level and can block the decision making process. In order to support his arguments he gives the examples of Belo Horizonte and Belem, where the implementation of participatory budgeting itself faced problems just because the pressure of the unions and local employers' associations was too strong.

To conclude, the increase in the number of voluntary associations that followed the implementation of participatory budgeting in Brazilian cities in general, and specifically in Porto Alegre, generated a new segment of the local public sphere through the development of participatory platforms of deliberation. Voluntary associations can be considered to be interfaces of communication between local governments and citizens, and through the system of checks and balances that they establish they can generate accountability and thus legitimate governments. Nonetheless, as it will be further analyzed in the specific case of Porto Alegre, their beneficial effect must not be taken for granted in order to ensure smooth implementation and avoid detrimental over-institutionalization.

2.4. The Porto Alegre model

In Brazil after 1996 the system begins to be implemented to a very heterogeneous pool of municipalities. A study conducted by the Brazilian National Forum for Popular Participation (FNPP 2003) on the typology of participatory budgeting systems in Brazil makes an account of the expansion that the system has gone through in municipalities across Brazil until 2000. The study shows that even though at the beginning of the '90s participatory budgeting was a feature that distinctively described the more developed South, by 2000 almost 20% of municipalities that had already successfully implemented the system were from Northern Brazil (FNPP 2003: 28). The social differences between South and Northern

Brazil are substantial, thus offering a very fertile background for analysis. Indicators such as standard of living, infrastructure development, per capita income and degree of urbanization are significantly higher in the South relative to the North (IBGE, Cidade database). From this point of view, the success of the system in both social environments can be a measure of its adaptability power.

The popularity that the system gained in such a short time is motivated. According to a study conducted by the World Bank (IBRD/ WB 2008:11) the implementation of participatory budgeting had a positive and statistically significant impact on poverty reduction, access to clean water sources, access to sewage and revenue collection. It is true the national environment keeps certain parameters under control, but is not the sole motivation of success. The federal fiscal policy, the highly redistributive criteria on which intergovernmental transfers' allocation is based and the administrative system generate, beyond any doubt, a high number of similarities among municipalities in the North and those in the South. On the other hand, independently on its design, a participatory budgeting system would not exist in the absence of something as fundamental as a relatively high citizen participation rate. The same FNPP study mentioned above proves that even though the South counted on an initial participation rate determined by higher ethnical diversity¹, civil society development and urbanization typology (Avritzer 2002: 120 - 121), the municipalities in the South were able to construct a participation base the profile of which is totally different from the one in the North. This gives reasons to believe that structural consistencies, as the federal legal system was not the only guarantee for success for the participatory budgeting systems within Brazil.

¹ Immigration was very high in the South. In all the cities the study tests there is a positive and statistical significant relationship between participation rate and immigrant descent.

2.5. Participatory budgeting in Eastern Europe

Even though after its implementation in Porto Alegre participatory budgeting has proved its efficiency in the most diverse environments, so far Eastern European experiences have not been successful. Attempts to implement the system were made all over Latin America, Canada, Western Europe, China and Indonesia proved that the system works if the right methodology is used. Some countries in Eastern Europe are also trying to implement it. Until now, in Albania its implementation has failed, in Bosnia and Herzegovina the implementation started only a short time ago and the results are still inconclusive, and in Moldova the attempts of implementation were resumed to a mere chain of public consultations, thus not gaining the status of functional participatory budgeting system, in the implementation of which this analysis is interested.

Despite the existing European framework that places an emphasis on the role of public participation in local decision making, no attempts to implement the system were yet made in Romania. As it would be pointed out further on in this paper, Bucharest has a set of urban traits that make it distinctively different from all the other cities in Romania. This is why this study aims at evaluating the extent to which a participatory budgeting system would be feasible in Bucharest, if the right methodological adjustments are made. Proven successful, this exercise will challenge the current assumptions that budget policy could not be used in post-socialist environments in order to create an urban development plan which is based on the reconstruction of political institutions. Moreover, the implementation of such a system would strengthen the democratization process as a whole, the decentralization process in particular and will generate more social solidarity.

CHAPTER 3. Methodology

3.1. Research design

The first step of this research is a structured case study on Porto Alegre. To start, I analyze the first years of participatory budgeting implementation, identifying the obstacles that the system faced in its development and how they were overcome. For the implementation phase, I divide the possible constraints into hard and soft. The category of *hard constraints* includes administrative framework, administrative capacity and fiscal policy. These are parameters that highly influence the local development strategy and are to a higher extent determined by either superior layers of government or federal legislation, then by local policy. As *soft constraints* I look at the evolution of local participation rates, civil society development and political will, as dimensions that can be and were extensively influenced by local policy.

The second part of the case study aims at identifying sustainability determinants of the Porto Alegre model. I will do this by looking at the difficulties that the system faced and is facing at the moment in terms of institutional setup, the participatory budgeting yearly cycle and the current participatory methodology of setting priorities. The purpose of this analysis is to anticipate and prevent possible failures that a participatory budgeting system might experience in Bucharest, once implemented.

The second step is to assess the extent to which the Bucharest context meets the demands implied by the successful implementation and sustainability of a participatory budgeting system such as the Porto Alegre model. In order to ensure the internal consistency of the comparison, the analysis followed the same parameters as in the case of Porto Alegre.

For the hard constraints I look at the stage of decentralization and the extent to which the implementation of a participatory budgeting system benefits from the existence of a policy window at this time. Administrative capacity is appreciated by looking at the budgetary execution pace, the synchronization between local and national budget cycles and by quantifying execution delays of public works. Political will is assessed through the responsiveness of the local authority to citizens' demands, considering the current public consultation requirements and methodology. Based on the results, recommendations are made in each of these areas on how to better accommodate the successful implementation of a sustainable participatory budgeting system.

3.2. Data and methods

For the case study on Porto Alegre I employ statistical data on public service delivery provided by the Brazilian Institute of Statistics and Geography (IBGE). The data on development indicators is provided by World Bank reports and databases. From June 23rd to July 9th 2008, with the support of a local urban planning resource center – CIDADE, I conducted eight in-depth interviews in Porto Alegre. Three were with experts: Sergio Baierle – political scientist, expert in the history and implementation of participatory budgeting in Porto Alegre, Ernesto Morales – social researcher involved in developing the methodology for the participatory budgeting system for the city of Cordoba, currently running research on the Porto Alegre model, and Denise Leite, expert in institutional participatory reform. Two other interviews were run with government representatives. The first with the head of the Office for Budgetary Planning of the Municipality of Porto Alegre and the head of the Department for Participatory Budgeting Coordination, within the same Office. The second was with one of the Municipal Councilors (*Vereadora*), representative of the Worker's Party, who was

involved in the implementation of the system since 1988. The remaining three interviews were run with citizens involved in the process, the identity of whom will remain protected, in line with the international norms of social research. One of them has just regained a second mandate as a councilor of participatory budgeting; another one was a delegate and ex-councilor, while the third held no official position.

During the two weeks of fieldwork in Porto Alegre, I visited various local communities and assisted four meetings of participatory budgeting – the general reunion of the Participatory Budgeting council, as well as theme meetings on local development, on culture and on education. The main focus of the participation during the debates was to see who engages actively in debates, whether there is a zone separation, whether there is already a system of negotiation and coalition building between representatives of certain regions in order to push their demands up the agenda, and state representatives – citizen interaction.

For the second stage of the research, for the part on Bucharest I employed statistical data on the evolution of public service provision and development indicators in the past six years. Part of the data was already centralized statistics of the National Statistical Institute and the World Bank. The rest was gathered from budget execution reports of the municipality of Bucharest. Qualitative data was also employed. I had three interviews, out of which one with the deputy of the Budget Elaboration Department of the Municipality of Bucharest and two with experts on participation processes in local decision making. Moreover, press monitoring and an account of official declarations regarding citizens' involvement in local decision was kept since the beginning of May 2008, date marking the beginning of the campaign for local elections.

CHAPTER 4. Case study on Porto Alegre

There are strong reasons for which any participatory budgeting model design should start with a thorough analysis of the Porto Alegre model. As previously seen, the range of choices in participatory budgeting systems that are worth analyzing is fairly broad. Systems in relatively some Western European countries, such as Portugal, or any of the attempts in Eastern Europe could have also been a generator of a system fit for Bucharest. For this analysis in particular there were two main reasons that made Porto Alegre the best comparison candidate: its success in terms of public service delivery and its high level of institutionalization. In the following section I will discuss the system's success in public service delivery.

The success that participatory budgeting had in delivering high quality public services made it world renowned. Table 1 presents a detailed account on four public services that had top positions in citizens' preferences: garbage collection, public lighting, pavement and public housing. As it can be seen in the table, the performance of all these services shows a sustainable increase since 1990. According to the data provided by the Municipality of Porto Alegre (interview with Ricardo Erig², July 3rd 2008) by 2007 almost 90% of the streets of Porto Alegre were paved. On the list with priorities for investment for the year of 2009 public housing is still on top, while garbage collection and public lighting are not in the top four priorities.

Table 1. The evolution of public service delivery in Porto Alegre from 1985 to 2004 (Marquetti 2008: 48)

² Ricardo Erig is the Head of the Participatory Budgeting Coordination Unit, of the Office for Budgetary Planning, Municipality of Porto Alegre

Year	Garbage collection (tonnes)	Public lighting (number of polls installed)	Pavement (square metres built and repaired)	Public housing (number of people benefiting)
1985	145,094	714	327,197	5,610
1986	126,188	925	177,827	1,800
1987	151,062	852	252,130	1,630
1988	147,258	736	290,454	2,730
1989	179,448	435	81,399	1,236
1990	186,118	1,371	235,122	2,524
1991	220,247	2,537	396,686	33,653
1992	171,130	5,843	519,151	40,155
1993	185,904	2,278	411,177	32,300
1994	185,516	2,848	444,758	28,500
1995	218,994	2,247	502,565	18,475
1996	245,208	2,130	947,816	11,800
1997	265,618	1,725	871,809	10,550
1998	282,321	2,758	667,557	18,910
1999	273,201	1,574	901,058	13,870
2000	280,163	2,870	819,555	14,895
2001	285,479	2,713	613,431	10,840
2002	276,080	1,996	440,250	12,590
2003	255,051	1,243	275,335	9,775
2004	254,429	791	318,955	11,970

The success in public service provision has contributed extensively to the institutionalization process, but it was not the sole factor. A previous section of this paper addressed the importance of voluntary association for the institutionalization of the system. Nonetheless, one needs to take a better look to the participatory budgeting system in order to find out what made the system work and reach its current institutional setup.

The scholars who have looked at the Porto Alegre model as one worthy to be followed by other cities (Allegretti&Wampler 2003) argue that any applicability test needs to look at the following parameters: fiscal flexibility, political participation rates and political will. Nonetheless, these parameters seem insufficient when it comes to ensuring the successful implementation of a sustainable system. Based on the information provided by the

interviewees the following section is going to address also: the administrative background, fiscal and intergovernmental transfers setups, and administrative capacity.

4.1. Current situation

In the eve of municipal elections in Porto Alegre, one of the main points of campaign debate, participatory budgeting, is in the middle of a crisis. In the context of a legitimate lack of trust in the capacity of the local government to comply with its commitments to attend citizens' demands at all, if not in a timely manner, a decreasing participation rate, a severe reduction of funds submitted towards public debate through participatory budgeting and an "over-institutionalization" of voluntary associations leaders, the survival of the system itself seems to be a miracle.

The power change following the 2004 local elections brought in office a different leading party for the first time since 1988, and with it a governing program where participatory budgeting was no longer the main resource redistribution and social justice mechanism. Participatory budgeting had followed a generally politically independent development of the system prior to 2004. In fact, scholars (Dias 2004) would argue that the high institutionalization of the system had as a consequence the lack of association between the sustainability of the system and the Workers' Party that had initially implemented it. The serious delay in public works accumulated during the last mandate of the Workers' Party legitimized the need for change and the promises to maintain participatory budgeting that Fogaça had made during its campaign secured the power shift.

The results were not quite the ones the new administration or the citizens were counting on. The delay in budget execution augmented and municipal funds were cut down in

order to finance new social justice mechanisms, such as the “local solidary governance”³ program that, according to the government in office, should be a system through which relevant actors in the community that are willing and able to, such as representatives of the business community, should get actively involved in further developing new public works and expanding public service provision, according to the demands expressed by citizens in the participatory budgeting process. The lack of criteria for choosing public works and of a clear methodology generates public distrust in the local government and in its willingness to impartially cooperate with local communities.

This is how Porto Alegre presents itself now. The problems that its successfully implemented participatory budgeting model currently faces, beyond their complexity, are nonetheless policy learning opportunities. This is exactly where this chapter is aiming at: what can one learn from the Porto Alegre experience? What has made it so successful in terms of public service provision and local democracy development? What are its negative effects? What were the major difficulties that the system faced during its development and how can they be avoided? These are all questions that the following subsections of this chapter will attempt to answer.

4.2. Implementation

Participatory budgeting was not the first experience of municipal co-governance in Brazil. After the dictatorship in Brazil fell, many cities adopted various forms of governance which encouraged citizens to participate in the local decision making process. “All the power comes from the people”, a program adopted in 1984 in the city of Pelotas, also in Rio Grande do Sul, was one of the most notable ones (Gugliano, et. al in Marquetti, Campos and Pires

³ Gobernanca Solidaria Local (GSL)

2008:143 - 159). Following two years of strikes of public sector employees, the mayor organized the first public assembly in August 1984, in order to debate the local budget. There were 3,500 people participating in the first round of assemblies. A year later the mayor of Pelotas was re-appointed into a position in the state government and only 400 people attended the debates. The program had failed, but this experience was the most notable one before Porto Alegre.

The Worker's Party entered office in Porto Alegre in 1988 on the background of a profound fiscal crisis and territorial disputes in the city's metropolitan area. The former government had approved a salary increase just before finishing its mandate, disregarding the fact that 35% of the budget was financed through short term debt, the repayment of which was already in delay, while the inflation had reached 1774% and had not been incorporated in the tax value (Marquetti et al. 2008:48). A solution had to be found, as the government was practically bankrupt.

The fiscal crisis, deepened by the high demand for public housing (interview with Sergio Baierle, June 25th 2008) and local structural reforms led to a governability crisis (Fedozzi 2000: 78 - 80). According to Fedozzi (2000:78) implementing participatory budgeting as a practice of co-management could have alleviated only part of the crisis that ended in 1991. Structural reforms were needed in order to efficiently accommodate a system like participatory budgeting, without making the same mistakes as in the case of Pelotas and thus leading to its failure.

The dynamics of the housing crisis is crucial in explaining why structural reforms were needed. As Sergio Baierle explains (interview, June 24th 2008) part of the urbanization process of Porto Alegre implied an extensive migration process from the inner parts of the state of Rio Grande do Sul to the capital city. Most of the newcomers occupied land at the outskirts of Porto Alegre, both public and private un-inhabited property. Once the new

inhabitants started investing in the developing their own community infrastructure, the value of land increased and the municipality wanted to recover its properties, as did the private owners. Given the high social pressure, the land remained in the possession of its inhabitants and ended up being progressively incorporated into the city. As these territories became part of the city, people started demanding the government to ensure the public service provision that they had handled up until then. This situation fueled the governability crisis.

Considering the context described above, in which the governing mandate of the Worker's Party (PT) began, I will further analyze the parameters that had a significant influence on the efficient implementation of the participatory budgeting system in Porto Alegre.

4.2.1. Hard constraint 1: Fiscal flexibility and intergovernmental transfers

The national fiscal reform in 1988 introduced a new financial redistribution scheme among layers of government. As scholars agree on (Marquetti 2008:49; Fedozzi 2000:81; interview with Sergio Baierle) one of the most important changes that the new Constitution brought was the decentralization of health and education provision and financing, which now passed in the attributions of the municipality. The way in which these services were supposed to be financed at local level was also specified by the Constitution: a proportion of the state tax plus another percentage of national taxes was assigned according to the population number to the budget of a certain municipality. The tax collection was a municipality attribution, so even though these services were supposedly financed through earmarked intergovernmental transfers, the real transfer was made bottom – up. After withdrawing the percentages assigned for health and education, the rest of the taxes were transferred from the

municipality to state and national level. That was one of the things that made the local budget incredibly inflexible.

A second reason for inflexibility was represented by the caps on spending. Since 1988 the percentages have been changed, but every new decentralized service got its own mandatory spending percentage. Since 2006 a Brazilian municipality has to spend 15% of its budget on education, 20% on health and another 15% on scientific research (Brazilian Constitution). According to the head of the Budgetary Planning Office of the Municipality of Porto Alegre this still generates major issues (interview, July 4th 2008), significantly restricting the percentage of free decision making on government spending.

The Brazilian Constitution prohibits extrabudgetary funds. In theory, extrabudgetary funds generate even more budgetary inflexibility. According to the Head of the Budgetary Planning Office of the Municipality of Porto Alegre (interview, July 4th 2008), this measure came in 1988 as a solution to the highly complicated federal financing system which was based almost exclusively on funds the spending of which was predetermined. Given the low capacity of the government to keep track of the funds, the optimal solution was found in prohibiting them.

Since 1988 many changes have been brought to the text of the Constitution. Since 1996 municipalities have the right to use extrabudgetary funds if they are approved by law. Under the pressure of a high amount of delayed public works and mesmerized by a false spending flexibility, the government of Porto Alegre started using more and more of that prerogative since 2004.

At the beginning of the '90s, in the context of the high macroeconomic instability that Brazil was experiencing and the lack of adjustment of tax rates and amount of transfers to the inflation rate, the solution municipalities found was to continue with a local fiscal reform. The new local tax system had a progressive rate, aimed towards eliminating the unfair tax

exemptions and encouraged public participation in expenditure assignment (Augustin 1997 in Marquetti 2008: 49). After the implementation of the tax reform in Porto Alegre, in 1993, the municipal revenues doubled, thus accommodating a system like participatory budgeting, through which the demands coming from the citizens were received and processed (Fedozzi 2000: 81 - 82).

This was the end of the governability crisis, but not a guarantee that the problem was permanently solved. Of course, the need for fiscal reform created a window of opportunity for the implementation of participatory budgeting as a system of co-management that would legitimize the local governments' actions (Baierle 2007: 41 - 44). In 2001 another fiscal crisis emerged. The low financial capacity to answer the increasing number of demands coming from the areas of Porto Alegre that used participatory budgeting, the salary raises in the public sector and the deindustrialization process that the whole state of Rio Grande do Sul was going through (Marquetti 2008: 51 - 52) led to a significant decrease in revenue collection and thus fueled a new fiscal crisis. The inability of the Workers' Party to fix it has cost them a possible re-election and has opened a new window of opportunity for other redistributive local policies to replace participatory budgeting.

In conclusion, fiscal policy can highly influence the successful implementation and the sustainability of any participatory budgeting system and a certain amount of flexibility is warranted. As presented in this section, it would be fair to say that Brazilian tax law is basically constitutional law, which by definition lacks flexibility. Nonetheless, in order to adequately appreciate the relevance of the fiscal setup for our analysis, then we would need to compare it with the Romanian fiscal setup. This will follow in Chapter V of this paper.

4.2.3. Hard constraint 2. Administration: setup and capacity

Brazil is a federal state with two layers of sub-national government: state and municipality. According to the World Bank (2002) the Brazilian administration is unique from this point of view, being particularly different from other federal systems, such as New Zealand or the United States that have only one layer of sub-national government – the state. What makes the Brazilian municipality a distinct layer of government is precisely its freedom in deciding on expenditure assignment (WB 2002:15).

In the previous section we briefly touched on how the fiscal distribution between those layers is setup. What this analysis is primarily interested in from the administrative point of view is the problems that can stand in the way of the implementation of participatory budgeting. First, we will address the issue of the relation between municipality and the other two layers, then we will briefly refer to the issues related to the internal administrative setup of the municipal government.

According to the Head of the Budgetary Planning Office of the municipality of Porto Alegre, the competition between states in getting advantages from foreign investment and exports affects municipalities' revenues as well, despite the equalization criteria on which the transfer system is based:

The Constitution sets the general rules for who has the right to set what type of taxes. It is the federal constitution that sets the basis for taxation, only the rates can be set by the distinct layers of government. But the Constitution also says that double taxation is prohibited in all cases, and since the constitutional rules are not clear enough on that, the state has its own laws on what is applicable to the state and what to municipalities. In practice, this creates a real war among states, because of the way in which the state revenues are composed. It just happens so that tax revenues count more for the state where the production takes place. This is the largest part. For example, producers in the state of Sao Paulo, if they lose a certain factory in favor of Rio Grande do Sul a large part of their revenues are lost. That is because the Constitution states that the VAT is state revenue. That encourages states to give fiscal advantages for investors so the revenue would stay in their state. That is why states fight over foreign investors; like in the recent case of Santa Catarina and Rio Grande do Sul [over a new General Electric factory]. And after all is not

only about tax revenues, but about jobs, specialized services as well (interview with the Head of the Budgetary Planning Office of the municipality of Porto Alegre, 4th of July 2008)

Just like the fiscal crisis, the lack of administrative capacity of the government was both a window of opportunity for the implementation of participatory budgeting as a generator of the crisis after 2001. *Vereadora* (member of the Local Council) Sofia Cavendon, a representative of the Workers' Party and in charge with the Secretary of Education of the municipality of Porto Alegre was involved in the implementation of the system in 1989. Given the fiscal crisis and the incapacity of the government to deal with any demands coming from the community, the new government decided to approach directly the communities. Just as other mayors had attempted to do in smaller towns in Rio Grande do Sul, the members of the first Workers' Party government went to the communities and made lists with people's demands, within the limits of the available funds (interview with Ver. Sofia Cavendon, Secretaria de Educacao, Camara de Vereadores de Porto Alegre, July 8th 2008). As Rebecca Abers (2000:8) also argues in her book, the approach of the Workers' Party significantly reduced the implementation costs of the reform that followed.

The change in the profile of the citizens' demands over government also contributed to the crisis of the system. As the interviewed government representative states, and in consistence with the previous studies run on the profile of the community demands (CIDADE 2008:2).

[When participatory budgeting was first implemented] the society was deciding on public works that needed little attendance and most importantly low maintenance costs. But if you want, let's say, to make traffic more fluent and you have to make large investments into transport infrastructure, as was the case of Porto Alegre, that after solving many small demands had to build something like the *tercera perimetral*⁴ [a lot more effort is needed]. And after the avenue was done, one year later, the citizens also wanted to build a flooding relief system, a type of high capacity sewage, because the city was almost always flooded. The communities involved in participatory budgeting decided it is a priority for the city. That was sixty billions Reais⁵. This

⁴ Tercera perimetral is a grand avenue in porto alegre, which was financed through participatory budgeting. It goes through the city from North to South.

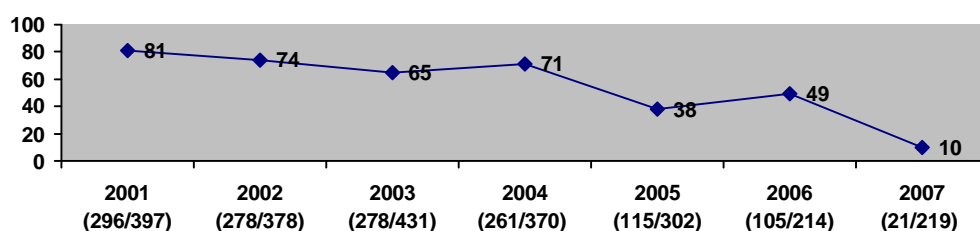
⁵ 24 billions Euro

prevented the Worker's Party [*in office at the time*] to answer the small demands (interview with the Head of the Budgetary Planning Office of the municipality of Porto Alegre, 4th of July 2008)

The governments' position is backed up by the one of the community leaders. One of my interviewees, the leader of one of the communities (*villas*) in Porto Alegre, pointed out the change in the typology of demand. While taking the tour of the community, asked about the chronological order in which the demands through participatory budgeting were completed she first mentioned the streets, then sewage system, public lighting, while the demands in the last years were related to health and education services. The last two, even though they would ask for a relatively smaller initial investment than a road or a sewage system *per se*, they imply planning a long term current expenditure. Of course, the infrastructure also implied certain maintenance costs, but the shift from small public works to large public works or high quality locally available services is fundamental for the whole process of participatory budgeting, moreover as the percentage of the yearly budget designated to public debate is assigned only for *new investment*, and not for the maintenance or the service cost of the already finished or in progress public works.

As the participation rate increased, so did the number of demands, and with it, the capacity of the government to attend citizens' demands decreased. The delays in budget execution started with the first signs of crisis in 2001. A study published by CIDADE shows the dynamics of the delayed public works.

Chart 1. Percentage of executed public works in the last Investment Plans of Porto Alegre (CIDADE Bulletin, April 2008)



The high number of delays was the main argument of the newly elected government in 2004 to progressively reduce the nominal value of the funds submitted to public debate. The 2009 budget submits for debate only 2% of the budget, amounting to the lowest sum ever allocated to participatory budgeting since its implementation. The current government motivates:

[...] None of the large investments that this government made during its mandate were not decided by us. It was the population that decided this before this government began its mandate. What is most difficult for us is to continue with some rules that the investment has to follow. That is where we have problems. The new demands [*keep coming in*]. If we did not do them already, that is because we do not have the capacity to do them on one hand, or we do not have the resources. The population makes its demands which are published in the notebooks. But this value, the value of the investment is not the real value that ends up being invested. Of course, cheaper public works get done faster, the rest get delayed.

Administrative failures have an indirect impact on the sustainability of the system. One of these effects is the decrease in the participation process as a result of the defective communication process between the government and community representatives. As the community relations representative of the Budget Planning Office states during his interview, there is a lot of work involved in hearing people's demands. Only during the week of the interview he had to attend seven public debates, besides his office attributions. At the theme meeting of the Education Thematic, people were complaining about the absence of the government representative. Until two years ago the heads of the government departments attended all the community debates. Having now middle-tier administrative staff attending citizens' meetings instead of the high local polity determined severe mistrust in the government.

According to one of the community leaders is not only about the rank that government representatives have in the government, but mostly about the amount of knowledge that they have about the issues being discussed and the extent to which they comply with their attributions in the system (interview with community leader, July 2nd 2008). For example, if paving a street is in discussion, the government representatives should be aware of its

location, the technical demands that the paving implies and it should establish a cost. During the past mandate citizens have complained about government representatives giving relative costs on the spot, instead of running a thorough research before the meetings.

4.2.4 Soft constraint 1. Citizen participation: rates evolution and participants' profile

Civic participation can be conditioned by two things: motivation and capacity (Skocpol et al. 1999). In her book Rebecca Abers (2000) debates the empowerment thesis. She argues that government intervention could have aimed at either *co-optation* or *empowerment*⁶ of citizens (2000: 6 - 10), but in the case of Porto Alegre we can definitely refer to citizen empowerment. In line with Abers' thesis, Sergio Baierle (2007: 41 - 44) argues that it was precisely the co-managerial policy that participatory budgeting implies that generated the high increase in participation rate. The following interview with one of the community leaders supports Abers' thesis on participatory budgeting as a capacity building mechanism:

S: Why do you keep going back into the system? Making demands?

J: [...] because you begin to have this power. A person when he or she succeeds to change the way the government thinks that can only empower him or her. You feel really like a legal actor. I am part of the people, isn't it? It's a terrible thing when you leave your house in the morning, you get into the crowded bus, you work nine hours a day, you gain almost nothing, and you can't wait to come back home, take a shower and eat your beans and rice, and go to bed. That degrades you. That makes anyone less than he or she really is. The perspective on opportunities is limited. And how the authority is the government, the mayor holds the power, the secretary holds the power, and you are the one to set conditions for them: "look, I didn't like that thing you did". Then they tell you: "look, I am going to try and make it better" or, "let's sit down and talk about it, to find the best form to proceed". Then people start thinking: "look, I said something. I said I didn't like it and he listened to me. I have the possibility to do something." He is going to think differently when he is going to take that crowded bus in the morning. He is going to ask himself: "Why didn't they put more buses on that route so I wouldn't have to take a crowded bus?" That way of thinking, that is what changes and it changes every day. You learn that you have to speak up, that you have to look for ways in which the secretary, the mayor the governor, they have to know that you are not satisfied with what they are doing. You don't like that and it is **his** responsibility to change things because he is paid to do that and he was elected to change things. That is the real change that

⁶ Empowerment of citizens occurs when the necessary freedom to decide is granted to citizens, while co-optation refers to the creation of new citizens elites that would have no real power of decision

participatory government determines. [...] You know, back in the day, we had to leave house with two pairs of shoes. One to wear and one to carry in your bag, because you would go out in the street and there would be just mud and your shoes would be all dirty and with all that mud on your shoes you would go look for a job. You entered the office for the interview and you felt so small. You were ashamed. You would go to your possible employer and you would have to wash your shoes before you enter so you could introduce yourself with the minimum of dignity. Not today. Today you put on your shoes in the morning, you go to work, and you come back with your shoes clean. It is a small thing. It can even be totally insignificant to some people, but only who stepped in mud and who steps in mud knows how important it really is to us. [*interview with community leader, Partenon region, July 3rd 2008*]

The success of the government policy to support civic participation was noticed all through the implementation of the system. Excepting a backlash in 1990 and one in 1996, civic participation had a progressively increasing rate until 2000. Fedozzi (2001:125) summarizes the participation data as presented in Table 2.

Table 2. The evolution of annual community participation in participatory budgeting debates

Year	Number of citizens
1989	1,510
1990	976
1991	3,694
1992	7,610
1993	10,735
1994	11,247
1995	14,267
1996	11,941
1997	16,016
1998	16,456
1999	20,724
2000	19,025

There is no law that would determine the government to fulfill citizens' demands. Government's capacity and willingness to timely execute the public works decided through participatory budgeting have significantly contributed to the constant increase of the participation rate. Despite the fact that there is no law that would bind the government to execute citizens' demands, given the high extent to which they were actually executed, especially during the '90s, gave faith to many people that participatory budgeting will offer a solution to their community's problems. This was the case of all the community members I

interviewed. One of them got involved in the process in 1991 as the president of the local community association, in order to ask for their main access street to be paved. Another one of them got involved in 1999 to ask for sewage for his community; since then he held several leading positions representing his region. The third community interviewee entered the participatory budgeting system to block a government decision that would have put him out of business.

The participatory budgeting system in Porto Alegre has shown highly redistributive effects, thus appealing to a certain societal sector. The studies on the topic prove it (Abers 2000: 7 – 10; Baierle 2005: 276 - 280; Fedozzi 2001:117; Marquetti 2003; Marquetti et. al. 2008). A recent study of the World Bank (IBRD/WB 2008:11) shows that the implementation of participatory budgeting in Brazilian municipalities prior to 1996 has had a significant and positive effect on poverty and inequality reduction. Marquetti (2003) argues that the profile of the participants is the main determinant of redistribution. As mentioned in the previous paragraph, the main reason to get involved is the lack of access to public services. Some studies (CIDADE 1999; Fedozzi 2001: 136 - 142) show that the person most likely to get involved in participatory budgeting is a male, past his mid-thirties, who has finished the primary education cycle, employed on a monthly salary and member of a neighborhood association.

4.2.5. Soft constraint 2: Civil society related issues: institutionalization and representation

The extensive development of voluntary associations is not an evaluation criterion for success. As previously discussed in Chapter 2 of this paper, the implementation of participatory budgeting has determined a high increase in the number of voluntary

associations. Moreover, scholars (Baiocchi 2003; Putnam 2002) consider that phenomenon as a solid point of local democracy development. On the other hand, as Abers (2000:8) points out, the government's efforts to engage citizens do not always result in empowerment, but in *co-optation*. The process of co-optation refers to manipulating a small segment of the population, which is superficially used by the government in order to achieve its goals. The extent to which this takes place only as a consequence of government pressure is yet to be discussed.

In one of my previous studies on the network of stakeholders involved in the institutionalization of participatory budgeting (SNA 2008) in Porto Alegre, I was showing how along time voluntary associations grew stronger, keeping pace with the increasing pressure coming from the government. Voluntary associations are always under the suspicion of reaching over-institutionalization, and this phenomenon might have various causes. First of all, almost 80% of the associations under discussion are neighborhood associations, which are traditionally strong organizations⁷ (interview Sergio Baierle, June 25th 2008). Second, participatory budgeting community representatives are hardly, if ever changing.⁸ Third, changing independent power that the community leaders have with traditional *clientelistic* political power, without any legitimate base, can be very tempting.⁹

⁷ The power of the *Asssociacoes de Moradores* (neighborhood associations) in local politics was as strong as the demand for public housing before 1989, thus their existence played a significant role in the implementation of the system.

⁸ During my interviews with them, community leaders admitted that since they entered the system they keep meeting the same people at reunions, the same representatives get re-elected almost every year. This fuels the co-optation problems that Abers (2000) was referring to. On the other hand, the rules of participatory budgeting are not always easy to understand, learn and follow. A delegate or a councilor, they get elected at the beginning of the yearly cycle, but still is two or three months enough time for them to learn the rules? Most of the old members of the Participatory Budgeting Council complain about newcomers because they do not know the rules (interview with community leaders, June 26th and July 3rd 2008). The IBRD/WB study (2008:8) shows that only 11.1% of newcomers know almost all the rules. This can lead to delays in the debate and in reaching a procedurally incorrect result.

⁹ There were a number of cases when the power that community leaders got to hold was used in order to mobilize electorate for the local politicians. The rules of participatory budgeting currently prohibit a participatory budgeting member to run for office, but that does not prevent them from using the social capital they had accumulated during their time as community leaders, in order to get elected or to support a certain candidate.

It is hard to agree on one position. Clearly the over-institutionalization of voluntary associations can cause serious problems for the sustainability of the system. On the other hand, during full crisis of participatory budgeting in Porto Alegre, it is believed that it was precisely the high level of institutionalization that kept the system from disappearing, despite the decreasing administrative capacity and the budget cut downs. It is not for governments to say to what extent can the civil society develop or stop from doing so, as it is hard to identify an “appropriate” degree of institutionalization that these organizations should reach, but one thing is for sure: lacking independence, the civil society will not be able to do its job.

4.2.6. Soft constraint 3. Political will

Participatory budgeting is a bottom-up decision making model which has top-down implementation. There is no way of imagining any system of participatory budgeting that would not start as a government initiative. Independent from the amount of social pressure, it is the government and the government alone that can make the decision to submit a specific part of the budget for public debate. Further on, it is the government that has the responsibility to make people trust its willingness and ability to do what was decided by citizens in public debate.

There are many reasons why a government would chose to implement such a system. *Vereadora*¹⁰ Sofia Cavendon points out the benefits that participatory budgeting can bring in terms of local political culture and legitimacy of political representation.

Largely, there are many benefits a participatory budgeting system can bring a government. Our most important achievement was creating a new political culture in the city, one that of course is under continuous construction, because the process of civic engagement can be unequal, discontinuous. What happened was that we created a new critical mass that re-defined the concept of public. This way people are more exigent. Allowing people to take over gave us four re-elections. It is true that participatory budgeting does not solve everything; you cannot expect it to solve structural, fundamental issues, for example. [...]

¹⁰ The *vereadores* are municipal councilors. Currently the legislative of Porto Alegre has 36 *vereadores*.

There is also the problem of representation. I am one of the 36 *vereadores*. How can I represent the twenty thousand votes they put me into office? My voters are divided into groups that have different preferences and I do not have a mean to control and adjust my policy to the benefit of all of them. Participatory budgeting helps solve this problem. [*interview with Sofia Cavendon, July 8th, 2008*]

How much will the government allow for, influences determinedly the institutionalization of the system and thus, the participatory methodology that the system will follow. In the following section I will continue with the discussion on the constraints that the process of participatory budgeting imposes through its institutional design, its decision cycle and the incorporation of the debate results in the elaboration of the local budget.

4.3. Process

4.3.1. Institutional setup and methodology

One of the first things that the government of Porto Alegre did once in office was to divide the city into regions. At first there were 16 regions; currently there are 17. The main decision making body is the Participatory Budgeting Council (COP), where the regional councilors and the representatives of the government meet and negotiate the final list with priorities for investment. Besides COP, there are regional and theme assemblies, as well as the Forum of Delegates (FROP) and the General Assembly. Further on, I will describe how the cycle of Participatory Budgeting works in Porto Alegre.

The process starts in March with the first citizens' assemblies on regions and themes. The topic of the first debates is the evaluation of the previous year's budgetary performance. This is also the time to decide on the criteria used to prioritize public works during the next year. The first round of assemblies (*primeira rodada*) starts in parallel with the regional citizens' meetings and finishes in April. These are also regional and theme plenary meetings,

but the government also participates in these ones. During these plenary sessions the citizens are asked to evaluate the government's capacity to follow the Investment Plan decided during the previous year and to choose their delegates for the next year. Twelve people can choose one delegate. The government is asked to present the stage of execution of last year's budget and to motivate eventual delays.

After the evaluation is over, by the end of June, the regional and theme meetings are the government's opportunity to present the budget offer and to express its priorities of investment for the next year. Until the 1st of June, COP has to vote on the Law of the Budgetary Directive (LDO), which is then sent for approval to the legislative (*Camara de Vereadores*). Before the vote on the LDO the regions have to elect their councilors for COP: two full members and two substitutes for each region and each theme assembly. Until the end of July (*a Segunda Rodada*) periodical meetings take place: community level meetings to decide the priority of demands and meetings of the representatives to settle on the structure of the theme assemblies. In parallel, the government has to finish the municipal budget elaboration process and decide on the percentage of the budget that is going to be submitted to public debate. Information materials are distributed.

Following the priorities for investment identified by COP, the government (through GAPLAN¹¹ and the specialized secretaries) has to incorporate the priority themes into the budget.¹² By the end of August COP and government representatives meet several times, until they agree on a final form of the budget proposal. By the end on September, GAPLAN has to have the proposal ready to obtain the mayor's and the legislative's approvals. In October and

¹¹ GAPLAN is the office in charge with the general coordination of the Mayor Hall's activity

¹² At this point, specific demands for public works are not being considered yet, but the themes voted by COP as the top priorities of investment. According to the criteria determined by the community and the government, every decision area gets one score. The top four are going to be incorporated into the budget. It is the governments that say how much of the total amount of resources allocated to participatory budgeting will go to which area, but proportionality with the priority score is a requirement for decision. Then, taking into account the extent to which one specific region lacks the services falling under one priority of investment or the other, resources are regionally distributed.

December, based on the financial evaluation of the public works and services demanded by certain regions, within the pre-established budget, COP has to decide on the final version of the Investment Plan. The final deadline for the approval of the budget is November 30th. Budget adjustments can and are usually made during December and January, under community members' supervision.

4.3.2. Problems with the cycle

Lack of coordination with the budget cycle. At the moment when the local government has to decide on the Investment Plan for the next year, no final decision on the composition of the budget is yet taken. There is a lot of data to be analyzed and too little time to do it in, so most of the times budget elaboration is an adjusted copy – paste document of the previous year. The Head of the Budgetary Planning Office says:

We also face a practical difficulty. We have a lot of data. Just for budget elaboration we have three laws for federal budget coordination: the Multi-Annual Plan, which comprises of four laws of budget directives. When we entered office we already had that. Ours starts only in the second year of mandate, but you have to execute also what you haven't decided before. For example now, we have to send the Law of Budget Directives to COP. That document, that contains the budget matrix, is full of uncertainties. Now we are deciding the budget for 2009, in other words, by the time the debates for participatory budgeting are over the budget for 2009 is done. [...] In my opinion, if the number of demands that has to be accomplished is too big you have to look over the yearly books and see what was done and what not, and everything that has not yet been done needs to be re-budgeted. That should happen if the government really wants to respect society's decisions. [*interview with the Head of the Office for Budgetary planning, Partenon region, July 4th 2008*]

Lack of coordination between budget elaboration and urban planning. People are good at identifying and expressing their needs, and governments have the capacity to incorporate their demands into the budget. On the other hand, the criteria currently used have no way of distinguishing for example the order in which the demands should be made. A community could use just as much a street as a sewage system. Considering the restrictions imposed by costs, after the negotiations with the government representatives and the fellow

councilors, the community representative decides that the street has a better chance of entering the investment plan for next year. The sewage system will enter the list of demands only after the street was build. This is a common scenario in the participatory budgeting communities of Porto Alegre: having a public work done, followed by a second one, the execution of which brings damages to the first, thus increasing its maintenance costs.

The financial evaluation of public works falls under the government's attributions. Again, because the cycle of deliberation is so short most of the public officials in charge with establishing the costs of execution for a demand tend to use estimations. Even though criteria for demands prioritization are set in place, there is no mechanism of control over the extent to which the governmental evaluation of costs is accurate. One of the frequently made mistakes, especially in the case of large investments that require multi-year planning of investment, is not including debt service or inflation adjustment. If such a poorly budgeted work gets into the budget, then, depending on its place on the list of priorities it can either highly delay all the other works for an indefinite period of time¹³ or it can end up being postponed.

In relation to the evaluation process itself, **not including the maintenance costs** of the public works made through participatory budgeting, into the budget submitted to debate can be very dangerous for the sustainability of the system. That is one of the arguments that the government can use in motivating the drastic decrease of resources allocated to PB in the past years. Up until 2003 the maintenance costs were not very high. Now the demands are changing; services that require smaller capital investment and larger current expenses are becoming more popular.

Poor criteria for establishing the order of demands. To clarify, predefined criteria¹⁴ are used to rank public works and to incorporate them in the Investment Plan. On the other

¹³ That would be the case of the Tercera Perimetral.

¹⁴ They are usually announced by the government in one of their publications at the beginning of the participatory budgeting cycle. They are decided for the government, but there were cases when the community has been known to put enough pressure on the government in order to change them.

hand, when submitting their demands the theme committees and the regional assemblies have to complete a form that asks for very few data on the desired work: the stage of the public work, the brief descriptions (three lines), objectives (three lines) and who makes the demand. Citizens do not make any preliminary cost or feasibility assessment. This policy maintains the high dependence of the system on the local government, even in community matters.

CHAPTER 5. Bucharest

A report published by Freedom House in 2004 places Romania on the lowest rank out of the EU 27 countries, by the index of governance (Freedom House 2004:453). According to the author of the report, the low score is due to the unfavorable accession report made by the EU Commission in 2003, which pointed out the severe flaws and the lack of progress in public administration reform and public procurement transparency. Even though not comparable with the complexity of the factors that drew the implementation of participatory budgeting in Porto Alegre, the EU commission report opened a window of opportunity for the adoption of a legislative framework that would determine governments to recur to public consultations in local decision making. In this chapter I will first explain what is expected from a new form of governance and a successful public administration reform in the post-socialist context, and then I will discuss each of the constraints identified relevant for the success of the Porto Alegre model, followed by a brief recommendation for the Bucharest model.

5.1. The democratic curriculum of the post-socialist city

Decentralization affects the level at which democracy is practiced and with it, the type of policy that would lead to the desired outcomes. The process of decentralization itself implies a shift from national to local, from national policy to local policy, from national democracy to local democracy. Of course, local democracy could not exist within a national un-democratic setup, as communism has well proven that. “Socialist democracy” implied in theory and in practice a high involvement of citizens in decision making. The *soviets*,

organizations created during the socialist revolution in Russia were supposed to bring an alternative to the capitalist state through representation. The model of the soviets was transplanted to all the countries in the Warsaw Pact and as we can now see it did not generate democracy or the much wanted social solidarity. In fact, quite the contrary, scientists would argue (Sandu 2005: 65; Zamfir 2004:39).

The highly centralized communist systems in Eastern Europe prevented any form of association or bottom-up approach to decision making from gaining its independence. Hence, one of the most difficult tasks of decentralization during transition from socialism to democracy was legitimizing the redistribution of authority. The fair expenditure assignment between layers of government (Oxhorn 2004) is essential for the success of this transition. By employing fair criteria for public service financing¹⁵, it will be much easier to hold accountable the representative of the specific layer of government. Thus, many of the issues related to the broken social solidarity could be solved.

The European legislative framework emphasizes the importance of citizens' involvement in local policy making. The European Charter of Local Self Government, grants rights and obligations to local governments in terms of local expenditure assignment and taxation, while encouraging civic engagement as a decision-making process. By employing decision making methods such as the open coordination method (Borras & Jacobsen 2004: 185 - 208), and by promoting new forms of governance, the European Union has become a local democracy driving force for its new and aspiring Eastern European members.

The new forms of governance imply a process of decision making that is based on consultations with the actors affected by the decision to be taken. The Porto Alegre participatory budgeting model that was largely discussed in Chapter 4 is a system of citizen involvement in local resource allocation. Participatory processes can however be used as

¹⁵ Such as the area of benefit that a certain service covers, the heterogeneity of preferences or the economies of scale in the production of that certain good or service (Ebel and Vaillancourt 2007)

institutional reform methods (Leite 2005), a law making instrument (Bingham, Nabatchi and O’Leary 2005) or a supranational method of governance, as in the case of the EU. Despite their given constraints, some of which the current paper will explore, participatory decision making processes do not really know boundaries, as long as they are adapted to the specific socioeconomic context.

5.2. The Bucharest diagnosis

According to the National Yearly Statistical Data Report from 1998 until 2006 the Municipality of Bucharest built 164 kilometers of sewage, 18 new public roads and 11 pre-schools. Since 1993 until 2008 the gas network was extended 30% and only 46,5% of public roads are paved. The number of people using public transportation decreased significantly, the number of cars doubled the volume of distributed clean water is reduced to half and in the fall of 2008, after pre-school attendance was made mandatory, almost 80,000 children cannot enroll, because there are not enough spaces. On the other hand, data shows that from 1998 to 2006 Bucharest has registered a sustained GDP growth, the highest regional GDP from Romania. The question arises: how are public works prioritized, since the investments do not seem to be made in the areas where the demand is higher?

The lack of transparency in the local decision making process was the key point of the ongoing administrative reform. As we previously mentioned, the introduction of the administrative transparency law (L 52/2003) was an attempt to enhance decision making transparency by forcing local and central authorities to conduct public consultations with the citizens and the civil society. A study conducted by Center for Public Participation Resources (CeRE 2008) in Bucharest at the beginning of 2008 on 41 municipalities around Romania, including Bucharest, showed that on paper every decision made by the local authorities had

been submitted to public debate. On the other hand, when surveying the population of the municipalities in the sample, only an average of 2% of the population had heard and was actively taking part of the debates. The main problem was identified as the lack of proper access to information. In a national level survey on the information needs of citizens (ANBCC 2008:27) almost 80% of the respondents said that an office for citizen consultation is highly needed. These offices exist already, as a result of EU accession requirements, but it seems that a large proportion of the population has not yet learned about their existence.

Sharpening public participation tools could lead to a better prioritization of public works and a participatory budgeting model could help reach the desired standards in public service efficiency. In the following sections I will explore possible constraints that the implementation of participatory budgeting might face in Bucharest.

5.3. Hard constraints 1. Administration setup and capacity

The city is divided into six sectors, among which one with a very heterogeneous population, the inhabitants being both very wealthy and very poor people, three mainly middle class sectors, one upper class and one extremely poor neighborhood. Each of these sectors has its own administration, including a directly elected mayor and its own council. The amount of the transfers which are sent from the municipality to the sectors is decided according to population size, territorial size and average income in the area. The problem is that this redistribution scheme does not seem to show any result as the public service provision stays poor in the poorer areas, and fairly better in the rich ones. Moreover, the lack of solidarity gets worse as the results delay to show up.

The capacity of the local government to deal with any kinds of demands is limited from the start by the defective decision making process. First of all, there is no clear distribution of tasks between the General Mayor Hall and the Sector Mayor Halls (interview with Sorin Ionita). The ongoing legal disputes between the sectors on one side and the General administration on the other are fueled by the fact that Bucharest does not have a law of its own that would clarify the attributions each has.

Second, a large part of the decisions are blocked by the Local Council. In fact, choosing a mayor that does not have the support of the majority on the Local Council seems to be part of the history of elections in Bucharest. At the last round of election, in the spring of 2008, a politically independent general mayor was elected.¹⁶ All the mayors until now had to play the independence card in order to win elections in Bucharest. The price of their independence was a large number of either blocked or reckless decisions the consequences of which had to be paid by the citizens.

Under the current circumstances, the same unified action process of participatory budgeting implementation that was led in Porto Alegre could not be led in Bucharest. Important structural reforms need to be made in order to ensure better coordination between the municipal and the sub-municipal governments. Sorin Ionita¹⁷ identifies a solution in passing a *Constitution for Bucharest* as a legally binding document that among other regulations, would clearly state the prerogatives of each layer of government.

5.4. Hard constraint 2. Fiscal policy

¹⁶ Formally independent; he is a former high profile member of the Social Democratic Party (PSD) who decided to withdraw from the party and run as independent, when the party refused to nominate him. PSD has never won local elections in Bucharest.

¹⁷ Expert in decentralization, Romanian Academic Society

As opposed to Porto Alegre at the moment of participatory budgeting implementation, Bucharest is not on the verge of a governability crisis. Following the national fiscal reform in 2004, the revenues increased and maintained themselves at high levels ever since. Moreover, despite the social inequalities within the city, the Bucharest metropolitan area is the richest region in the country, with the highest investment rate and consequently, the highest revenue collection.

Before the implementation of the fiscal reform, the national redistribution scheme severely affected Bucharest's finances, since a large part of its revenues were transferred to poorer regions of Romania. The decentralization process brought municipalities increased autonomy - the power to set bases for taxation, local tax rates and the possibility to borrow as a method for financing certain investments – and with it more responsibilities. For Bucharest it meant assigning its revenues for local expenditures.

Even though the degree of flexibility has grown a lot since the implementation of the tax reform, the fiscal policy combined with the confusion of attributions of the municipal authorities, which increases the risk for double taxation, restrict the applicability of participatory budgeting. That is why, until structural reforms are made, individual systems for each of the sectors should be elaborated. Of course, this would require individual analysis for each one of the sectors.

5.6. Civic participation

At the 2008 local elections only 22% of voters (BEC 2008) came to express their choice. The most recent Public Opinion Barometers (OSF 2006, 2007) show a constant decrease in the trust that people have in both central and local government. Moreover, at least in Bucharest, the attempts already made to incorporate the results of public consultations into

budget elaboration have failed, mainly because governments treated the participation methodology superficially and they assumed they can gain the benefits citizens' participation can bring, by manipulating the results.

The main problem with result manipulation is that once the trust citizens' have in the government is destroyed, getting it back is not only hard, but a long term process. Anecdotic is the attempt of the mayor of Sector 1 of Bucharest, who organized a fairly successful Citizens' Forum in the fall of 2007. There were 450 people showing up for the event: regular citizens, representatives of the civil society and government representatives. During the lunch break, when the moderators were supposed to pick up and centralize citizens' preferences, someone accidentally hit the wrong button of the laptop and the results of the debate, which had been previously prepared by the mayor's office, were shown on all four screens (interview with Oana Preda, Director of the Center for Public Participation Resources in Bucharest).

One very important thing learned from the Porto Alegre experience is that if the lacks in the government trusts, civic participation will decrease until the system will simply faint away. If trust in the government is inherently low, as it is in the case of Bucharest and post-socialists societies in general, then the government has to make a commitment in which the citizens could realistically believe in. This could be in the form of a Local Council decision, a law, or any kind of formal agreement, on which the government can be held accountable. This will hold for the implementation phase. In order to ensure sustainability, upon implementation, the government has to avoid delays in the execution of public works decided of participatory budgeting. However, the delay does not depend exclusively on the government's will, so this will be discussed in the participatory methodology section of this chapter as well.

5.7. Civil society development

Initiatives on the participation of civil society representatives in local decision making have already been made. Urban planning associations, think tanks specialized on social research, they all want to get involved in the local decision making process and emphasize on the importance of citizens' participation. The most notable experiences are the *Pact for Bucharest*, a consortium of 41 organizations that argue for the introduction of more checks and balances in the approval of urban regional and general development plans (interview with Sorin Ionita, SAR), and the *Youth Parliament* (interview with Sinziana Olteanu, CeRE), as an initiative led by a network of local associations in Sector 2 of Bucharest, which cooperated closely with the mayor's office regarding the development of local education and youth policies.

One cannot count in Bucharest on the same magnitude of the social pressure that the voluntary associations in Porto Alegre exercised. Nonetheless, the development of a strong community associations' base is highly supported ideologically and financially by the European Union. In other words, even though the existing voluntary associations are not as assertive as the neighborhood associations in Porto Alegre in 1988, the highly more stable political and social environment can favor the development of this civil society sector. As in the case of Porto Alegre, one could expect the increase in the number of voluntary associations and citizens' initiatives to occur two years after the completion of the first participatory budgeting cycle, the soonest.

5.8. Political will

This is probably the parameter that raises most of the concerns regarding the applicability of the system. If there is no political will, this whole discussion is pointless. Currently, the independently elected mayor of Bucharest has no governing program. The multi-year local development plan ends this year and a new one has not yet been elaborated. On the other hand, since he entered office Oprescu has shown a lot of attention towards community issues. Considered initially a publicity stunt, Oprescu seems to be consistent. Since June he has visited various local communities in poor parts of Bucharest, talking to people about their needs and about the quality of the services they receive.¹⁸

ICT tools become more and more popular and it seems that mayor Oprescu is not afraid to use it. In cooperation with the mayor hall of Sector 4, at the beginning of September he started a program of *3G Public Hearings*. A tent equipped with audio and video communication devices was installed in one of the public markets of the sector. People can sign up for hearings during the week and on Sundays, for four hours they can go and enter a video call with the general mayor. Currently this is a pilot project.

A publicity stunt or not, the new mayor's actions open a policy window for the implementation of a system of participatory budgeting and increase citizens' trust in the local government. The issue of the sector mayors remains. For an initial implementation of the system, a series of the consultations with all the sector mayors need to be conducted. The aim of these workshops would be to both get feedback on the constraints that the mayors perceive the implementation of participatory budgeting would face and also to introduce them to the benefits that the system can bring in terms of political capital.

¹⁸ An official mapping of the social problems in bucharest has not yet been made.

5.9. General recommendations

Synchronization with the budget cycle. In the case study of the Poto Alegre model we saw what the lack of synchronization can cause on delaying public works. Even though the calendar of the Romanian budget cycle has assigned specific times of the year to public consultation, twenty days of public consultations on the yearly budget are not enough. A system that would follow the Medium Term Expenditure Framework elaboration calendar would be more successful. This would mean a three year debate cycle.

Establishing transparent and measurable criteria for the assessment of priority investment. At the beginning of each cycle of participatory budgeting elaboration special meetings should be arranged on establishing the criteria of assessment for the next three years. Official governmental strategies should be considered, as well as revenue collection expectations.

Constant evaluation. Even though the cycle would be extended on a period of three ears, constant yearly monitoring of public works execution should be followed. The main purpose of the evaluation should be avoiding delays in the execution of public works.

Intra-institutional reform in administration. First, a lot of the civil servants involved in the coordination of the system might prove to be reluctant to the idea of taking advice from non-professionals.¹⁹ Second, deficient decentralization measures have already generated a high lack of coordination between divisions of the government. Enhancing the communication and the cooperation between governmental agencies involved in the decision making process is a must.

¹⁹ Interview with the head of the Budget Elaboration and Execution Division of the Municipality of Bucharest

Chapter 6. Conclusions

In this study I have shown that despite the differences between Porto Alegre and Bucharest, the experience of the participatory budgeting system first implemented in Porto Alegre can be a policy learning opportunity for Bucharest as well, as it was for a number of other cities around the world. The level of institutionalization and the success of the Porto Alegre model in terms of public service provision, have transformed the latter into a best practice story on the bases of which a system for Bucharest can be developed.

To review, in Chapter 1 I described the main issues that this paper was going to address. Chapter 2 looked at the ways in which the literature in the field describes the participatory budgeting phenomenon, into the broader framework of democracy and fiscal decentralization theories. The research design and the data sources were presented in Chapter 3, while Chapters 4 and 5 addressed specifically the cases of Porto Alegre and Bucharest.

To conclude, the Porto Alegre model can be followed by Bucharest as well, and can prove its success if the implementation methodology is the proper one. Special attention has to be given to the internal administrative reform process, to building citizens' trust in democratic institutions and to ensuring the independence of the system.

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