

Chapter 10:
Inequality and Innovation: Decentralization as an Opportunity Structure in Brazil.

Gianpaolo Baiocchi

Introduction

Brazil's experiment with decentralization, codified in the 1988 post-dictatorship constitution, has attracted a great deal of attention by virtue of being among the most far-reaching reforms among Latin American, if not developing countries as a whole (Willis, Garmas and Haggard 1999). As the introduction to this volume makes clear, Brazil's decentralization was an extensive, big-bang, set of reforms carried out in the context of marked regional heterogeneity. After more than a decade of continuing reforms, Brazil's decentralization has both its admirers and critics; admirers point to subnational innovations in service provision and governance, such as the well-known examples of the municipalities of Curitiba and Porto Alegre, and the state of Ceará, as "good governance in the tropics" made possible by decentralization (Tendler 1997; Campbell 1997; Peterson 1997). Detractors note the ambiguities and incompleteness of Brazilian-style Federalism, including the lack of central coordination on areas like fiscal and industrial policy. Other charges include the way decentralization has provided a source of spoils for patrimonial elites, and the way that the reforms have not ameliorated Brazil's longstanding regional inequalities. The unchecked and uncoordinated power of state governors, for example, has caused some to describe Brazil's system as the "most demos-constraining federation in the world" (Stepan 2000: 143). Critics have also charged that the new arrangements do not enable municipalities, especially smaller ones,

to provide the services for which they became responsible, a situation of an “unfunded mandate” (Pont 2001).

This brief article seeks to add to the debate on Brazilian decentralization, and the nature of decentralization of the state more generally, by reintroducing to the discussion the political dimension of the phenomenon. I argue that Brazil’s decentralization is *partially* “guilty as charged”: despite a complicated system of transfers, and despite a decided overall improvement of service delivery, it has not improved overall regional inequalities, and sometimes exacerbating them. On the other hand, decentralization *has* created the institutional opening for local actors to create a wide-ranging number of local experiments in innovative governance, in fact fulfilling the promise of “bringing government closer to citizens” implicit in decentralization. I consider in particular in the last section of the essay the case of Participatory Budgeting as a local innovation made possible by the reforms, that as far as the available evidence suggests, has generally increased democratic accountability through citizen participation. The opportunity structure for these innovations is unevenly distributed, with poorer and smaller municipalities less likely to have them.

The Context of Decentralization in Brazil

Brazil’s decentralization was codified with its 1988 post-dictatorship constitution. In order to understand how the reforms were conceived, and ultimately how they unfolded it is important to understand the antecedent conditions. First, the fact that democratization was happening concurrently was not inconsequential to the shape of the reforms or their impact. Re-emerging regional elites that had negotiated with the outgoing military dictatorship remained important through the crafting of the constitution and assured that

it would protect their interests. But the perceived opening of a political space during the transition also meant that social movements pressured legislators for items in the constitution that would enhance local autonomy and enshrine popular participation; new actors in civil society from the pro-democracy movements would attempt to make use of these openings. Second, the reforms were crafted after the debt crisis of the 1980s. International pressures to comply with fiscal austerity measures as well as to modernize the state apparatus also contributed to the pressures to transfer of government responsibilities since the late 1980s in areas as education, social services, and health to municipal government. (Alvarez 1993; Nickson 1995) The decentralization reforms were thus conceived and implemented in ways that reflected these contradictory pressures.

The Transition to Democracy

Since the late 1970s social movements for democracy had become increasingly visible in their demands, which included not only political reforms, but also accountability and improved governance.¹ Throughout Brazil participants in these movements sought ways to organize various local neighborhood associations and social movements into common blocs that could make demands on city and state government, and eventually coalesced into national movements like Cost of Living Movement, the Housing Movement and the Collective Transports Movement (Silva 1990). Brazil's negotiated transition to democracy, beginning in 1985, took place at a time when poverty and exclusion had increased quite sharply throughout Brazilian cities and the belts of poverty and exclusion around cities provided for a further, powerful impetus for organizing.

In 1985 full municipal elections were held. A number of notable Mayors were elected that year from Brazil's newly-legal left-of-center parties with ties to these social

movements. The Workers' Party, PT, emerged as one of the novelties of the period as a political party with close ties to civil society and with the aspiration to translate civil society demands into party platforms, and with a commitment to the democratizing of state institutions (Branford and Kucinski 1995; Keck 1992a; Keck 1992b; Lowy 1987; Meneguello 1989). With the discussion for the new constitution beginning in 1986, urban social movements made demands for more accountable forms of city governance, calling for decentralization and citizen participation in the running of city affairs as a basic right of citizenship (Moura 1989). Social movements mobilized around the legal proviso for popular amendments to the constitution. Caravans to Brasília accompanied the 122 popular amendments that were submitted to congress, and social movement representatives were eventually allowed to testify as consultants in the hearings.

(Alvarez, 1993)

Decentralization and the New Constitution

When the constitution was eventually ratified in 1988 it reflected the imprint of social movements, but other sources of pressure as well, including from regional elites, and from international bodies. The 'decentralization of government' was also a catch phrase for policy makers throughout the Americas in the 1980s, who argued that a less centralized state would be a less bureaucratic, more responsive, and more efficient state.² Hardest hit by these austerity measures were urban services – provided by central agencies. In order to adjust national fiscal spending to meet with IMF conditionalities, international lending agencies very actively encouraged the transfer of responsibilities for social services to the local level. Most notably, the Inter American Development Bank

and the World Bank in the mid 1980s encouraged local institution building, by offering loans and training programs directly to municipal governments (Nickson 1995).

Regional elites also played an important role in the decentralization reforms. Brazil is a country with a long history of regional disparities, as well as a history of regionally-based political and economic elites who have been able to influence national policy. Scholars have argued that Brazil's decentralization in the post-dictatorship period should be understood as part of a continuum of "center-state-local power relationships"(Souza, 2002:25). Since the founding of the Brazilian republic in 1889, municipalities and states have traditionally been highly autonomous and the stronghold of a variety of regional elites with specific interests. The national state has sought to "reign in" states at various points, such as during the Vargas dictatorship (1930-1937), and again under the military regime (1964-1984), when government functions were re-centralized, partially as a move to weaken the influence of regional elites. A variety of measures, including for example, the abolishment of state constitutions and flags under the early years of the dictatorship were sought as a way to strengthen the "center."

Since the mid 1970s, however, there have been signs of decentralization, such as the incremental increase of transfers to states. Scholars have argued that this was result of the national state's search for political legitimacy among regional elites represented by politicians in the two legal parties (Kugelmas and Sola 2000). The first elections for governors in 1982 (ahead of the full transition to democracy) brought a number of opposition governors to power as well as a number of governors tied to regional elites. From then on, the dictatorship sought to appease these local "power brokers" who were seen as the key to political legitimacy (Abrucio 1998). Regional elites played a crucial

role in assuring a weakened center in the decentralization reforms, which has curtailed the ability of the national administration to eventually implement reforms evenly throughout the country.

The Design of the Reforms and the Constitution of 1988

In essence, the constitution reflected four broad transformations between national and local state power. First, local governments were given more significantly more political autonomy from their district-level and national counterparts. In a rare constitutional arrangement, municipalities were to be thus considered ‘state-members’ of the national federation on equal footing as states. They were free to develop ‘organic laws’ – in essence, municipal constitutions that were more responsive to local needs. A number of cities in Brazil would organize mass public debates on the new municipal constitutions, including Recife and Porto Alegre. Cities were thus also allowed greater discretion with land legislation, particularly ‘social use’ and ‘social interest’ laws that guaranteed broad rights to municipal government to regulate the use of empty plots of land, or to develop municipal policies to deal with squatter’s settlements. Local autonomy in deciding land rights questions would have important implications for the problem of urban poverty. On the other hand, the status of municipalities would also mean that there would be ambiguities in the coordination of the decentralizing efforts because it would not be legally possible for states or the federation to “force” municipalities to carry out services.

Second, local and state governments were given greater fiscal autonomy from the union, as the constitution codified a number of mechanisms of transfer of resources toward subnational government. Traditionally, the principal source of funding for local government came from federal revenue-sharing arrangements. The 1988 Constitution

shifted a significant number of resources towards states and municipalities, while increasing the number of taxes each could raise, like vehicle, sales, and services taxes for municipalities. It also allowed for greater nondiscretionary transfers from the state and federal government to the local government. Five taxes were transferred to states, including ICMS (value-added tax); states were free to set their own rates and were given discretion on its use, save for a provision that 25% would be transferred to municipalities in the state. The two funds of non-discretionary transfers to states and cities, the “participation funds” (FPM and FPE) were augmented by increasing the proportion of the income tax (IR) and industrial products tax (IPI) transferred to it; these funds would be distributed according to states and municipalities on a formula based on per capita income and size.

Third, local governments were given the responsibility (or co-responsibility) for the some of the main aspects of social service delivery that were “municipalized”. In 1987, the national health system was abolished in favor of municipally based service provision. The 1988 constitution formally recognized that cities would be responsible for health services, along with transportation and primary education. As I discuss below, these devolutionary policies have led to mixed results because of the ambiguities involved in which level of government would be responsible and accountable for provision.

Fourth, local governments became *free to institutionalize channels of direct popular participation into public affairs*. The 1988 Constitution established legal provisos for participatory mechanisms calling for the input of popular councils in the development of social programs. At the same time municipal governments were developing de-

centralization schemes. The well-known Article 29 of the constitution calls for ‘the cooperation of representative associations in municipal planning.’ (Brazil, 1988)

Recentralizing Tendencies

The economic context under which these reforms were introduced was not an auspicious one, as mentioned; the late 1980s was a period of runaway inflation and difficulties with debt repayments as well as constrained public investments. As a result of the economic changes of the 1980s and the dislocations of the population to urban peripheries, the tendency for city services and city hall offices to serve ‘downtown’ areas instead of outlying areas had been exacerbated. Newly elected local and state governments conflicted with the national state over service provision and acceptable levels of spending.

One of the conflicts involved the high levels of public expenditures of states by the early 1990s, particularly with personnel, which threatened fiscal stability. Newly elected governors in 1982 increased payrolls with 500,000 new employees at the state level (Samuels and Abrucio 2000). Worries about the “runaway” spending of states (an increase in real terms of 33% between 1986 and 1995 while states’ GDP only increased by 16% in the same period) and several subsequent federal bail-outs triggered a number of moves designed to foster fiscal recentralization (Kugelmas and Sola 1999). The Real stabilization plan of Fernando Henrique Cardoso of 1994 included several re-centralizing measures as well as attempts to curb the spending of states. This included curbing the amounts of tax transfers to states, and the creation of a new tax on transfers. A law on fiscal responsibility (the LRF) limited public sector spending, and another law of 1996

(Known as the “Kandir Law”) then curbed the amount spent by subnational government on personnel (Souza, 2002).

Uneven Implementation

Observers have noted that the de facto implementation of decentralization has been extremely uneven. As mentioned earlier, a crucial factor in the crafting of the new constitution was the fact that parliamentarians involved in the Constitutional Assembly reflected disparate regional interests, and there was a general consensus that weakening the center as much as possible would lead to the most resources to regions (Montero 2001; Montero 1997; Samuels and Abrucio 2000). This was reflected in some of the institutionally vague arrangement of the reforms. The constitution does not assign responsibility for provisions, rather assigning “directives.” Articles 198 and 204, for instance, assign directives for health and social assistance to municipalities, without specifying the responsible entity. There are, in fact, thirty such areas of “concurrent responsibilities” in Brazil (Araujo 1997; Medeiros 1994).

A weakened center cannot implement reforms evenly or uniformly. One of the problems is the inability of local governments to assume responsibilities for lack of capacity. According to Arretche (1999), the levels of “actual decentralization” – that is, the actual transfer of competencies to local units is regionally varied. For instance, while the provision of school lunches has been fully turned over from the federal to the municipal government, and is essentially currently carried out locally, the story is different for social services and health, areas also deemed municipal competencies. Only 33% of municipalities by 1997 offered social services, and only 54% of medical consults in 1996 were offered in municipal clinics (Arretche 2000). While Arretche finds clear

variation by region and by the size (and fiscal capacity) of municipality, it is not possible to assign a single causal explanatory variable to whether a municipality assumes services or not; rather, a combination of political factors (such as whether local elected officials will take a risk), associative conditions and resource constraints account for the outcome.

According to a study of the Northern state of Bahia, a state with low municipal capacity and traditionally clientelistic politicians, carried out between 1987 and 1997, the decentralization of services was not met with any significant increase in local level initiatives. In the case of housing, with the dismantling of federal programs simply meant the virtual stoppage of housing assistance, and housing and infrastructure remained at roughly 1.5% of combined municipal budgets for the period. Health and education revealed similar features, and local-level social services were largely spent in clientelistic arrangements (Carvalho 1997).

The Impacts of Decentralization in Brazil

There is a wide-ranging discussion on the impacts of decentralization in Brazil, and while there are disagreements, the literature as a whole describes “mixed but largely disappointing results in terms of service delivery, popular participation, strengthened local elites, and reform initiatives” (Weyland, 1999:1006). Analysts of various stripes has consistently pointed to a number of persistent problems with Brazil’s decentralization: the functional ambiguity of the reforms, regional inequalities, clientelism/elite capture, and runaway spending by governors, as the reforms “tended to revitalize the power of traditional, patrimonial elites” (Montero, 1997). Below, I review the evidence of the impact or reforms in terms of actual fiscal decentralization, provision of services, and regional and size disparities.

Fiscal Decentralization

By the year 2000, municipalities and states were spending over half of public expenditures, becoming the dominant providers of health, education, and infrastructure. While the federal government was still the spending the largest portion of public expenditures as well as the largest source of social spending, the fact that in 2000 78% of federal spending went to debt amortization, and 65% of its social spending was in pensions highlights the importance of subnational units (Souza, 2002:37). Table 10.1 below shows the progression of social spending by source in Brazil from 1987 to 1996.

Table 10.1 Here

Table 10. 2 below shows the breakdown of spending by sector in Brazil by government level for 2000. As it shows, municipalities and states have become the principal providers of a number of services, with municipalities accounting for 68.7% of housing, 30.9% of Education and Culture, and 30.3% of Health expenditures. States account for 49.6% of Education and Culture, 47.3% of Transportation, and 25.4% of Health expenditures.

Table 10.2 Here

The resource base of municipalities and states however, has increased in real terms over the period of the reforms, a growth in real revenues of 161.5% between 1989 and 1995, causing some to declare Brazilian municipalities, “the envy of the developing world” (Shah, 1994). In fact, however, many scholars and practitioners have argued the opposite – while there has been an increase in resources, municipalities have been in fact entrusted with an even greater responsibility for service provision as result of the

dismantling of federal services, with the result being an overload of demands to local level institutions, particularly with smaller municipalities (Araujo 1997; Arretche 2000; Carvalho 1997; Lebauspain 2000; Pont 2001; Souza 1996; Souza 1997b). Table 10.3 below shows the evolution of fiscal decentralization in Brazil, and the distribution of total tax revenues available per level of government between 1987 and 2002. In addition to showing a tendency toward recentralization after 1991, the table shows (when compared to Table 10.1 above) that social spending has fallen to municipalities in greater proportion than the increase in available budgets.

Table 10.3 Here

Among poorer municipalities, where per-capita levels of municipal budgets are low, there is difficulty in raising independent revenues. According to Souza (2002), three quarters of municipalities, and over 90% of towns with less than 10,000 inhabitants, depend on transfers for over 90% of their revenue (2002:36).

Provision of Services

Assessing the impact of decentralization on the provision of services requires assessing changes in the provision by each level of government as well as overall changes. In addition to the difficulties in establishing base-line conditions or finding reliable data, as discussed in the introduction to this volume, the assessment is further complicated by the many redundancies in the institutional arrangements created by the new constitution. Because of overlapping responsibilities in most areas, de facto decentralization has been uneven, with lower levels of government often unwilling, or unable, to take over service provision. As Kugelmas and Sola ask, “how can decentralization be a success while states and municipalities lack the administrative,

financial, and institutional conditions to implement programs?” (Kugelmas and Sola 1999:75)

Shortly after the constitution of 1988, the federal government undertook “Operação Desmonte,” or the dismantling operation, that significantly removed funding for federal social programs, a period when there was an aggregate decrease in per-capita social expenditures for the nation as a whole (from US\$80 to US\$40 between 1988 and 1993 for health, for example, according to Workman (Workman, 1997:49). One of the downfalls of the devolution of government has been that smaller cities in cash-poor states have had to assume greater responsibilities for service delivery (Dowbor 1998; Peterson 1997; Willis, Garman and Haggard 1999).

The evidence about the performance of service provision under the regime of decentralization is mixed. Souza (Souza 1997a), focusing on education, challenges the notion that decentralization has brought any improvements to performance, and that it has exacerbated regional disparities. Other scholars examining education, health, and social service provision have also generally argued for modest overall improvements, if pointing to local instances of innovation (Araujo 1997; Arretche 2000; Costa 1996; Costa 2002; Graham 1997; Graham and Wilson 1997; Jacobi 1994; Sposati et al. 1990)

In terms of education, a principal problem with the decentralization reforms was the level of disparity in provision and the inability of municipalities to take over responsibilities. Some states, like Ceará, developed some innovative ways of incentivizing municipalization in the early 1990s, but on whole the reforms had little success in altering the proportion of students in municipal schools throughout the 1990s. An effort in 1998 to equalize service provision was the creation of a federal fund (FUNDEF) to

supplement local funds for education up to per-student minimum, with an earmarking of 60% of funds to go to wages and salaries. As a result, there has been a significant increase in municipalization of education, supplementing the decision-making autonomy given by the constitution with an increase in the capacity to carry out those decisions. Between 1996 and 1999, the number of children in municipal schools nationally increased by over six million, bringing the proportion of all students in municipal schools to 40% from 31.8%.(Afonso and Melo 2000).

In terms of health care provision, similar problems were faced by poorer municipalities, and efforts in the late 1990s to increase the equity in the resource base for the health provision at the municipal level were somewhat successful in increasing access to health care. Transfers to meet per-capita minimums for certain preventive care programs were introduced, as was a mechanism to create inter-municipal consortia for health care delivery since small municipalities do not have the means to meet the scale of investment necessary for certain types of health care services. The vast majority of such consortia, however, are in the South and Southeast regions of the country (Afonso and Melo 2000; Araujo 1997; Costa 1996). Table 10.4, below, offers some data on changes in terms of human development indicators in Brazil between 1990 and 2000.

Table 10.4 Here

As the table suggests, education indicators have improved across the country, with the disparity between regions decreasing somewhat over the period. Adult literacy has increased from 68.84% to 78.23% over the period, and school attendance from 55.52% to 77.95%. The ratio of indicators for the Southeastern region to the Northeastern region gives a sense of the magnitude of the disparity between the country's richest and poorest regions. In terms of rates of school attendance, for example, the poorest regions have all but caught up with the richer ones, and the disparity in terms of adult literacy has also diminished. In terms of health between 1990 and 1998 there was a national increase in the life expectancy of 4 years, and infant mortality rates have decreased by over 7 percentage points. In health, however, the disparities between regions have not been improved (such as for life expectancy), and actually increased in terms of infant mortality, with rates in 1998 almost three times as high in the Northeast than in the Southeast. The section below discusses these disparities.

Regional and Size Disparities

While the constitution mandates a number of transfers that are, in principle, supposed to offset regional inequalities, scholars have pointed out that despite formal mechanisms to reduce regional inequalities, the economic supremacy of the industrialized Rio-São Paulo-Minas Gerais belt in the Southeast worsened between 1988 and 2000. The available budgets for states and municipalities in different regions is also widely varied, and despite attempts to equalize them, levels of social expenditure remain disparate.

Real disparities remain among municipalities of different sizes and in different regions. Table 10.5, below, offers some human development indicators by municipality size according to 2000 data.

Table 10.5 Here

As the table shows, most indicators are significantly worse among smaller municipalities. Infant mortality in municipalities of up to 100,000 is almost 150% of the rate in the largest cities. Accordingly, rates of adult literacy, life expectancy, and school attendance are significantly higher in the larger cities. If we consider the fact that half of the country's population lives in municipalities of up to 100,000 inhabitants, this disparity becomes even more of a pressing issue.

Part of the problem lies in the disparate municipal budgets. The reforms gave municipalities additional powers to raise taxes, including a land-use tax (IPTU), a service tax (ISS), a real estate tax (ITBI), which altogether accounted for 15% of municipal income for 1997. The remaining municipal resources come from federal and state transfers; the federal transfer comes from a portion of federal income tax (IR) and the value added tax (ICMS), which made up 60% of transfers into a Municipal Fund (FPM) which is then distributed according to a formula that favors smaller municipalities. State transfers come from a portion of state taxes over motor vehicles (IPVA) and valued added tax (ICMS). Table 10.6, below, uses the example of health expenditures, where there are federal transfers, to illustrate the disparities between larger and smaller municipalities. Despite SUS transfers for health expenditures and the progressive transfers of the FPM, health expenditures remain disparate.

Table 10.6 Here

While smaller municipalities tend to be more dependent on transfers, the situation is also worse in the less economically developed areas of the country. Because the taxes which municipalities can raise privilege developed urban areas, the ability for municipalities to raise taxes is concentrated in the country's richer areas. In 1999, 71% of all municipal revenues were raised in the Southeastern region, while the North, Northeastern, and Central-West regions accounted for 15% of that (Afonso and Araújo 2000; Neves 1993; Nunes 2001). Among Northeastern municipalities, 60% were in a "high degree of dependency" for transfers; among smaller municipalities, own resources accounted to between 1.5 and 5% of total budgets for 1994, for example (Carvalho 1997). In 2000, average per capita tax revenues raised by municipalities under 100,000 varied between 2 Reais for Acre, in the North, and 77 Reais, for Rio de Janeiro in the South East. Even among state capitals, the disparity between per-capita budgets between the capitals in less developed regions and those in more developed regions is stark, with South and Southeastern capitals having between two and three times the available per capita budgets than other capitals (Rosenblatt and Shildo 1996). Among states, the picture is not much different; for 1999 states in the North, Northeast, and Center-West depended on transfers for almost two thirds of their state budgets, while the figure for South and Southeast was closer to a third (Afonso and Melo 2000).

In sum, the impact of decentralization has been mixed. The reforms' goals of improving service delivery at lower costs has been met, though the success must be qualified. Basic indicators show improvement across the decade, but also show that size and regional disparities have not improved, and in some cases, such as the rates of child mortality, show an actual increase in levels of disparity. The reasons are not hard to

fathom, as described above, and as noted by many scholars: the burden of the reforms has not been evenly shared. Despite federal transfers designed to ameliorate the situation, for many municipalities at the end of the decade the burden of meeting service provision was still difficult to meet. The reforms, however, also had another set of impacts having to do with opportunities for innovations, as discussed below.

Decentralization as Opportunity Structure: Democratic Innovation

The decentralization of government in Brazil has also opened up institutional spaces for local actors to carry out innovative reforms. The combination of increased political autonomy, greater discretion with regards to the allocation of resources, and a growing movement of local actors with ties to social movements willing to contest elections has meant the conditions for democratic innovation were made possible. Among the best-known examples of such innovation are probably the instances of participatory governance such as the ones noted in Belo Horizonte, Porto Alegre, Santos, or Diadema, under the Workers' Party (PT). In Belo Horizonte, in the state of Minas Gerais, a '*favela* urbanization' program has helped several thousands of families of squatters to earn the title to their land. The city of Santos, also in São Paulo, under the PT, developed innovative AIDS programs and community-based mental health programs that have become an international model (Branford and Kucinski 1995: 85). Other innovations have been described in the literature, particularly in terms of municipal innovations, of "cities that work," or "islands of efficiency"(Figueiredo Júnior and Lamounier 1997). These have been in the areas of environmental action, health provision, and use of computer resources at the municipal level (Figueiredo Júnior and Lamounier 1997; Instituto Pólis 2001; Jacobi 2000; Lebauspín 2000; Spink and Clemente 1997). Given

that these are “islands” and a minority of municipalities, I address the structures of opportunity afforded by the decentralizing reforms. While opportunity structures have often been considered in terms of understanding the way collective action is responsive to opportunities in the polity (Amenta and Zylan 1991; Tarrow 1996; Tilly 1978), scholars of democratic innovations have pointed to the specific institutional and political contexts that made such innovations possible (Markoff, 2001).

The Range of Local Level Reforms

Administrators from the first cohorts of opposition Mayors of 1985-1988 experienced significant difficulties in carrying out effective governance and assuring re-election. While these were often not radical programs that granted substantial decision-making powers to local groups, ‘decentralization and participation’ were part of the municipal government plans of many cities in Brazil and Latin America at the time. (Nickson, 1995. Rosenfeld, 1995) The capital cities of Curitiba, Rio de Janeiro, Recife, and Salvador developed some sort of participatory structures by 1989.³ By the early 1990s there were a number of notable experiments in participation throughout Brazil, varying widely in terms of district-level scope, composition, and decision-making power, ranging from *mutual assistance programs* to *local management of specific municipal services*, to sectoral councils, such as municipal health councils (Graham 1997). Since 1993, dozens of municipalities in Brazil have been home to innovations, which have included participatory decision-making over education, health, the municipal budget, municipal planning, and environmental regulation. (Abers 1996; Abers 2000; Avritzer 2000; Baiocchi 2001; Branford and Kucinski 1995; Campbell 1997; Jacobi 1991; Keck 1992b; Kowarick and Singer 1994; McCarney 1996; Nylén 1998; Reilly 1995; Soler 1995)

While a number of early experiments ended in electoral failure, and sometimes without offering any improvement in service delivery, more recent versions of institutional designs have been more robust, though still vulnerable to losing electoral contests.

The reform that has attracted the single most attention have been Participatory Budgeting reforms, which aim to include ordinary citizens in binding discussions about the direction of municipal investments. Several municipalities, mostly under the PT, have carried out successful participatory reforms of the sort, often involving thousands of citizens, or in some cases, a significant proportion of the adult population in yearly meetings. The cities of Porto Alegre, Belém, Santos, Angra dos Reis, Belo Horizonte, Campinas, among others, have achieved significant successes and have managed re-election. Participatory Budgeting is currently the subject of much attention from within policy circles and academic circles, and while no comprehensive evidence exists yet about its various impacts across contexts, in a number of individual cases PB has been linked to redistributive outcomes (Calderón et al. 2002; Carvalho and Felgueiras 2000; Lebauspain 2000; Pont 2001; Pontual 1997; Pozzobon 1998), increased governmental efficiency (Marquetti 2002), increased civic activity and a transformed political culture (Baiocchi 2002b). There are ongoing research efforts to establish the net impact of the range of PB reforms across Brazil.

One of the most successful examples of PB has been in the city of Porto Alegre, in the South of Brazil, becoming a model administration, as PB reforms became the model for many subsequent administrations. The PB has devolved decision-making over new capital investments to citizen-councils, organized around the city's districts. Citizens participate as individuals and as representatives of various groups of civil society

(neighborhood associations, cultural groups, special interest groups) throughout a yearly cycle. They deliberate and decide on projects for specific districts and on municipal investment priorities, and then to monitor the outcome of these projects. Over the thirteen years of its existence, it has decided upon hundreds of projects accounting for almost 20% of the city's budget, and drawing in several thousand participants from poorer sectors.

The Porto Alegre experiment has become well-known in and outside of Brazil, and a range of research and indicators confirms that, as innovation to governance and to municipal decision-making, PB has indeed been successful. Careful analysis has shown that PB investments have targeted poorer residents and needy areas (Marquetti 2001). Although a city with high indicators to begin with, when compared to previous administrations and to changes in Brazil as a whole, the PT administration in Porto Alegre has brought significant improvements in service delivery, including achieving almost 100% coverage in basic sewage and water (up from 79%) in the ten years, and has doubled the number of children in public primary schools (Abers 1996; Baiocchi 2001; Navarro 1996; Santos 1998; Utzig 1996).

Participatory Budgeting reforms were copied (being transformed as they were copied) and were replicated throughout Brazil. In addition to the twelve cities that carried it out between 1989-1992, thirty-six did between 1993-1996, and at least 103 did in the 1997-2000 tenure according to surveys done by Brazilian NGOs. A 2001 survey offers a snapshot of the practice in Brazil for the time period. The basic structure adopted by municipalities generally included an yearly cycle with district-level meetings, concurrent meetings of a main budget council, and somewhat less commonly, municipal

thematic meetings (Grazia and Ribeiro 2002). According to Teixeira (2002) many experiments begin as exact copies of the Porto Alegre experiment, down to the names of the municipal departments responsible for the process, only to be modified after a year or two. There is variation in how much decision-making is afforded participants and how this decision-making takes place. In Santo André, São Paulo, at the Council of the Budget, municipal department heads have the same number of votes as councilors (Carvalho and Felgueiras 2000). In Belo Horizonte, only 50% of capital expenditures are turned over to the PB, and in Recife district-level priorities are chosen at the same time as delegates (Azevedo 1997; Boschi 1999; Somarriba and Dulci 1997). Preliminary results from a recent research project has established that PB reforms across Brazil in 1997-2000 did have some of the redistributive and development outcomes its proponents have claimed. According to the research, they were associated with increased municipal spending in health, with improved fiscal standing of municipalities, improvement of service provision in some areas like access to drinking water, and improvement in some human development outcomes such as poverty and enrollment rates (Baiocchi, Chaudhuri, Heller, and Silva 2005).

The Uneven Diffusion of Innovation: Limits of Decentralization

Taking the set of cities with self-designated PB experiments as a starting point, it is apparent that cities over 500,000 in the South and Southeast were overrepresented, and smaller municipalities away from the more developed regions have seldom had such reforms. Participatory Budgeting has evolved geographically, moving away from its original home in the state of São Paulo, where the majority of experiments took place in the 1989-1992 tenure, to the South, where a number of experiments went underway in the

1993-1996 period, to a move to the North and Northeast where experiments took place in a significant way in the 1997-2000 period.

Table 10.7 Here

The case-study literature shows a number of difficulties faced by administrators attempting to implement participatory reforms. Difficulties mentioned include the administration's fiscal standing, reprisal from higher levels of government, pressures from local elites, electoral pressures, pressure from the party's own bases, among others. Since most PT or left administrations have been elected by slim margins, often on protest votes (and therefore facing great expectations), and generally face the hostility of local elites and difficult governing conditions, the calculus for administrators often appears as the choices among a number of difficult options.

One constraint, related to the earlier discussion about the inequities among cities in Brazil during the period of decentralization is the resource constraint. Among the cities that carried out PB in 1997-2001, "the municipalities, in relation to the total of Brazilian municipalities, presented, in the period in question, a more solid revenue base" (Grazia and Ribeiro, 2002: 87). It is crucial that the reforms actually deliver goods in a timely fashion to overcome cynicism and to convince persons who have a limited amount of time that participation is worthwhile. Participation may not make much sense for poor persons save for an assurance of timely returns. In highly fragmented social contexts, or where persons are not accustomed to civic engagement, the equation may be even more stark. In addition, adequate administrative capacity to carry out the reforms is an important issue. With the decentralization reforms cities gained new ways of raising revenue through vehicle, sales, and services taxes, but larger, southern and southeastern

capital cities were winners in this scheme. Porto Alegre, for example, with yearly revenues today well-over US\$150 per person has the capacity to offer many more returns to participation than the majority of other municipalities in Brazil.

A related constraint is the political constraint. While municipal elites have generally not posed the same problems that have all but blocked similar innovations at the state level, in the absence of an organized political force to pressure the administration to carry out reforms, isolated reformers within administrations are unable to implement experiments like the PB. The pattern of adoption of the PB, first in São Paulo state, then in the South, and more recently in some places in the Northeast follows the evolution of the PT, which has gained a following away from its home state of São Paulo in the same period (Singer 2001), as well as an evolution away from the PT as other political parties have begun to adopt the platform. While the vast majority of experiments were PT experiments for the first two periods, by 1997-2000 half of experiments were carried out by other political parties, though still mostly by left-of-center parties, with some notable exceptions.⁴ But even the presence, and electoral victory of a left-of-center party is not enough. The literature has established that internal ruling party fights and difficult relationships with municipal unions have sometimes been disabling to administrations attempting to implement PB. According to the 2001 survey, conflicts within the administrative apparatus were noted in almost half the cases, conflicts with the local legislative in a third of cases, and conflicts within the ruling political party in 20% of cases (Grazia and Ribeiro 2002: 67). In the city of Betim, Minas Gerais, for example, where the administration carried out PB from 1997-2000, its inability to negotiate with its own bases of support cost it considerable legitimacy in an already

inauspicious context and eventually rendered the administration unviable. The story the PT in São Paulo from 1989-1992, is another about administrators' inability to negotiate sources of internal pressure within the PT immobilized it from even attempting some of the solutions that worked in other settings (Couto 1995).

Lessons from Brazil's Decentralization

The ideal of bringing “government closer to the people” as defended by those who advocate decentralization on normative grounds may not find definite proof of its desirability when Brazil's reforms are considered as a whole. While the literature on the reforms is far from conclusive, there is agreement that, at least in its current incarnation, the reforms have had mixed results from the perspectives of service provisions, fiscal stability, regional disparities, or participation. Its positive results include the increase in social indicators in education and in health in the context of a decrease in net social spending, as well as opening up local spaces for innovations in governance. Its principal negative results have been the regional and size disparities, which in some cases have increased as result of the reforms. In the case of health reforms, the portion of the country's population who lives in smaller and poorer municipalities, and who are less likely to begin with to be able to afford private solutions, face worse health indicators as well as much less adequate and less funded health services. Another negative impact, for which there is less systematic evidence, is the strengthening of the system of spoils for regional elites.

In this essay I have reviewed the context for, and some of the principal features of, Brazil's decentralization as codified in its 1988 constitution, devoting some effort to discussing the much-heralded experiments in Participatory Budgeting (PB) as a

democratic innovation made possible by decentralization. Peculiarities of Brazil's history – such as the power of regional elites, high social deficit, and a history of high regional imbalances – help account for some of the undesirable results of the reforms, while features of the reforms themselves – such as the ambiguous concurrent responsibility provisions are no doubt part of the story as well. I have briefly sought in this essay to explore the ways in which decentralization has made possible such innovation by addressing the structure of opportunity for it. I have argued that the decentralization of the state has opened up the space for electoral competition at the municipal (and not necessarily the state) level, and where new actors have translated civil society innovations into platforms for governance. In examining Participatory Budgeting in particular, a reform that is thought to hold the potential for a number of positive outcomes, I discussed the ways that it has been diffused as an innovation, first in the more developed regions in the country and later to Northeastern regions. The structure of opportunity for this innovation is uneven, however, with local levels of revenue and presence of organized political actors interested in reforms as important pre-conditions. Brazil's decentralization has not done much to ameliorate the poor fiscal capacity of smaller and poorer municipalities, and thus not everywhere can these innovations take place.

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Tables

Table 1: Proportion of Total Social Spending in Brazil by Source, 1987-1996

Year	1987	1989	1992	1994	1996
Federal	63	60	56	60	57
State	26	28	28	23	23
Municipal	11	12	16	17	19

Source: IBASE, 1992; Souza, 2000.

Table 2: Government Expenditures in Brazil by Level, 2000

Function	Union	States	Municipalities .a
Social Insurance and Social Assistance	78.8	16.2	5.0
Education,Culture, Sport and Leisure	19.5	49.6	30.9
Health and Sanitation	44.2	25.4	30.3
Housing and Urbanism	15.2	16.1	68.7
Labor	90.8	9.3	—
Environmental Management	100.0	—	—
Energy and Mineral Resources	72.2	19.8	8.0
Transportation	23.8	47.3	28.9
Sectorial Policies	58.9	33.0	8.1
Defense	100.0	—	—
Public Security	15.2	82.2	2.5
Foreign Affairs	100.0	0.0	—
Legislative Branch	23.5	41.0	35.5
Judiciary Branch	42.4	56.3	1.3
Total Expenditures b	45.5	37.9	16.5

Source: XX, 2002.

Table 3: Fiscal Decentralization in Brazil, Distribution of Tax Revenues 1987-2002

Year	Federal	States	Municipalities
1987	65.28%	23.98%	10.74%
1988	67.17%	22.51%	10.32%
1989	62.93%	25.72%	11.35%
1990	61.10%	26.40%	12.50%
1991	58.55%	28.40%	13.05%
1992	60.18%	27.19%	12.63%
1993	62.55%	25.26%	12.19%
1994	63.62%	24.99%	11.39%
1995	61.73%	26.00%	12.28%
1996	61.47%	26.25%	12.28%
1997	62.48%	25.43%	12.09%
1998	62.85%	24.52%	12.63%
1999	63.18%	24.00%	12.82%
2000	62.71%	24.56%	12.73%
2001	62.44%	24.54%	13.02%
2002	63.46%	23.59%	12.95%

Source: BNDE, Termômetro da Descentralização

Table 4 Selected Human Development Indicators per Region, 1990-2000

Selected Human Development Indicators per Region, 1990-2000												
REGION	Rate of Adult Literacy 1991 (%)	Rate of Adult Literacy 2000(%)	Change 1991-2000	School Attendance 1991 (%)	School Attendance 2000 (%)	Change 1991-2000	Life Expectancy 1991	Life Expectancy (years) 2000	Change 1991-2000	Infant Mortality 1990	Infant Mortality 1998	Change 1990-1998
N	63.76	76.00	12.24	53.13	74.53	21.40	61.30	65.72	4.43	48.41	40.68	-7.73
NE	50.18	64.32	14.14	50.11	78.49	28.39	58.32	63.13	4.82	75.73	65.58	-10.14
SE	77.87	85.00	7.13	59.10	76.09	16.98	66.31	70.26	3.94	33.93	27.00	-6.93
S	84.14	88.89	4.75	58.49	80.30	21.81	67.81	71.54	3.73	27.83	22.62	-5.20
CW	75.19	83.22	8.03	58.58	80.13	21.55	64.13	68.94	4.82	37.54	30.06	-7.48
Ratio S/NE National Average	1.68	1.38		1.17	1.02		1.16	1.13		0.37	0.34	
	68.84	78.23	9.39	55.52	77.95	22.43	63.45	67.74	4.29	47.68	39.96	-7.72

Source: UNDP, SUS, IBGE

Table 5: Selected Human Development Indicators per Municipio Size, 2000

Municipio Size	Number of Municipios	Population in Municipios (1994 data)	Rate of Adult Literacy 2000(%)	School Attendance 2000 (%)	Life Expectancy (years) 2000	Human Development Index (2000)	Infant Mortality (1998)
Up to 20,000	4,066	30,737,394	77.48	77.34	67.60	0.69	39.31
Up to 100,000	1,233	48,090,396	78.69	78.95	67.82	0.71	43.58
Up to 500,000	181	36,686,305	89.90	83.57	69.97	0.78	31.25

Up to 1 million	15	10,658,770	91.37	85.47	69.46	0.79	32.58
Greater than 1 million	12	30,897,296	94.10	88.93	70.09	0.82	29.66
Total	5,507	157,070,161	78.23	77.95	67.74	0.70	39.96

Sources: IBGE, UNDP, SUS

Table 6: Health Expenditures per capita per municipality size, 2000

Município Size	Own Health Expenditures per capita (R\$)	SUS Transfers per capita (R\$)	Average Population	FPM, ICMS transfers per capita (R\$)	Own income per capita (R\$)	Total Health Expenditures per capita
Up to 20,000	59.97	31.20	8,324	402.39	18.57	91.29
Up to 100,000	34.20	35.97	40,896	212.72	33.51	70.28
Up to 500,000	45.44	54.47	223,435	199.07	81.96	100.01
Up to 1 million	54.52	73.15	760,461	204.84	107.17	128.24
Greater than 1 million	41.45	88.31	2,739,665	157.56	176.95	129.76
Average	53.45	33.45	33,646	349.97	25.10	87.02

Source: SUS

Table 7: Municipalities with PB by Region and by Size, 1997-2000

Region	N	NE	S	SE	Total PB Municipalities	Total Municipalities
Up to 20,000	2	1	23	4	30	4,066
20,000 to 100,000	1	2	8	21	32	1,233
100,000 to 500,000	0	6	7	19	32	181
500,000 to 1,000,000	0	3	0	1	4	15
1,000,000 and up	1	1	1	2	5	12
Total	4	13	39	47	103	5,507

Source: Ribeiro and Grazia, 2002

¹ There is a very extensive literature on the social movements of the 1970s and 1980s in Brazil, which is impossible to review here (Boschi 1987; Cardoso 1988; Evers 1985; Telles 1987; Viola and Mainwaring 1987).

² See, for instance, some representative positions in IDB (1997), IBAM (1988), Quercia (1984).

³ See Fischer, Colomer and Teixeira (1989) for a more complete discussion of the details of these programs.

⁴ Of the 103, 25 were carried out by leftist parties traditionally tied to social movements (the PDT, the PPS, the PSB, the PV; 22 were carried out by left-of-center political parties originating in the country's pro-democracy movement of the 1980s, the PMDB and the PSDB; and four were carried out by right-wing parties (PTB, and the PFL). The volatility of the Brazilian electorate and the lack of programmatic discipline as well as the personalism of most political parties cautions against extrapolating much information from these data, however (Ames 2001; Mainwaring 1999).