**Why has Participatory Budgeting declined in Brazil?**

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**Abstract:** Participatory Budgeting (PB) is a democratic policy innovation created in Brazil, in the early 1990s, and is recognized worldwide as an effective policy tool for directly involving the population in budget decisions. Its diffusion in Brazil was strongly stimulated by the Workers' Party (Partido dos Trabalhadores - PT), as a showcase of the "Petista Way of Governing.” However, when the Party took Federal Office, it abandoned PB as its main participatory policy priority. After losing its leading party promoter, PB adoption gradually declined in Brazil. What explains such drastic change in PT’s policy preference? What are other possible explanations for PB’s retrenchment? To understand both PT’s motivations and the reasons for PB’s decline, we present an original argument that gradual changes in fiscal legislation have led to lower investment rate and greater rigidity of local budgets, reducing PB effectiveness, discouraging new adoptions and, thus, leading to its decline in Brazil. Therefore, PT’s policy preference change is explained by the party adaptation to the increasing budgetary rigidity scenario. Using a panel data analysis, our findings show that, between 1996 and 2016, local PB adoption and continuity are strong correlated with budget and investment rate, which is consistent with our initial hypothesis.

**Keywords**: participatory budgeting, policy failure, local politics, fiscal policy, participation

**Introduction[[1]](#footnote-2)**

Participatory Budgeting (PB) is a democratic innovation policy tool that enables direct involvement of the population in decisions about the local budget. Its output is the definition of priority investments, usually by neighborhood (WAMPLER, 2008, p. 69). Workers' Party (Partido dos Trabalhadores - PT) activists, politicians and bureaucrats created PB in the city of Porto Alegre, Brazil, in 1990. Later, in 1996, UN Habitat acknowledged it as a “Good Practice for Urban Governance.”[[2]](#footnote-3) Since then, the World Bank and activist networks have promoted its diffusion worldwide, which made PB and its foundational experience the subject of several scholarly studies (ABERS, 2000; AVRITZER; NAVARRO, 2003; BAIOCCHI, 2003; DOUGLASS; FRIEDMANN, 1998; SANTOS; AVRITZER, 2009; WAMPLER, 2007). It has been adopted both nationally and by local governments worldwide, but the most successful and well-known cases are in Latin America (Brazil, Peru, Argentina, Uruguay, Ecuador, Colombia) and Europe (Portugal, Italy, Germany, Spain and France) (CABANNES, 2004; GOLDFRANK, 2012; OLIVEIRA, 2017; SHAH, 2007; SINTOMER; HERZBERG; RÖCKE, 2012). Between 1989 and 2016, 267 Brazilian prefectures of various political parties adopted Participatory Budgets for at least one administrative period. However, the PT accounts for most of the cases, both in relative and absolute numbers, and the policy is clearly associated with this party. The peak of PB adoption in Brazil occurred precisely at the time of the PT's election to the Federal Government in 2002 (for the 2003-2006 term). After that, PB undergoes a continuous decrease until 2016, which, if kept constant, would mean the disappearance of Participatory Budgeting in Brazil by the year 2024 (SPADA, 2012). Despite decreasing in Brazil, its place of origin, PB keeps expanding worldwide (CABANNES, 2004; GOLDFRANK, 2012; OLIVEIRA, 2017; SHAH, 2007; SINTOMER; HERZBERG; RÖCKE, 2012).

PB diffusion follows the PT's electoral growth, at least until the early 2000s. However, when the PT took Federal Office, it abandoned Participatory Budgeting as a high priority policy, stimulating other forms of civil society participation instead. Although Lula’s 2002 presidential proposals included “to implement a national PB,” the proposal simply disappeared from the Party’s documents and debates after the election (BEZERRA, 2014). Similarly, while in Federal Office, the PT did not create any policy mechanism to promote local governments to keep adopting PB. The motivation for such drastic change in policy preference remains unexplained, by both scholars and the Party itself.

We argue that the set of fiscal rules created during the early 2000s reduced PB effectiveness by diminishing local budgetary discretion and limiting investment expenditure. Due to greater local budgets red tape, local governments have less capability to deliver the city works and improvements defined by citizens over the budget. Not being able to deliver works, citizenship participation loses its accountability effectiveness. Thus, the budget constraint makes the policy ineffective and will not generate the expected electoral returns. Such disincentives would explain a gradual policy abandonment. This argument, however, does not disregard other political and institutional intervening factors addressed by the literature, but it complements them.

The importance of investment resources has been mentioned by case studies (Luchmann 2002; Goldfrank 2007) and evidence gathered during interviews with PT leaders and bureaucrats and reinforced by news research helped to formulate the initial hypotheses: the loss of budgetary space would have affected the policy's political appeal and thus, PB decline would be explained by party adaptation to increasing budgetary rigidity.

Then, we tested it with a panel model using data from all Brazilian municipalities between 1996 and 2016. This model considered the efforts made in previous papers on participatory budgeting diffusion and decline (SPADA, 2014; WAMPLER, 2008), improving in data accuracy, economic variables and model specification. Our results show that budgetary variables are relevant both for explaining the first adoption as well as the continuity of PB implementation. The most significant factors correlated with PB first time adoption by a municipality are: 1) having PT as incumbent, 2) a bigger population, and 3) a higher budget per capita. Correlated with PB continuity, once adopted, the most significant factors are: 1) political-administrative continuity, 2) higher budget per capita and a 3) higher investment rate. These findings evince that cities with shorter space for budgetary maneuvers are more likely to abandon PB or never even adopt it. In short, having PT as an incumbent for more extended periods, a higher budget per capita, and investment rate are the key political and economic factors to explain long-time PB adoption.

This article is organized into three more sections and final considerations, in addition to this introduction. The first section presents how scholars addressed the topic and how our argument fills the gap in this debate. Next, we establish our hypothesis, explaining how legislation changes generated constraints that reduced mayors' discretions over budget allocation. The third section details our panel-data model and presents our main results[[3]](#footnote-4). Lastly, we present our final considerations.

# Participatory Budgeting: diffusion and retrenchment

While the emergence and expansion were the subject of numerous case studies, PB retrenchment in Brazil received little attention. That is not unusual for policy failures and abandonment in general, for both political and technical reasons such as lack of interest in highlighting failures and lack of data due to policy interruption (VOLDEN 2016; SPADA, RYAN 2017). In this regard, Participatory Budgeting studies seems to follow a common pattern to other policies. A policy may be considered a failure either for political reasons, such as public loss of support, or for technical reasons, such as little effectiveness in the problem it is meant to address. In either case, policy failures are expected to be abandoned (VOLDEN, 2016)

Participatory Budgeting was created in Porto Alegre in 1990, during PT’s first-time election in the city[[4]](#footnote-5). In 1992, more than half of PT newly elected prefectures adopted it, as well as other political parties. In 2000, almost all PT prefectures adopted PB, highlighting the importance the policy had to the Party. Although several other parties also implemented PB, PT accounts for 60% of the cases city halls with the policy that year. In 2004, PB reached its adoption peak with 137 cases in Brazil that year. In the following period, PB begins to decline gradually.

Below, Figure 1 presents three graphs with different perspectives on PB diffusion and retrenchment. The top graph (A) presents the general trend, all cases considered, for the whole period observed (1992-2016). The middle graph (B) shows PB cases by party ideology in absolute numbers, for the period 2000-2016[[5]](#footnote-6) and the lower one (C) presents data for the same period as a proportion of PB adoption over total mayors by party.

**Figure 1 - Participatory Budget over time in Brazil[[6]](#footnote-7)**

**Gráfico, Gráfico de linhas

Descrição gerada automaticamente**

**Data source**: TSE (Brazilian Superior Electoral Court), Spada (2012).

PB retrenchment occurs in a different intensity according to the political party. The numbers of PT remain almost stable in absolute terms until 2012, but considering the proportion over the total party mayors, it falls sharply from the year 2000. PB diffusion does not follow the PT electoral growth for the period 2000-2016.

Over these three decades of PB implementation, the scholarly approach on PB has moved from a civil society-centric view to gradually incorporate the role of representative political institutions and actors, such as governments and parties (SOUZA, 2016, 2021). Empirical displacements have followed the evolution of the object studied. When it was first created, in the early 1990s, the main concern was about its democratic deepening effects and civic engagement increase. The emphasis on the role of civil society stood out (AVRITZER, 2000, 2002; SANTOS, 1998), although there were already studies that highlighted the role played by the Workers' Party (ABERS, 1996). Methodologically, the analyses consisted in case studies of successful pioneering experiences such as the cities of Porto Alegre and Belo Horizonte.

In the 2000s, PB cases spread out in Brazil and other countries. Having more variability in the cases, studies began to point out insufficiencies on the explanatory factors such as associative tradition and rulers’ “political will” (LÜCHMANN, 2014). Critics on overly normative understandings of civil society role in the democratization of the state also gained visibility (DAGNINO, 2002; GURZA LAVALLE, 2003). Empirically, there was a significant number of comparative case studies, either in the same country or between different countries. The analytical focus was mainly on institutional design, political and institutional factors that explain PB success and possible effects on democracy (AVRITZER; NAVARRO, 2003; BAIOCCHI; HELLER; SILVA, 2008; GOLDFRANK, 2007; LÜCHMANN, 2002; WAMPLER, 2007).

As PB diffusion slows down in Brazil, other participatory forms such as Public Policy Councils and Conferences arise and PB studies are incorporated into a more general debate of participatory institutions (LÜCHMANN, 2014). Analytically, a relational approach, which states that participatory spaces are mutually constituted by state and social actors, advances against alternative views that valued one or the other (GURZA LAVALLE, HOUTZAGER; CASTELLO, 2006).

Worldwide, Participatory Budgeting keeps up its diffusion, with current efforts to understand the processes and mechanisms of national and international PB diffusion (OLIVEIRA, 2017). Although PB’s promotion was initially associated with leftist parties (GOLDFRANK, 2007; SINTOMER; HERZBERG; RÖCKE, 2008), its international diffusion underwent a process of ideological neutralization as it was embodied in the speech of multilateral agencies such as the World Bank (GANUZA; BAIOCCHI, 2012; OLIVEIRA, 2017). In different ideological, cultural, and economic contexts, it arises the challenge to compare the multiple possible PB designs, requiring scholars to elaborate concepts criteria and typologies that allow comparability between cases (SINTOMER; HERZBERG; RÖCKE, 2012).

Back to Brazil, Scholars converge on two sets of explanatory conditions for PB successful implementation and continuity: those related to political actors and institutions, such as parties, city councilors and mayors, and factors related to state capacity, such as budget availability and institutional infrastructure. On the political aspect, comparative case studies point out that the electoral continuity of incumbent political party, the degree of institutionalization of the opposition party, as well as the established relationship between executive and legislative branches are crucial for PB continuity in each municipality (BORBA; LÜCHMANN, 2007; DIAS, 2002; GOLDFRANK, 2007; NYLEN, 2003; SOUZA, 2011).

On the state capacity aspect, Goldfrank (2007) argues that the success of the Participatory Budget depends on greater administrative decentralization and, consequently, greater mayor discretion on budget allocation and resource availability. Luchmann (2002) also highlights resource availability and government infrastructure as key institutional elements. Nonetheless, institutional factors are considered important. Pires and Martins (2011) note that, at least in Brazil, there are no studies that analyze in-depth PB in its technical budget-financial dimension.

Souza (2021) analyzes the role of political parties during PB adoption, especially the incumbent party and its legislative coalition. Considering that the budget process involves both powers, PB adoption is necessarily involved in this political relationship. The author uses three cities counterfactual pairs analysis, in which all cases have adopted the PB and have similar sociodemographic characteristics, and the variation is on the incumbent party and its coalition. Her conclusions are, regarding only PT mayors, that the electoral strength, continuity and greater institutionalization of the Participatory Budgeting is related to smaller and more ideologically homogeneous legislative coalitions.

Quantitative analyses have endeavored to test both political and state capacity conditioning factors (SPADA, 2014; WAMPLER, 2008). Such efforts were limited partially due to the low reliability of the data available.[[7]](#footnote-8) Wampler (2008) analyses the effects of the PT as incumbent, Left Party Presence in the Legislator, Civil Society Networks, HDI, Region (South), and Investment Expenditure. The only significant factor for explaining diffusion in his work is the PT as incumbent party.

On his turn, Spada (2014) tests four hypothesis, based on political (the effects of having the PT as an incumbent party and the political vulnerability of local government), geographical (proximity with other cities with PB) and economic factors (the availability of resources). His findings reinforce that having the PT as incumbent is the key factor for PB diffusion. As the reasons for its retrenchment remain inconclusive in his model, he suggests that retrenchment of PB might be related to changes in Workers Party's political strategy, motivated by the election of Lula for Federal Office in 2002, following Hunter’s (2010) argument. According to Hunter, PT adopted PB as a strategy to reach the presidency, but once in the national government, they dumped the policy as it would have already accomplished its purposes. Her argument is based solely on literature review of case studies, but seen in connection with the absence of an expected national participatory budgeting (Baiocchi and Checa, 2007) and given that there were not other explanations for the decline of PB, the argument sounded plausible for most of the specialized literature.

However, Spada’s use of this argument is problematic for at least two reasons, one methodological and the other theoretical. On the one hand, Spada's model uses only year dummies variables (time fixed effects) to control for that, which means his argument is based merely on the fact that after 2002 the PB went into decline. Spada attributes this effect to Lula's arrival to the presidency, but many other things changed after 2002. We cannot understate fiscal, economic, and administrative changes, for example. On the other hand, Spada and Hunter gives no adequate explanation for PT’s changes in participatory policy preference. Given that the policy helped the party come to power in 2002, why did PT not keep it to win the next elections?

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Bezerra (2020) argues that it is not the arrival to the Federal Office that explains PB abandonment by the Workers’ Party, but something that came before: the relaxation of the party’s alliance policy. Having a stringent alliance policy, PT’s administrations at local level would be mostly minority governments, formed only with left parties. Aiming at the Presidential elections, PT redefined its policy to allow coalitions with center and center-right parties, allowing for broader coalitions in its governments. She argues that a more ideologically heterogeneous coalition will be less willing to bear political costs imposed on parliament by the PB. At the same time, it is no longer necessary for the party to approve its budget proposal since it is now governing a majority coalition.

In our view, PB abandonment was not mainly a PT’s planned national strategy but rather a bottom-up disappointment. The decline in PB adoption by all political parties (see figure 1), regardless of ideology (left-right) or positioning about the government (situation-opposition), suggests a diffuse mechanism promoting the gradual abandonment of the policy. If Participatory Budgeting continued to promote positive political returns on either technical or political grounds, one would expect that PT and other political parties would continue to invest in it. Our study addresses this literature gap by arguing that increasing fiscal constraints led to gradual policy abandonment, as local governments were unable to deliver citizens’ deliberated previously, leading frustration and the inefficacy of the participatory instrument. We explain this hypothesis in the next section.

# Increasing difficulties in implementing PB

PB design varies according to each place as there is no national or state level regulation on the issue. Citizen participation is a constitutional principle, but its specific implementation into the PB design and the way citizens participate may range from neighborhood assemblies to digital participation formats. There is also a significant variation of how much of the budget is put into debate: while Porto Alegre would present the whole budget, including revenues and expenses, Belo Horizonte would define every year a share of the investment rate to deliberation. Wampler (2007) is one of the few authors that offer a comparative analysis on several case studies, regarding the specific design and functioning of the PB in different cities. Also, Marquetti et alli (2008) also offer a book in which 5 different PBs are analyzed regarding their redistributive effects.

However, there is one main national regulation directly constraining PB implementation at local level: the fiscal legislation. And that is why understanding its functioning is key to understand PB variation itself in Brazil. Even if the mayor puts the whole budget into debate, like in Porto Alegre, citizens will only be able to decide on the use of the discretionary amount, which is mainly related to the investment expenses[[8]](#footnote-9).

Drawing on literature and interviews insights, PT leaders and bureaucrats mention a diffuse perception among them of increasing difficulties to implement citizens’ PB demands, albeit it is not explicitly in the party documents. Resources allocated via PB were not perceived as an effective tool to "answer to the demands of the population" because of "bureaucratic obstacles" that generated delays in the completion of the work beyond the fiscal year or even beyond the administration of the incumbent mayor. Despite the adequate disclosure of the citizens’ demands, the priorities defined in the PB process were only properly executed when they were simple projects, such as street paving and sidewalks. Any major project that demanded land expropriation or for which there was no available budget - and therefore demanded external financing from the state, federal government or through international means - ended up taking longer than the duration of the administration’s period for its completion.

What has changed for an awarded program to become increasingly difficult to be properly executed by local governments? During the late 1990s, there were gradual changes in fiscal regulation, which ended up consolidated into the Fiscal Responsibility Law (Lei de Responsabilidade Fiscal, Lei Complementar 101/2000, also known as LRF). The focus of the LRF is to ensure that all the federation's entities, especially states and municipalities, follow controlled and sustainable fiscal parameters.[[9]](#footnote-10)

Despite its positive effects on state and municipal fiscal balance, it had an undesired negative impact on local investment availability. Menezes and Toneto Jr (2006) demonstrate that, between 1998 and 2004, there was a sharp decline in investment expenditures of 21.7% as a direct consequence of the LRF. The authors also show that personnel and current expenditures were not affected, and that debt interest and charges and loan amortization expenditures increased. Schettini (2012) argues that in the event of a budget imbalance, the City Hall tends to make an adjustment by reducing expenditures against the option of increasing revenues. As most of the local budget is comprised of mandatory expenditures, the cut off has to be made on discretionary ones, such as investment.

Another federal regulation that had a great impact over local government fiscal autonomy during the 1990s was that of constitutional provisions of social policies, particularly health and education.[[10]](#footnote-11) Such regulations established compulsory social policy spending, decreasing the room for other expense types as investments. After the 1988 Constitution, Brazilian federalism moved towards decentralization, under centralized guidelines, of social services (ARRETCHE, MARTA, 2012; GUICHENEY; JUNQUEIRA; ARAÚJO, 2018). Despite had improved welfare service delivery, this institutional design gradually reduced the local government's budgetary autonomy.

Therefore, the fiscal and budgetary reality under which municipalities were at in the beginning of the 1990s is significantly different from that of the early 2000s. Although there has been an increase in the period, both in own taxes and transfers grants (LEITE; PERES, 2010), the binding among revenues and expenditures and the inertial increase in expenditures (PERES; MATTOS, 2017), has significantly reduced the local executive's room for budget maneuvers. This means that the current situation of local governments is of high budgetary rigidity, in which there is not only a large volume of income, but also a large volume of compulsory expenditure. Thus, even within a balanced budget, a local government may have little room to manage its discretionary investment budget (the only type of budget resource deliberated in PB process)[[11]](#footnote-12).

# Panel Data Analysis

**Hypothesis**

Our hypothesis is that local governments gradually stop adopting PB because of increasing fiscal and administrative constraints. The set of fiscal regulations created throughout the 1990s directly affects PB effectiveness because it limited the local fiscal discretion by reducing investments expenditures (public projects)[[12]](#footnote-13) and increasing budgetary rigidity, through revenue and expenditure binding. This hypothesis has been formulated based on both fiscal policy and participatory literature as well as insights from interviews with PT leaders and bureaucrats that participated of PB implementation in Porto Alegre, Fortaleza and São Paulo in different time periods[[13]](#footnote-14).

If our hypothesis is correct, we should expect our model to predict that municipalities with higher investment expenditures, a budget flexibility proxy, are more likely to adopt and continue PB.

## Model

Our model tests the probability of adoption and continuity of PB in Brazilian municipalities, having as a baseline Spada’s model (2014), which incorporates most of the variables described by qualitative and quantitative literature (DIAS, 2002; NYLEN, 2003; SOUZA, 2011; WAMPLER, 2008). From this baseline, we add other variables to address the issue and completely reformulated the functional form of the model to deal with the interactive and temporal nature of the variables. For example, some variables do not influence the chance of PB if in the previous period the city does not have PB (adoption), but the same variables are significant if the city already have PB (continuity). As a result, our model became much more complex, but also more accurate than previous efforts.

We grouped our model covariables into three sets: economic, demographic, and temporal adjustment variables[[14]](#footnote-15). First, to verify our hypothesis, we use as financial variables the municipal budget per capita and the rate of investments (in relation to the total budget). These variables have a strong and consistent effect of predicting the chances of a municipality adopting PB[[15]](#footnote-16). Second, we add population in its natural logarithm as a control variable. As population correlates to a series of factors,[[16]](#footnote-17) ignoring this variable may bias the model. We use interactive models to demonstrate that left and right parties have a different probability of adopting PB according to population size. Third, we model the path dependence, or temporal adjustment variables. We chose to work with interactive modeling, using the complete sample and interacting the existence of PB in the previous period with highly significant variables to explain the chance of continuity or abandonment. For descriptive statistics of the variables, see Table 1, in the Appendix.

The analysis follows a panel data model with fixed effects of time. The model follows the following basic reasoning, with the respective matrices of variables detailed below:

*𝐸(PB𝑖,t) = 𝛼 + 𝛽1PATHi,t + 𝛽2𝑃𝑂𝐿i,t + 𝛽3𝐸𝐶𝑂i,t + 𝛽4POPi,t + 𝛽5 INTi,t + 𝛽6 FEi,t + ɛi,t*

1. PB Variable: The dependent variable is a dummy, with value one, when the municipality adopts PB for that term, and zero, when not adopting the program. For cases valued as one, the PATH variables inform if there is a new adoption or a continuation of the program already adopted in previous administrations.

2. Path Variables (PATH). To evaluate the effect of path dependence, we use two variables. The first is whether the municipality had PB in the previous period or not; that is, the lagged dependent variable. The second is the amount of accumulated periods during which the municipality adopts PB. The assumption of this last variable is that the longer the policy stays in the city, the more difficult it is to remove it.

3. Political variables (POL). These variables include partisan control variables, political continuity, and political vulnerability variables. First, for partisan control variables, we use a dummy variable that has value 1 when the incumbent mayor is a PT partisan[[17]](#footnote-18). We also insert a variable indicating whether the incumbent is from a left leaning party (PT, PSB, PDT, PCdoB and PSOL[[18]](#footnote-19)) to control for the effect of the left in general (not just PT) on the probability of PB adoption. Finally, we control for different PT behavior before and after it takes federal office in 2003, by using a dummy that has value 1 for the periods after 2003.

Second, we control for political continuity effects. For that, we use a dummy that has value 1 in cases where there is party continuity, and another dummy that takes value 1 if there is a mayor continuity (re-election). These variables may overlap, but there are cases in which the mayor has a successor from the same party (because they cannot be reelected anymore due legal limitation of one re-election, for example) or cases in which mayors switch parties (and reelects themself). If a party or a mayor adopts PB in the first term, we expect that he is more likely to also do so in the second term.

Third and finally, we control for the mayor's political vulnerability, measured by the runner-up over the winner’s ratio vote and by the percentage of City Council seats (legislative body) occupied by the City Hall incumbent party.

4. Economic and Fiscal Variables (ECO). Our hypothesis - that the availability of investments correlates with the occurrence of PB - is measured by the investment rate (total investment over total expenditure). We also use the municipal public budget per capita (in its natural logarithm) as a control variable, for there might be other discretionary expenditures not captured by our first variable and because cities with larger budgets tend to have better staff and higher administrative capacity.

5. Population or scale variables (POP). We use the natural logarithm of the population as a control variable. From the descriptive statistics, larger cities adopt PB proportionally more than smaller cities.

6. Interactions (INT). We present three types of interactions terms. The first set of interactions uses the lagged dependent variable to explain which political and financial factors are the most important to explain PB’s adoption and continuity. For political continuity, we use two interactions of PB lagged variables: mayor and party reelection. Regarding financial variables, also another two interactions with PB lagged variable: investment rate and total budget per capita (log). The second set of interactions uses the population (log) to check how party behavior change according to size of the city. We interact population (log) with the following variables: PT mayors, left leaning mayors and PT mayors after 2002. Finally, the last interaction term is between total budget per capita (log) and investment rate, to check if the amount of investment is relevant and not only the share[[19]](#footnote-20).

7. Fixed Effects (FE): These are dummies for each analyzed period. The fixed effects model aims to capture influences not explained by the model variables in a certain period. That is, how much unknown factors explain changes observed in a specific period. The database contains five periods: 1997-2000, 2001-2004, 2005-2008, 2009-2012 and 2013-2016 The first two refer to periods of PB diffusion and the last three are periods of PB retraction.

We used two models in this study, derived from the basic equation above. The first one uses all the terms of the equation presented above, except the interactions. This model is more easily interpreted by simply looking at the coefficients on Table 2 (see appendix). The second model includes the interactions. As the interpretation of interactive models is not very intuitive (BRAMBOR; CLARK; GOLDER, 2006), we use a graphical approach to present and discuss the results (for the complete regression table, see Table 2, in appendix). Both for the non-interactive and for the interactive models, we ran a Fixed Effects Linear Predicted Model (LPM), which simply consists of the ordinary least squares method on a binary dependent variable. We also tested the same variables with the Logit model (not shown), whose results did not differ significantly from the LPM.

## Data Sources

Our database was drawn from four different sources[[20]](#footnote-21). Our dependent variable comes from the Brazilian Participatory Budgeting Census for the 1989-2012 period[[21]](#footnote-22) (SPADA, 2012), which unified and updated available data on existing Brazilian Participatory Budgeting (AVRITZER; WAMPLER, 2004; RIBEIRO; GRAZIA, 2003). The variable is a dummy that informs about the existence or not of Participatory Budgeting in a municipality, for each administration period. Only municipalities with more than 50 thousand inhabitants in 1996 are considered. The data use as reference the existence of PB in the municipality during the three years preceding the reference year, which is always the end of the political term. For example, the year 2000 refers to mayors elected in 1996 for the 1997-2000 term.

Our political variables come from official electoral data from the Brazilian Superior Electoral Court (TSE), pre-treated by CEPESP Data.[[22]](#footnote-23) For financial variables, we used dataset provided by the National Treasury Department of the Ministry of Finance (STN/MF) called Brazil Finances: Accounting Data of Brazilian Municipalities (FINBRA).[[23]](#footnote-24) All data were deflated, using 2015 as reference year. Finally, for the demographic data (population) we used the Brazilian Statistics and Geography Institute (IBGE) data, pre-treated by the Applied Economics and Planning Institute (IPEA) data.[[24]](#footnote-25) For all financial data, we use the average of the four years period to avoid distortions caused by atypical economic behavior in a specific year.

## Main results

Our results demonstrate that the most significant factors for explaining a PB adoption by a municipality at least once are having PT as incumbent party, a bigger population and a higher budget per capita. The factors that stood out to explain PB continuity are budget per capita, political-administrative continuity and a higher investment rate. These results are consistent with our initial hypothesis, but they add more complexity to the issue. The investment rate is relevant only for explaining PB continuity, not its first-time adoption, which budget per capita explains better. Population is *per se* a relevant explanatory variable, and in interaction with political parties, shows the existence of a different behavior according to the size of the city.

To analyze the interaction effects of the lagged dependent variable, population and the other variables in our complete model, we use a graphical approach, since interpreting interactive models from regression tables is not intuitive. In these graphs, the vertical axis displays the expected values of the dependent variable, *E(PBi,t  = 1)*, that is, the chance of any city adopting PB in a given year. The horizontal axis displays selected independent variables in interaction. All other model variables not displayed in the graph are in its mean values. All graphs also show the confidence intervals of 95% of the estimates. Except for figure 4, there is a histogram (out of vertical axis scale) in the background that shows the distribution of the horizontal axis variable. Thus, it is possible to check where most cases are. The values were calculated using Zelig R Package (IMAI; KING; LAU, 2008). The complete interactive model estimates table is available in the appendix (Table 2). The main findings of this study are:

**PT (and the left) as incumbent.** As expected and similar to other scholars’ results (SPADA, 2014; WAMPLER, 2008), having PT as the incumbent is a strong predictor of PB adoption and political continuity as well, with a significant drop after 2003. The PT effect in the non-interactive model must be interpreted by combining two variables: the PT and the PT after 2003. For before 2003, having the PT in charge of a prefecture increases its probability of adopting PB by 78% (PT as incumbent: *β = 0.68*, and left party as incumbent: *β = 0.1*). However, the variable PT as incumbent after 2003 presents a negative coefficient (*β = -0.43*). As these variables derive from each other, they must be considered together for proper interpretation: thus, after 2003, a PT prefecture still has a 35% higher probability of adopting PB in comparison to the other parties. That is, even if there is a significant drop, PT remains an important predictor of PB adoption.

**Figure 2 – Expected Values of PB with PT incumbent mayor**

**Gráfico, Gráfico de barras

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**Source:** expected values of model 2 (appendix - Table 2)

**Figure 3 – Expected Values of PB, Demography and Ideology**

**Gráfico

Descrição gerada automaticamente**

**Source:** expected values of model 2 2 (appendix - Table 2)

**Figure 4 – PB and administrative continuity**

**Gráfico, Gráfico de caixa estreita

Descrição gerada automaticamente**

**Source:** expected values of model 2 2 (appendix - Table 2)

**Population.** Looking at the population variable, it shows the tendency of PB to occur more often in large cities. In fact, the mere descriptive statistic shows that 88% of Brazilian municipalities with more than 500,000 inhabitants have adopted PB at least once, a number that falls sharply as the population size decreases. This may help to explain how PB became a famous showcase program, even though it does not have a massive diffusion in Brazilian municipalities. Before 2003, PT also concentrated its presence in medium and large cities, a fact that changes after it takes federal office, when the party begins to spread to small towns. Figure 2 displays the interaction between the PT and the municipal population, before and after 2003. It shows that the PT effect decreases in small and medium-sized cities. In cities with more than 1 million inhabitants, PT influence over PB adoption remained at a level of 80% for the whole period. In figure 3 we have extended the analysis by comparing the chances of PB adoption in cities with PT mayors, other left-wing mayors, and centrist or right-wing parties. It can be seen that the OP is strongly correlated with leftist parties, especially in big cities.

**Political Continuity:** The political-administrative continuity analysis considers three variables: the continuity of the party and the mayor, and their interaction with PB adoption in the previous term (lagged dependent variable). We present thus four scenarios: (a) re-elected mayors who did not adopt PB in their first term; (b) re-elected mayors adopting PB in their first term; (c) Same party succession where the previous administration did not adopt PB; and, (d) Same party succession where the previous administration adopted PB. Figure 4 shows that re-elected mayors or parties who did not adopt PB in their first term, have a very low chance of adopting PB in the following one: around 6% and 12%, for mayors, 11% and 18%, for parties, with 95% confidence. The situation changes when the previous administration already adopted PB. In this case, the re-elected mayors have between a 29% and 41% chance of continuing PB, and a same party successor, between a 29% and 44% chance of keeping everything more constant. That is, even in the case of political continuity, the tendency of mayors is to abandon PB after the first adoption in more than half of the cases[[25]](#footnote-26). Another important variable to analyze is the effect of accumulated years of PB adoption (PB Accumulative variable). As expected, the longer the program is implemented in the municipality, the greater its tendency for continuity: an increase of about 6.5% points in the chances of continuity for each accumulated year, regardless of changes of party or mayor.

**Figure 5 – Estimated effects of Budget per capita on PB probability**

**Gráfico

Descrição gerada automaticamente**

**Source:** expected values of model 2 2 (appendix - Table 2)

**Figure 6 – Estimated effects of Investment rate on PB odds**

**Gráfico, Gráfico de barras

Descrição gerada automaticamente**

**Source:** expected values of model 2 2 (appendix - Table 2)

**Financial Variables:** The results show that the budget per capita is an important predictor for PB adoption and continuity. Figure 5 displays PB adoption probability through the interaction of budget per capita (log) and the lagged dependent variable, showing separately the effect in the case of first-time PB adoption, *E(PBi,t = 1| PBi,t-1 = 0)*, and the effect of PB continuity, that is, PB adoption in a previous administration, *E(PBi,t = 1| PBi,t-1 = 1)*. The figure shows that the increase in budget per capita increases the municipality's chances to both adopt and continue PB. This finding corroborates our hypothesis that better fiscal capacity increases the chances of a city apply PB.

The investment rate, on the other hand, presents a remarkably difference in behavior between municipalities which have previously adopted PB and which do not, as shown in Figure 6. Municipalities that have already adopted PB have a greater chance of continuing to adopt the program if they have larger investment expenditure. This finding is consistent with our hypothesis. However, for cases where there is no previous PB adoption, the is no significant correlation between investment rate and the probability of adopting the program.

Our model presents important findings that confirm our initial hypothesis that municipalities that have more budget availability are more likely to adopt and continue PB. The data show that municipalities with higher budgets per capita are more likely to adopt and continue PB and investment rate is an adequate predictor for the continuity of the program. In this way, we can affirm that, increasing budgetary rigidity contributed to the decline of PB, both by reducing its effectiveness and imposing constraints on its continuity, as our qualitative research had already suggested.

In addition to demonstrating that financial variables are key to understanding the process of a declining PB adoption rate, our model innovates by adding interactive analysis and incorporating the population and administrative continuity variables. Unlike in the analysis by Spada (2014), apart for party and political continuity variables, other political variables did not appear as statistically significant in any of the several models tested.

# Final considerations

In the early 1990s, Brazilian municipalities had apparently smaller budgets but greater room for budgetary maneuver, for there were fewer fiscal regulations (and thus, local governments largely used resources by creating future debts) and less revenue and expenditure linkages. This scenario changes drastically with the subsequent set of fiscal regulations, notably the LRF. Besides its explicit scope for promoting financial equilibrium of the Federation, it also had some unintended consequences, such as decreasing local investment expenditures. In addition, social policies legislation, in order to guarantee the right for education and health services, created revenues and expenditures linkages for federal transfers to local government, which also increased local budgetary rigidity.

By the time the PT is elected to federal government, PB was the party’s main showcase policy, adopted massively by its prefectures (93% of PT prefectures adopted PB for the period of 1996-2000 and 87.5% for the period of 2000-2004). Taking Federal Office represented new policy opportunities and political priorities, at the same time during which PB cases began to not have the same positive results as before.

The distributive conflict for budget resources among the various interested actors in the executive and in the legislative is increased. In this context of strong budgetary rigidity and scarcity of resources for new investments in municipalities, the maintenance of Participatory Budgeting as a local participation policy would require some type of incentive regulation. Such federal incentives are common and occur in cases of Social Policy Councils with high dissemination (GURZA LAVALLE, BARONE, 2019; MAYKA, 2018), or even in the case of PB in Peru, where there is a national law that obliges all municipalities to adopt Participatory Budgeting (OLIVEIRA, 2017). In the absence of other political or fiscal incentives, the program follows a trajectory of inertial discontinuity, being gradually abandoned.

What makes a policy successful is its effectiveness in delivering a public service or good. In the case of PB its effectiveness is related to its ability to fulfil its participatory goal: to allow the population to decide the priorities of budget and to see such priorities to be implemented. The availability of resources is a key a condition for its implementation. As an spin off effect, politicians are expected to be electorally rewarded if they implement effective policies, thus creating incentives for politicians to continue its implementation.

On the other hand, with shorter resources, it is harder to deliver good services and, in the case of PB, there may be a perception of ineffectiveness of the participation: the citizens define the priorities, but there is no budget to deliver the goods or services. This generates frustration among citizenship and disincentives politicians to adopt PB.

In summary, we argue that due to gradual changes in fiscal legislation, which have led to a greater rigidity of municipal budgets, as well as administrative obstacles to the execution of works, the effectiveness of the decisions made by the population on the budget has been reduced. In such a scenario, and without creating new institutional incentives for PB, new adoptions were discouraged, and only long-term successful cases tended to continue. For 2003-2016 period, PT stops promoting PB and seizes other participatory policy alternatives in the federal government,[[26]](#footnote-27) such shift intensifies PB retrenchment.

Our argument original contribution relies on the reasons for PB discontinuity. As for the first time adoption our model reinforces the previous findings (both in quantitative and qualitative studies), that there is an important connection between the Worker’s party incumbency and the adoption of PB in the municipality. However, there is no major consensus in the literature for to the reasons for the PB abandonment, which so far had been explained strictly as a PT top-down decision (Hunter, 2010, Spada 2014): the party main goal would be to achieve national presidency and, once it was reached, the party preferences changed. Our results, on the other hand, provide a alternative explanation, based on the policy lowering effectiveness and increasing political costs, resulting in a bottom-up disappointment, which also explains its gradual abandonment.

However, this argument e is centered in economic and fiscal constraints and, therefore, does not exclude political and institutional factors to be considered jointly for a broader and stronger explanation, especially considering PT’s prominent role in promoting PB. The explanations related to the PT alliance flexibility (Bezerra, 2020; Souza 2021) and the party’s victory to National Office (Spada 2014, Hunter 2007, Baiocchi and Checca 2007) are in a way are interrelated events, as the first one has been a condition to the second. PT was not able to fully implement its original program, having to negotiate with its allies several policies, having won National Office in a broad and ideologically heterogeneous coalition, PT, among which, its participatory policies. However, the perception of a policy failure due to fiscal constraints, in such a scenario, remains a key explanation for the Party policy preference change.

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**Appendix**

**Table 1 - Summary Statistics**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Statistic | N | Mean | St. Dev. | Min | Max |
|  | | | | | |
| Participatory Budget (PB) | 2,182 | 0.20 | 0.40 | 0 | 1 |
| PB in t-1 (LDV) | 2,182 | 0.19 | 0.39 | 0 | 1 |
| PB Accumulative | 2,182 | 0.31 | 0.79 | 0 | 6 |
| City Population | 2,182 | 249,539.80 | 663,983.00 | 37,374 | 12,038,175 |
| PT Mayor | 2,182 | 0.15 | 0.35 | 0 | 1 |
| PT Mayor After 2002 | 2,182 | 0.13 | 0.34 | 0 | 1 |
| Left Party (including PT) | 2,182 | 0.30 | 0.46 | 0 | 1 |
| Party continuity | 2,182 | 0.29 | 0.45 | 0 | 1 |
| Mayor Continuity (re-election) | 2,182 | 0.23 | 0.42 | 0 | 1 |
| Mayors Vulnerability | 2,182 | 0.72 | 0.25 | 0.02 | 4.02 |
| Mayors Legislative Power | 2,182 | 0.20 | 0.11 | 0 | 1 |
| City Budget per capita | 2,182 | 1,678.65 | 920.25 | 150.29 | 8,618.58 |
| Investment Share | 2,182 | 0.10 | 0.05 | 0.004 | 0.32 |
| City Population (log) | 2,182 | 11.85 | 0.84 | 10.53 | 16.30 |
| City Budget per capita (log) | 2,182 | 7.30 | 0.51 | 5.01 | 9.06 |

**Table 2 – Regression Models**

|  |  |  |
| --- | --- | --- |
|  | Dependent Variable: Participatory Budget (PB) | |
|  |  | |
|  | Basic Model | Interactive Model |
|  | (1) | (2) |
|  | | |
| Lag Dependent Variable (PBi,t-1) | 0.083\*\* (0.034) | -0.060 (0.323) |
| PB Accumulative | 0.068\*\*\* (0.016) | 0.064\*\*\* (0.017) |
| Population (log) | 0.078\*\*\* (0.009) | 0.060\*\*\* (0.011) |
| PT Mayor | 0.694\*\*\* (0.069) | 2.032\*\* (0.930) |
| PT Mayor After 2002 | -0.432\*\*\* (0.070) | -1.108 (0.936) |
| Left Party (including PT) | 0.111\*\*\* (0.020) | -0.911\*\*\* (0.264) |
| Party continuity | 0.007 (0.020) | -0.037 (0.023) |
| Mayors Vulnerability | -0.002 (0.030) | 0.002 (0.029) |
| Mayors Legislative Power | -0.058 (0.072) | -0.043 (0.071) |
| Mayor Continuity (re-election) | -0.041\* (0.022) | -0.052\*\* (0.024) |
| City Budget per capita (log) | 0.069\*\*\* (0.018) | 0.124\*\*\* (0.034) |
| Investment Share | -0.254 (0.158) | 2.928 (1.855) |
| Year Dummies 2004 | 0.135\*\*\* (0.024) | 0.146\*\*\* (0.024) |
| Year Dummies 2008 | 0.043\* (0.026) | 0.054\*\* (0.026) |
| Year Dummies 2012 | -0.055\* (0.028) | -0.045 (0.028) |
| Year Dummies 2016 | -0.159\*\*\* (0.029) | -0.154\*\*\* (0.030) |
| Population (log) \* Left Party |  | 0.085\*\*\* (0.022) |
| Population (log) \* PT Mayor |  | -0.110 (0.077) |
| Population (log) \* PT Mayor After 2002 |  | 0.052 (0.077) |
| LDV \* Mayor Continuity (re-election) |  | 0.034 (0.051) |
| LDV \* Party continuity |  | 0.193\*\*\* (0.049) |
| LDV \* Investment Share |  | 1.192\*\*\* (0.402) |
| City Budget per capita (log) \* Investment Share |  | -0.458\* (0.256) |
| LDV \* City Budget per capita (log) |  | -0.006 (0.043) |
| Constant | -1.293\*\*\* (0.154) | -1.458\*\*\* (0.263) |
|  | | |
| Observations | 2,182 | 2,182 |
| R2 | 0.324 | 0.342 |
| Adjusted R2 | 0.319 | 0.335 |
| Residual Std. Error | 0.329 (df = 2165) | 0.325 (df = 2157) |
| F Statistic | 64.952\*\*\*   (df = 16; 2165) | 46.775\*\*\*  (df = 24; 2157) |
|  | | |

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

1. Acknowledgments omitted for blind review. [↑](#footnote-ref-2)
2. The government that received such an award was the prefecture of Belo Horizonte, capital of the state of Minas Gerais, during Patrus Ananias’ (PT) administration (1993-1996), and not Porto Alegre as some might assume. For complete information check UN Habitat Best Practices Database: <http://mirror.unhabitat.org/bp/bp.list.aspx>. [↑](#footnote-ref-3)
3. This section has three subsections: Hypothesis, Model, Data Sources, Main results. [↑](#footnote-ref-4)
4. Other cities in Brazil have had previous experiences of citizen’s participation on the budget allocation, like Lages (SC) and Boa Esperança (ES) (BAIOCCHI, 2003), but the name and assembly format were elaborated in Porto Alegre (BEZERRA, 2020). [↑](#footnote-ref-5)
5. There is no complete electoral dataset available for Brazilian municipal elections prior to 1996. This absence affects data for the year 1996, as we consider the whole municipal term (1993-1996) to count the cases. In Brazil, since the 1988 Constitution, terms at all federation levels last 4 years and municipal elections happen alternated with general elections (Federal and State Level). That is, every 2 years, Brazil has a massive electoral process, eg. in 2020 we had our last municipal election and in 2022 it will happen the next general election. [↑](#footnote-ref-6)
6. Center parties are PMDB, PSDB and PV. Other Left-wing parties are PSB, PDT, PC do B and PSOL. All other cases (22 parties) are labeled as right-wing parties. Only cities with more than 50,000 people in 1996 were considered. Given that the 1992 election data is missing, we cannot show the 1996 party information. The complete list of party acronyms and their ideological classification is in the paper git repo (see note 20 for repo link; file “doc/Tables/Party Appendix.docx” ). [↑](#footnote-ref-7)
7. Until the release of the Brazilian Participatory Budgeting Census (SPADA, 2012), the data available about Participatory Budgets in Brazil was sparse and imprecise. Among the efforts undertaken, we have an initial survey from the National Forum of Popular Participation (FNPP), for the period 1989-1996, to which Ribeiro and Grazia (2003) added data for the period 1997-2000. Finally, Wampler (2008) enlarges the survey for the period 2000-2004. That is, for each period we had a different methodology of data collection, which makes comparison and reliability difficult. There are also authors such as Fedozzi, Lima and Martins (2014) who use data gathered by the Brazilian Participatory Budgeting Network (RBOP) for the period (2009-2012). We did not find any clear description of the methodology used by that network and its site is down ([www.redeopbrasil.com.br](http://www.redeopbrasil.com.br)). Thus, the effort undertaken by Spada (2012), with a detailed and uniform data collection methodology, is unique. [↑](#footnote-ref-8)
8. In Brazil, the budget expenditure may be classified as current (defrayal + transfers) or capital (investment + financial investment). Current expenses respond of the cost of the public service provision such as personnel, maintenance and consumables. As current expenses guarantees the continuity of a public service that is already working, most of it has become mandatory by law. Capital expenses, on the other hand, contribute to increasing public patrimony such as public works, land and equipment acquisition or companies capital increase. As it is related mostly to new things, it is mostly discretionary. We chose to use only investment, isolating it from strictly financial expenditures, to capture more precisely the material investment, which includes all urban works, from street paving, lighting and sewer installing to building a viaduct or monument. [↑](#footnote-ref-9)
9. The LRF is not only about general expenditure control. There is also a specific focus on personnel expenditure and adequate use of federal transfers into health and education policy systems (LEITE; PERES, 2010). Among the main innovations there are: limits on personnel expenditure and indebtedness; restrictions on the anticipation of budget revenue; and the prohibition of the creation of long-term future expenditure (more than two years) without prior source of funding. [↑](#footnote-ref-10)
10. The most important legislation is the Education Basis and Guidelines Law (*Lei de Diretrizes e Bases da Educação* - Lei n 9394/1996, also known as LDB) and the creation of the National Fundamental Education Fund (FUNDEF - *Fundo Nacional do Ensino Fundamental* - Constitutional Amendment 14/1996), changed to FUNDEB - *Fundo Nacional da Educação Básica,* in 2006. On health policy, the Constitutional Amendment 29/2000 introduced a binding of 15% of tax revenues for health expenditure. [↑](#footnote-ref-11)
11. Despite not being our focus here, there is evidence that administrative rigidity has also become greater in the period 1992-2016. According to Motta (2010), the succession of corruption scandals in Brazilian politics, especially in public procurement, resulted in new regulations that increase the red tape and legal risk of public purchases, making these processes more costly and inefficient. [↑](#footnote-ref-12)
12. The qualitative data has also shown a relevant impact of bureaucratic procedures and low local state capacities over the delay of the public works delivery. Although relevant, such issue will not be the focus of analysis in this paper. [↑](#footnote-ref-13)
13. These interviews were part of another research effort, focused on the analysis of PT’s national participatory policies, and will not be explored in this paper. Although the interviews insights were important for our hypothesis elaboration, this paper does not intend to be mixed-method research as there is no integration between methodologies. Detailed information on the interviews can be found on XXXXX (omitted for blind review). [↑](#footnote-ref-14)
14. We do not use the geographic variables of the Spada model (2014). This option occurs due to the lack of significance in the original model with respect to continuity and no theoretical reason to try a different measure. [↑](#footnote-ref-15)
15. Spada (2014) uses other financial variables (percentage of tax collection on total revenue and total expenditure on total revenue), finding no statistical significance. In fact, these are not the most adequate to analyze neither the volume of resources available nor the fiscal discretion of municipalities. [↑](#footnote-ref-16)
16. Larger cities tend to have a higher tax collection, higher budgets, and better bureaucracy, for example. [↑](#footnote-ref-17)
17. We are referring to the incumbent mayor, not a recently elected mayor. Thus, for the variable to have a value of 1 in a given city in 2000, it is necessary that a PT mayor be elected in that city in the 1996 election, for the 1997-2000 term. [↑](#footnote-ref-18)
18. These parties (except for PSOL) are very likely to make alliances with the PT. Other Brazilian left parties were not considered in this study for not holding office at any City Hall. [↑](#footnote-ref-19)
19. It is not possible to add the amount of investments per capita in the model, as there would be perfect collinearity with it and total budget per capita and investment rate. [↑](#footnote-ref-20)
20. The complete database and model replication codes are available at: <https://github.com/Murilojunqueira/FinancasParticipacao2018> . [↑](#footnote-ref-21)
21. The data and methodology of the Brazilian Participatory Budgeting Census for 1989-2012 are available at: https://participedia.net/en/content/brazilian-participatory-budgeting-census. We are grateful to Paolo Spada for generously sending us his dataset updating for 2016 year. [↑](#footnote-ref-22)
22. TSE stands for “Tribunal Superior Eleitoral”. CEPESP FGV is a Brazilian Research Center. For more information, please visit: http://www.cepesp.io. For the 1996 election, we use information obtained directly from the TSE website, since this election is not on Cepesp dataset. [↑](#footnote-ref-23)
23. STN/MF stands for “Secretaria do Tesouro Nacional do Ministério da Fazenda”. FINBRA stands for “Finanças do Brasil: Dados Contábeis do Municípios Brasileiros”. For more information, go to: <http://www.tesouro.fazenda.gov.br/contas-anuais>. [↑](#footnote-ref-24)
24. IBGE stands for “Instituto Brasileiro de Geografia e Estatística”. IPEA stands for “Instituto de Planejamento e Economia Aplicada”. For more information, go to: <http://www.ipeadata.gov.br>. [↑](#footnote-ref-25)
25. As mentioned, figures consider the non-displayed model variables in their average value. If we estimated the expected values of the right-wing mayors who did not adopt PB in their first term, the values would be even lower. If we estimated the expected values of PT's mayors for PB continuity, the values would be much higher. [↑](#footnote-ref-26)
26. During the period as head of the Federal Office (2003-2016), PT kept its participatory program by expanding so called National Public Policy Councils and Conferences (BEZERRA, 2019). [↑](#footnote-ref-27)