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Improving social development in Brazil through an open budget perspective

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IMPROVING SOCIAL DEVELOPMENT IN BRAZIL THROUGH AN OPEN BUDGET PERSPECTIVE

Does collaborative stakeholder engagement matter?

Welles Abreu and Ricardo Gomes

Introduction

This chapter discusses the importance of external collaborative stakeholders as drivers of open budgets intended to assist social development. Its main purpose is to test whether external collaborative stakeholders are engaged in developing open budgets in order to affect better social development. The presence of a collaborative environment around external stakeholder influence and initiatives with open budgets could be a key element in facilitating social gains.

In this context, social development means an improvement in the individual quality of life and the welfare of society’s members (Davis 2004). Governments that prioritise people’s opinions in their decision-making processes should include them in the development process of socially progressive policies (Department for International Development 2006).

Governance theory proposes that multiple stakeholders need to be gathered in forums with public agencies in order to promote consensus-oriented decisions. According to Osborne (2006), this is the core of the pluralistic nature of institutional relationships between government and society. Hence, governance relates to the public administration decision-making process, which is based on institutions and procedures related to citizens’ voice and public concerns (Bovaird 2005).

Such open budget discussion facilitates collaboration in public policy decision-making process, whatever the budgetary phase – drafting, approval, execution, or auditing (Ling and Roberts 2014). The definition of an open budget is the provision of societal and citizen access to public policy information and participation, with accountability as a key perspective (Khagram, Fung and De Renzio 2013). The foundations of open budgeting involve the disclosure of budgetary information as well as free access to government procedures by citizens, engagement of the community in public policy decisions, and holding public authorities accountable by enforcing budget controls (Jinguang and Xianyong 2011).
According to Emerson, Nabatchi and Balogh (2012), collaboration in the governance model happens in public policy decision-making processes based on budgetary actions that are transparent, participatory and accountable in their structural arrangements. In these government processes, external stakeholders with a collaborative attitude are likely to drive decisions about governance outcomes by including social commitment in the budgetary process (Department for International Development 2006).

Collaborative stakeholders influence the strategic management process (Keijzers 2003) by contributing to the improvement of the delivery of public products and social services (Svendsen 1998). Therefore, support from external collaborative stakeholders is likely to induce government actions for delivering social policies focused on responsiveness to the aims of the society (Gomes, Liddle and Gomes 2010).

This study uses structural equation modelling as a methodological tool to help test the complex links formed between external collaborative stakeholders, open budgets, and social development. The availability of budgetary resources moderates the governance process by constraining the capacity to meet social policy needs. Brazil has a great deal of relevant data available for municipalities (economic and geographic statistic surveys, and government agencies’ databases). Moreover, the position of Brazil in the 2012 Open Budget Survey indicates it is an important and influential actor worldwide in such developments.

The chapter is structured as follows. First, in order to provide a better understanding of the case of Brazil, a brief history of its public administration, public service budgeting, and social development is presented. Some theories that support the thesis that social development is likely to be explained by these types of relationship between government and society are presented. The methodological aspects are presented in the next section, and the research design described. Results and discussions are then presented, where empirical evidence is gathered. In the conclusion, different aspects supporting the idea that the engagement of external collaborative stakeholders is a core element of the open budget approach for social development are recapitulated.

The Brazilian context

The recent institutional changes in public administration that were designed to implement the governance model are related to the introduction of open initiatives in budgetary processes to achieve better social policy results (Ferreira et al. 2016). In the following sections, a short historical account of Brazil is presented.

Brazilian public administration

Brazilian Public Administration is a complex institutional system that focuses on the governance model for government reforms at all levels: federal; state; and municipal (Abrucio 2005). However, less than a century ago, Brazil had a patrimonial model, based on privilege and private interests in the public policy processes (Bresser-Pereira 2009). Only in the 1930s did Brazil start reforms to reform such historic arrangements, with the purpose of establishing formal, impersonal, and meritocratic control over procedures, with a formal hierarchy acting in the public interest (Bresser-Pereira 1996).

In the 1990s, the Brazilian government introduced reforms based on the ideas underpinning new public management or NPM (Osborne 1994). These reforms concentrated on: (a) resource decentralisation – allocation to local levels; (b) administration; (c) decentralisation – empowerment; (d) reducing levels in the hierarchy; (e) management by results; and (f) administration focused
Improving social development in Brazil

on service to citizens. This process was steered by a Brazilian Master Plan, which was modelled upon the United Kingdom’s state management reforms carried out by Margaret Thatcher (Bresser-Pereira 2010).

The Fiscal Responsibility Act of 2001 (Constitutional Law No. 101) is one result of this process, which, together with complementary institutional changes, culminated in Brazilian Budget Management Reform (Core 2004), which was significant new development in terms of public administration.

The enthusiasm for NPM did not last, in various of the adopting countries and in Brazil. In the 2000s, concerns about governance turned toward institutional changes focused on the advance of social democracy (Peci, Pieranti and Rodrigues 2008). According to Knopp (2011), Brazil is still in a consolidation process. It is following an international trend to focus on issues related to the creation of:

• more inclusive policy spaces, with transparency, participation, and accountability initiatives;
• setting a legitimate public policy agenda to build trust between government and society; and
• modifying government procedures to make the decision-making process more flexible and efficient.

The recent adoption of transparency, participation, and accountability initiatives in the public policy arena as part of an open budget approach is an attempt to strengthen democracy in order to promote social progress (Abreu and Gomes 2016; Ferreira et al. 2016). This has followed the new public governance wave when society received more attention from public managers and politicians in order to increase education and health quality, as well as to reduce corruption and to improve budgetary institutions and processes.

Brazilian public budgeting

The budgetary process is central to the formulation of a strategy for public policy results. The total budget commitment will depend on the costs of the alternatives chosen. This complex process of calculation takes into account several variables, and there is little theory that helps predict the consequences for social development (Davis, Dempster and Wildavsky 1966).

According to March (2009: 5), ‘the most common and best-established elaboration of the pure theories of rational choice is that which recognizes uncertainty about future consequences of present actions’. Bounded rationality presupposes that budget decisions occur with a limited range of alternatives in the context of a stochastic process (Padgett 1980). Individuals want institutions to make their decisions logically (North, Wallis and Weingast 2009). This process is often complex, systematic and rationally limited, and aims to establish identities, finding rules for recognised situations (March 2009).

Social institutions play an important role in the organisation and application of budgetary rules to stimulate a collaborative environment. Social institutions encourage individual action by making available the content of identities and rules, supporting certain behaviours in identifiable situations. These institutional structures are not static, and may change in the face of external pressures, resulting in reforms (March 2009).

In Brazil, as Sanches (2007: 190) noted, the 1988 Federal Constitution introduced a number of significant institutional changes in the public budgeting process. It emphasises the obligation to prepare the following budgetary acts: PPA (medium-term planning, four years), LOA (short-term planning, annual), and LDO (goals fiscal-term, annual). Brazil’s Budgetary Acts are available on the Senate’s website (see www12.senado.leg.br/orcamento).
The 2000 Brazilian Budgetary Reform was developed based on strong international influences – due to the financial crisis in the 1990s – with the purpose of giving governments more effective and efficient results, improving public policy delivery and reducing state costs (Core 2004). The changes to budgetary institutions from Decree 2829/1998 impacted all mentioned instruments (PPA, LOA and LDO), focusing on: (a) more flexibility in budgetary programming; (b) increased responsibility of programme managers for the delivery of public policy results; and (c) the establishment of multi-year fiscal goals focused on debt control.

Recently, Abreu and Gomes (2013) found evidence in Brazil of emancipatory budget processes, including parliamentary adjustment, public meetings, public policy councils, the influence of non-government organisations, citizen participation in the elaboration of PPA, priorities set by public policy specialists, citizens’ budgets (documents that summarise the public budget for society), actions towards fiscal education, and data disclosure.

Brazilian social development

Social development concerns better delivery of social goods and services, as well as an increase in the capacity to generate jobs and redistribute national income for a better individual quality of life (Gentil and Michel 2009). On the road to social development, a budget strategy has inevitable social consequences (Abreu and Gomes 2010; Ferreira et al. 2016).

According to Ramos (1983: 149–150), ‘There is notable progress, in the field of economic theory, if the analysis of the development progress occurs from a systematic strategic view’ (translated by the authors). The budgetary allocation decision-making process must be associated with social development strategies, based on ethical conditions for the reduction of poverty as the preferred public policy consequence (Ramos 1946, 1981).

The budgetary strategy should take into account the risk analysis and plan reliability, in order to increase government capacity for public policy implementation (Siccú 2009). The fiscal policy must stimulate tax revenue, on a progressive basis, focused on social justice and equity, as well as building citizens’ awareness (Abreu and Gomes 2010). Siccú (2008) states that budgetary strategies are only effective if the government involves society. Therefore, the formulation of the budgetary strategy for Brazilian social development should not be a cabinet plan, but a joint process constructed with the society (Abreu and Gomes 2013).

According to Abreu and Gomes (2013), in order to achieve social development, the budgetary strategy should promote social inclusion, democratic representation, authentic dialogue, and collective knowledge. This strategy is aligned with the open budget approach.

According to the 2012 Open Budget Survey, Brazil leads on this process in Latin America in the, and its participation in the Open Government Partnership and in the Global Initiative of Fiscal Transparency recognise the Brazilian position as one of the most important countries in this field. As a result, the Brazilian government proposal to the United Nations General Assembly was adopted in 2012, that recognising transparency, participation, and accountability in fiscal policies can, (a) enhance financial stability, poverty reduction, equitable economic growth and the achievement of sustainable development; and (b) should be promoted in a manner that is consistent with diverse circumstances and national legislation (Abreu, Gomes and Alfinito 2015).

The Human Development Report 2014 of the United Nations Development Programme (UNDP) highlighted recent social improvements in Brazil, including reduced racial disparities for Afro-Brazilian and mixed-race populations, by implementing affirmative action policies in education. Brazilian social progress suggests that the influence of civil society on people-friendly
policies and outcomes is a key aspect of state and civil society interaction. The Brazilian open initiatives in budgetary processes are possible factors in social gains, by increasing participation in budgetary allocation, disclosing budgetary data, and strengthening spaces for social influence (UNDP 2014).

The profile of the public administrator in the governance model focuses on the process of decision-making in public policy, and not only on producing more and better quality using fewer resources. Brazil is recognised for its implementation of governance tools and its moves toward better governance, although there is still a long way to go (Peci, Pieranti and Rodrigues 2008; Knopp 2011). After changes in 2000, the Brazilian budgetary process followed a trend which seeks to increase the strategic dimension and integrate planners, plans, and planning (Figure 22.1). Recent developments advanced in the governance model promote transparency, participation, and accountability (Abreu and Gomes 2010).

Despite the relatively short time since the introduction of these changes, and cultural inertia, social gains associated with the current governance reforms can already be seen (Abreu and Gomes 2013). In order to continue development into a social democracy, it is important that non-government planners engage with the planning process even more to produce equitable plans (Knopp 2011; Abreu and Gomes 2013).

Non-government planners play a fundamental role in carrying out collaborative actions, given that the open budget process is related to the collective behaviour of strategic planners as a core component of social progress (Abreu and Gomes 2013; Ferreira et al. 2016). Brazil considers that the open budget approach is a possible strategy to obtain social gains, and there is an opportunity to study it in order to have a better understanding of the open budget consequences.

Our wider literature review presents a wider context for the open budget approach, and considers the literature on governance, stakeholders, and public budgets, to support the empirical examination of the Brazilian context.
The wider context: open budget knowledge

According to Bovaird (2005), governance results are brought about by democratic decision-making, open government processes, social inclusion, and equality. Good governance is associated with a better capacity to prevent conflicts, to meet human rights obligations, help business growth, and deliver essential public services to citizens to achieve social progress (Department for International Development 2006). In the governance model, multiple stakeholders gather in forums with public agencies to engage in consensus-oriented decisions (Ansell and Gash 2008).

The governance decision-making process is based on citizen engagement with collaborative involvement (Emerson et al. 2012). In this case, leadership and resources are crucial for setting, and maintaining the clarity of the rules, in order to build trust and support negotiations for better social development (Khagram, Fung and De Renzio 2013; Ansell and Gash 2008).

Social development is considered to be a result of governance (Ling and Roberts 2014; De Renzio and Wehner 2015). The UNDP uses the Human Development Index as a measure of social development (Noorbakhsh 1998), based on ‘The expansion of people’s freedoms to live long, healthy and creative lives’ (Klugman 2010: 12).

The open budget approach and our hypotheses

The open budget approach relies on actions of transparency, participation, and accountability in a strategic manner, from planning and forecasting revenues and expenditures to executing public policies (Jinguang and Xianyong 2011). From direct democracy to indirect delegate models, the adoption of an open budget approach is subject to an ongoing debate about the people who should represent civil society (Mansuri and Rao 2004).

Budgetary transparency involves full disclosure of all relevant fiscal information in a timely and systematic manner (OECD 2002). Transparency means making information publicly available through institutions (Meijer 2013, 2009). Participatory budgeting gives otherwise marginalised and excluded people the right to have their voices heard and to influence public decision-making (Kasymova and Schachter 2014). Participation creates incentives to articulate and aggregate citizens’ interests, providing linkages between the ruler and ruled, policymakers and citizens (Shah 2007; Fung and Wright 2003).

Budgetary accountability involves procedures for public hearings to investigate spending, public audits and an independent judiciary (Alt and Lowry 2010). Accountability is the responsiveness and responsibility exercised by state authorities during the period between political elections in democratic environments (Friis-Hansen and Cold-Ravnkilde 2013; Gaventa and McGee 2013).

Due to its complexity, accountability should be classified through both public and social approaches, which link with transparency and participation initiatives, respectively (Yılmaz, Beris and Serrano-Berthet 2010). This relationship gathers transparency, participation, and accountability in a mutually integrated and reinforced open budget framework toward social development (Ling and Roberts 2014; Khagram, Fung, and De Renzio 2013).

Hypothesis 1: More open budget actions stimulate gains in social development results.

De Renzio and Masud (2011) state that the Open Budget Index has a rigorous methodology, independence, and comparability, making it a useful addition to existing tools. Moreover, there is statistical evidence of a positive relationship between the Open Budget Index and the Human Development Index in resource-dependent countries (De Renzio, Gomez and Sheppard 2009).

Nevertheless, the Open Budget Index focuses on the transparency perspective. The development of a complete index for open budgeting remains a challenge. A measurement that gathers
transparency, participation and accountability should be the key to identifying the level of open budget. According to Ling and Roberts (2014), an index for the open budget can be composed of selected survey items. The items included should relate to access to information, mechanisms of inclusion, and responsiveness and responsibility.

**Budgetary resource**

Budgeting means the allocation of scarce resources in the government decision-making process (Rubin 2009). The budget process happens stochastically in a bounded rationale, since decision-makers have limitations in studying possible alternatives (Padgett 1980).

The public budget is more than a document with words and figures that contain targets for government expenditures and justifies them. It is the translation of public policy priorities into financial resources (Davis, Dempster and Wildavsky 1966). According to Hyde (2002), the public budget is an instrument of management, development, control and allocation.

Traditionally, as Rubin (2009: 17) states: ‘One of the major characteristics of public budgeting is that those who pay the bills are not the ones who make the decisions on how the money is to be spent’. Although budget-makers never have enough revenue to meet the requests of all spending agencies, the budget ‘represents a judgment upon how scarce means should be allocated to bring the maximum return in social utility’ (Key 1940: 1138).

As a powerful instrument for the implementation of democracy, the public budget needs to broadly reflect citizens’ preferences to influence the economy and to focus on social outcomes (Foster and Fozzard 2000). On the other hand, the availability of budgetary resources determines the limits within which the government will execute public policies (Hughes 2003). According to Emerson et al. (2012), resources are part of the governance model as elements of joint action capability. Hence, the availability of budgetary resources moderates the governance process by the constraints on the budget’s capacity to promote social progress.

**Hypothesis 2:** The availability of more budgetary resources provides for greater delivery of social development.

The literature provides some indexes for measuring the level of budgetary resources. These are almost all related to public expenditures and per capita revenues. Elson and Cagatay (2000: 1351) argue that ‘When restrictive macroeconomic policies are needed, it is important to adjust the composition of fiscal expenditure and revenue so as to protect the people who are worst off.’

However, the association between budgetary resources and social development is only recently begun to be examined in specific empirical studies. Therefore, there is a window of opportunity to test new theories and check the link between the traditional budgetary view (focused on resource availability) and the recent open budget approach.

**Collaborative stakeholders**

A stakeholder can be any organisation, group or individual (Freeman 1984). Stakeholders are those who have power, urgency, and legitimacy, based on demands and expectations, that can affect or be affected (Mitchell, Agle and Wood 1997). The potential for stakeholder cooperation is particularly relevant since it can facilitate collaborative efforts between an organisation and its stakeholders, which can result in better management performance (Savage et al. 1991).

According to Koontz (2005: 460), ‘Collaboration is characterised by diverse stakeholders working together to resolve a conflict or develop and advance a shared vision’. Stakeholders that are more dependent on a given organisation usually demonstrate greater commitment to
cooperation (Freeman 1984). Unfortunately, the importance of stakeholder cooperation is commonly ignored because the analysis requires a sophisticated understanding of the types and magnitudes of stakeholder influence (Gomes and Gomes 2008).

Emerson et al. (2012: 14) propose that ‘quality interaction through principled engagement will help foster trust, mutual understanding, internal legitimacy, and shared commitment, thereby generating and sustaining shared motivation’. The relationships of collaborative stakeholder are based on public and organisational values, by which collective social rules support shared gains (Freeman 1984).

The participation of external collaborative stakeholders can influence government actions to help deliver social policies (Gomes, Liddle and Gomes 2010). For instance, external collaborative stakeholder support for addressing health problems in South Africa influenced the relaxation of intellectual property protection for HIV/AIDS medications in 2003 (Doh and Guay 2006).

External collaborative stakeholders typically use strategies to promote government actions in a communicative manner with a collective, collaborative and cooperative environment (Khagram and Ali 2008). Poverty reduction in social development processes is focused on collaboration among various stakeholders (Bowen 2005).

The influence of community cooperation on social development represents a collective endeavour toward social change, whereby external collaborative stakeholders lead actions that directly address social needs (Bowen 2005; Khagram and Ali 2008). Therefore, the literature suggests that social development relates to the open budget, the budgetary resources, and external collaborative stakeholders.

**Hypothesis 3:** More external collaborative stakeholders’ influence promotes better social development outcomes.

Collaborative stakeholders act in a strategic manner focused on collective and cooperative causes, based on community values (Svendsen 1998). The coordination of external collaborative stakeholders’ influence is concentrated on collective interests (strategies and habits), as well as on social agreements, conventions, and regulations (Keijzers 2003). The engagement of external collaborative stakeholders ought to facilitate communication about potential influence on government decision-making processes.

Hence, the open budget approach suggests that external stakeholders who act collaboratively push the actions of open budgeting toward social commitment (Khagram, Fung and De Renzio 2013). A Korean case study suggested that external stakeholders (of the Citizens Coalition for Economic Justice) who acted in a strongly collaborative environment drove transparency, participation, and accountability initiatives in order to stimulate social policy debate in public forums (You and Lee 2013).

**Hypothesis 4:** An increase in the external collaborative stakeholders’ influence has a positive impact on open budget actions.

A collaborative stakeholder can act by assessing the political inducements for relevant interest groups in terms of public perceptions of legitimacy (Mitchell, Agle and Wood 1997). In this process, the resource and lobbying strategies of external collaborative stakeholders turn toward collective issues related to public interests from a budgetary perspective (Doh and Guay 2006). For example, a social fund is an institution typically set up as an autonomous agency of a national government that involves external collaborative stakeholders, through which government agencies create social mechanisms to channel budgetary resources to meet social demands (De Haan, Holland and Kanji 2002). The engagement of external collaborative stakeholders increases the
availability of budget resources to finance social projects designed to improve living standards and help empower vulnerable and poor populations.

Although the literature suggests that external collaborative stakeholders also act by inducing an increase in the budgetary resource, further empirical investigations are needed to check the link between collaborative stakeholders and budgetary resources. Collective action in community settings is, by itself, a relevant opportunity to develop knowledge to make available the resources required in the government decision-making processes (Bowen 2005).

**Hypothesis 5:** An increase in the external collaborative stakeholders’ influence positively affects the availability of budgetary resources.

Gomes and Gomes (2008: 265) suggest that a starting point that can help in stakeholder measurement is to recognise that stakeholders can be either people (or categories of people) or organisations. Stakeholder influence should be focused on the identification of who has the power and interest in government decision-making processes (Gomes, Liddle and Gomes 2010). However, the literature is not clear on how to measure the level of external collaborative stakeholder involvement, although some theoretical considerations support its measurement.

Non-governmental organisations are identified as entities that mobilise communities to influence government’s social actions (Bowen 2005). Gomes et al. (2010) state that external collaborative stakeholders should join together in a non-governmental organisation, to influence public policies, including the possibility of receiving budgetary transfers.

According to Doh and Guay (2006), the variation among non-governmental organisations in Europe and the USA shows different levels of collaborative influence in these two regions. Therefore, the number of non-governmental organisations could be a proxy to determine the level of external collaborative stakeholder engagement in a region, always in relation to the overall population, to allow for the limited capacity of non-governmental organisations to mobilise people.

Based on our literature review, the logical deductions from the collaborative budget model are:

- External collaborative stakeholders are non-government and government actors working for collaborative and social budgetary commitments.
- Open budget involves the disclosure of budgetary information, free access by citizens to government, engagement of budgetary stakeholders, giving society a voice to support policy decisions, answerability of public authorities, and enforceable social budget controls.
- Budgetary resources are the available resources that guide the levels of expenditure.
- Social development means governance outcomes in a cooperative approach for the improvement of quality life and the welfare state.

**Empirical considerations**

To check the theoretical hypotheses, this study is based on an objectivist perspective, using a quantitative strategy to check elements that may be involved in the open budget process. In line with Shadish et al. (2002), we use an ex-post-facto method formulated from complex links between the elements identified above in the literature.

Following Williams, Vandenberg and Edwards (2009), we argue that the use of structural equation modelling can support an expansion of the literature. Structural equation modelling and goodness-of-fit statistics help to test the theoretical suggestions related to the open budget approach. Furthermore, we tested the model’s stability, the effects of variables, and the power
of endogenous variables to predict the exogenous variable, as well as observing the covariance and residual matrices.

We collected data from official governmental surveys and financial databases, as well as from the UNDP index. In the following section, we describe each of the variables.

**Exogenous variable**

**Social development**

The UNDP formulates the Human Development Index (HDI) as a proxy for social development. HDI has three aspects (income, longevity, and education), which cover points theoretically considered for the definition of social development. For Brazil, this index is based on national census data consolidated at the municipal level. The data are available on the UNDP website (available at www.undp.org/content/brazil/pt/home.html/).

**Endogenous variables**

**MUNIC open budget index**

The Brazilian Institute of Geography and Statistics conducts a yearly survey to collect municipal data on public administration and policies called MUNIC. The selection of the MUNIC survey items had the purpose of determining the open budget level and was based on the identification of transparency or participation actions, which linked with accountability view. In this process, we identified 20 items related to government communication initiatives to provide transparency and 20 items associated with citizen engagement to promote participation (see Appendix). Therefore, the composition of this innovatory index considers that each of the 40 selected items has the same weight to gauge the open budget level. The data are available on the Brazilian Institute of Geography and Statistics website (www2.ibge.gov.br/english).

**External collaborative stakeholders**

The Brazilian Institute of Geography and Statistics also carries out a municipal survey to collect data on non-governmental organisations. We used the per capita number of non-governmental organisations in a municipality as a proxy for the external collaborative stakeholder power to influence social development results, taking into account the importance of the population in increasing effect. In this sense, the density of non-governmental organisations indicates the influence level of external collaborative stakeholders in order to mobilise people over a public policy decision-making process.

**Budgetary resource**

The Brazilian National Treasury consolidates municipal accounts in a database. We used per capita municipal public expenditure as a proxy for the budgetary resource. In this case, as in the case of external collaborative stakeholders, we scale this to the population. The data are available on the Brazilian National Treasury website (www.tesouro.fazenda.gov.br).

Most of the data pertain to 2010, so we decided to adopt a cross-sectional analysis because of the broad sample of Brazilian municipalities – 96.4% of municipalities and 96.2% of the
Improving social development in Brazil

Table 22.1 Sample of Brazilian municipalities in numbers

<table>
<thead>
<tr>
<th>Geographic region</th>
<th>Number of municipalities</th>
<th>Region population</th>
<th>Municipality population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mean</td>
</tr>
<tr>
<td>Northeastern</td>
<td>1,706</td>
<td>53,011,607</td>
<td>31,074</td>
</tr>
<tr>
<td>Southeastern</td>
<td>1,653</td>
<td>78,242,310</td>
<td>47,334</td>
</tr>
<tr>
<td>Southern</td>
<td>1,158</td>
<td>27,538,451</td>
<td>23,781</td>
</tr>
<tr>
<td>Middle-western</td>
<td>434</td>
<td>10,934,484</td>
<td>25,195</td>
</tr>
<tr>
<td>Northern</td>
<td>413</td>
<td>13,721,741</td>
<td>33,225</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td><strong>5,364</strong></td>
<td><strong>183,448,593</strong></td>
<td><strong>33,225</strong></td>
</tr>
</tbody>
</table>

Source: Brazilian Institute of Geography and Statistics

population (Table 22.1). We used the 2009 data from the MUNIC survey, because of the prioritisation of the national census in 2010 precluded conducting the MUNIC survey that year.

We used the 2010 national census data to obtain the municipal populations, to operationalise the per capita indexes. All data are in a 0–1 standard scale. We used the STATA 13 software for all statistical tests. Figure 22.2 depicts the tested structural equation modelling. The variables are in boxes and arrows indicate their relationships. Each of the hypotheses was tested in isolation and from an integrated perspective, and the compound of the five hypotheses represents the structural equation modelling.

Finally, as Mikut and Reischl (2011) suggest, we used comparative analyses with the support of a data mining tool (Rapidminer software) to help test the results. Following the suggestions of Monteiro (1995), we used the regional classification of Brazilian Institute of Geography and Statistics to aggregate the municipalities into two groups: the equatorial (northern and northeastern regions); and the tropical (southern, south-eastern and middle-western regions).

![Figure 22.2 Structural equation modelling](source: Authors)
Results

Based on the literature review, we examined the relationship among external collaborative stakeholders, MUNIC open budget index, budgetary resources, and social development. These variables are combined in three structural equations. The data of this cross-sectional study come from 5,364 (96%) of the 5,566 Brazilian municipalities in 2010. Social development is the exogenous variable, and external collaborative stakeholders, MUNIC open budget index, and budgetary resources are the endogenous variables. Table 22.2 reports the summary of the statistical results of structural equation modelling.

We used the maximum likelihood estimation method. The three structural equations have coefficients and constants which are statistically significant at the \( p < 0.001 \) level. The equations explain 30%, 2% and 10%, and of social development in terms of external collaborative stakeholder involvement, MUNIC open budget index, and budgetary resources, respectively. The overall explanation is 15%. Therefore, all the structural equations make a relevant contribution to explaining social development.

The result of the Chi-squared test (model v. saturated) is 2.55 (\( p \)-value = 0.1103), meaning that the difference between the covariance matrices is not statically significant at the 0.05 level. Moreover, all residuals of covariance and observed variables are less than 0.001, and the structural equation modelling satisfies the stability condition (stability index = 0). Hence, according to the recommendations of Hair et al. (2006), these tests suggest sufficient goodness of fit.

Figure 22.3 presents the estimated model with the coefficients and errors, which we call the collaborative budget model. The relationships between the variables are those that are represented by the theoretical hypotheses in Figure 22.2.

<table>
<thead>
<tr>
<th>Table 22.2 Structural equation modelling: statistical summary results</th>
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<tbody>
<tr>
<td>Social development (SD)</td>
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<td></td>
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<tr>
<td>Interception</td>
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<tr>
<td>(0.0030983)</td>
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<tr>
<td>External collaborative stakeholders</td>
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<tr>
<td>(0.0111584)</td>
</tr>
<tr>
<td>MUNIC open budget index (OB)</td>
</tr>
<tr>
<td>Budgetary resource (BR)</td>
</tr>
<tr>
<td>R-Squared</td>
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<tr>
<td>Fitted</td>
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<tr>
<td>Variance predicted</td>
</tr>
<tr>
<td>Residual</td>
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<tr>
<td>N</td>
</tr>
<tr>
<td>Overall R-Squared</td>
</tr>
<tr>
<td>( \chi^2 ) (test of model v. saturated)</td>
</tr>
<tr>
<td>Prob &gt; ( \chi^2 )</td>
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</tbody>
</table>

Significance levels: *\( p < 0.05 \); **\( p < 0.01 \); ***\( p < 0.001 \)

Source: Authors
From the analysis of the levels of significance of the coefficients, we can infer that the five theoretical hypotheses are confirmed by the empirical results of the three structural equations employed in the tests. In other words, MUNIC open budget index, external collaborative stakeholders, and budgetary resources relate to social development, and external collaborative stakeholders relate to an open budget and budgetary resources. In combination, these results produce the model.

Table 22.3 shows the direct, indirect and total effects of external collaborative stakeholders, MUNIC open budget index, and budgetary resources on social development. Adding direct and indirect effects of the external collaborative stakeholders’ variable, we have a coefficient of 0.28 and that means: adding one unity in this variable is likely to increase social development in nearly 30% of instances. The effect sizes in the model help to identify which independent variable has the strongest effect on the exogenous variable.

The empirical evidence indicates that the MUNIC open budget index has the strongest direct effect on social development, followed by budgetary resources and external collaborative

Table 22.3 Direct, indirect and total effects of the structural equation modelling

<table>
<thead>
<tr>
<th>Variables of the structural equations</th>
<th>Effects on social development</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct</td>
</tr>
<tr>
<td>External collaborative stakeholder</td>
<td>0.166952 ***</td>
</tr>
<tr>
<td></td>
<td>(0.0111584)</td>
</tr>
<tr>
<td>MUNIC open budget index</td>
<td>0.2164679 ***</td>
</tr>
<tr>
<td></td>
<td>(0.0062236)</td>
</tr>
<tr>
<td>Budgetary resource</td>
<td>0.2087836 ***</td>
</tr>
<tr>
<td></td>
<td>(0.0108699)</td>
</tr>
</tbody>
</table>

Significance levels: *p < 0.05; **p < 0.01; ***p < 0.001

Source: Authors
Welles Abreu and Ricardo Gomes

stakeholders. However, considering the indirect effect of external collaborative stakeholders, this ranking changes considerably, since external collaborative stakeholders move into the first position, followed by MUNIC open budget index and budgetary resources.

In Figure 22.4 we present comparative results for aggregations of Brazilian municipalities in equatorial (northern and north-eastern regions) and tropical (middle-western, south-eastern, and southern regions) groups. It shows the means of MUNIC open budget index, external collaborative stakeholders, budgetary resources, and social development for both groups. According to Abreu, Gomes and Alfinito (2015), we should expect higher social development in the tropical group than in the equatorial group. However, the fact is that this phenomenon (higher mean in the tropical group than the equatorial group) occurs for all the independent variables (MUNIC open budget index, external collaborative stakeholders, and budgetary resources), and the lines for the two groups do not intersect in Figure 22.4. The variation of these means is directly related, which agrees with the results of structural equation modelling.

Conclusion

Poor social conditions continue to be a problem throughout the world, and point to the need to study the determining factors in achieving better social development. This chapter contributes to this field by testing the consequences for social development by applying statistical tests from a theoretical framework, which we call the collaborative budget model of public sector governance.
The main contributions of this study are to extend the governance literature focused on collaborative citizen engagement:

- social development is promoted by open budget, external collaborative stakeholders, and budgetary resources; and
- external collaborative stakeholders have a greater overall effect on social development than open budget and budgetary resources.

Not only are an open budget and budgetary resources crucial to explaining social development, but also the engagement of external collaborative stakeholders can be regarded as an innovative element of the open budget approach. Therefore, collaborative participation assumes great importance in the literature, due to its ability to produce direct and indirect effects on social development. Finally, budgetary resources contribute to the model, ensuring that all variables are significant and the equations are relevant.

The comparative tests of the means of variables indicate that the variation of the open budget, external collaborative stakeholders, budgetary resources, and social development are directly related. According to the hypotheses, the variation in collaborative engagement is likely to affect the other variables. Hence, a concentrated effort to increase external collaborative stakeholder participation might be a strategic method to improve not only social development but also a greater measure of openness in budgeting and budgetary resources.

The collaborative budget model is based on cooperative processes. Shepsle and Bonchek (1996) state that social results become more similar over time, due to the elimination of inconsistencies in a collective environment. The external collaborative stakeholder is associated with the collective behaviour of non-government organisations, which should produce gains in leadership performance in order to promote social progress.

However, stakeholder conflict is typically a problem, which could result in a condition described as ‘the tragedy of the commons’. Such conflicts can arise because of different identities, insatiable desires, and competitions for primacy among stakeholders (Hardin 1968: 1243). In this process, it is very important to consider democracy-strengthening to build social commitment and remove stakeholder conflicts. In this context, inclusive initiatives in the civic community based on citizen engagement should activate society with equity and opportunities for trust and cooperation with social policy.

We can therefore answer the question of our chapter title: does collaborative stakeholder engagement matter? We conclude that creating bridges for citizens’ participation in decision-making is likely to influence social development in a great deal. External stakeholders influence open budget directly and indirectly. By influencing the other elements of the equation and influencing the way local government deals with social development, one increase of one unity in the stakeholder influence is able to increase social development in nearly 30% (see Table 22.3). That means, it is a good investment of resources to promote ways for making stakeholder influences come through.

With that intention, the Brazilian Government adopted a new act to stimulate citizen engagement from non-government organisations in order to promote social public policies. Published in 2014, the law No. 13.019 (MROSC) established forms of partnership between government agencies and non-government organisations, to form a mutually cooperative regime to execute public policies with reciprocal interests. This new Brazilian institutional initiative is based on the premise of increasing citizen engagement, based on transparency, participation, and accountability. In the coming years, a broad range of panel-data will be produced and create an opportunity for a panel-data study to check whether the institutional changes brought about by the MROSC result in better social development for Brazil.
Altogether, the open budget approach remains a fruitful field for research, needing further investigation. For instance, although this study highlights the importance of the external collaborative stakeholders in order to achieve social development, the understanding of how non-government organisations act in collaboration remains unclear. We do consider that the critical challenge of reducing global poverty can be aided by citizen engagement in the public policy decision-making process.

References


Improving social development in Brazil


# Appendix

*Items that comprise the new Brazilian Municipality OB index*

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A130</td>
<td>Communication to general public: mail</td>
</tr>
<tr>
<td>A132</td>
<td>Communication to general public newspapers</td>
</tr>
<tr>
<td>A133</td>
<td>Communication to general public: internet</td>
</tr>
<tr>
<td>A134</td>
<td>Communication to general public: telephone</td>
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<tr>
<td>A135</td>
<td>Communication to general public: ombuds offices</td>
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<td>A145</td>
<td>Communication by internet (egov initiative): newsletter</td>
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<tr>
<td>A146</td>
<td>Communication by the internet (egov initiative): document public access</td>
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<tr>
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<td>Communication by the internet (egov initiative): electronic trading</td>
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<td>Communication by the internet (egov initiative): electronic processes</td>
</tr>
<tr>
<td>A151</td>
<td>Communication by the internet (egov initiative): electronic licensing</td>
</tr>
<tr>
<td>A152</td>
<td>Communication by the internet (egov initiative): government journals, legislation, and finance</td>
</tr>
<tr>
<td>A153</td>
<td>Communication by the internet (egov initiative): civil servant selection</td>
</tr>
<tr>
<td>A154</td>
<td>Communication by the internet (egov initiative): school enrolment</td>
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<tr>
<td>A155</td>
<td>Communication by the internet (egov initiative): certificate issuance</td>
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<td>A156</td>
<td>Communication by the internet (egov initiative): medical appointment scheduling</td>
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<td>Communication by the internet (egov initiative): friendly disability</td>
</tr>
<tr>
<td>A159</td>
<td>Communication by the internet (egov initiative): suburbs with free public access points</td>
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<tr>
<td>A160</td>
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<td>A211</td>
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<td>A212</td>
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<td>A214</td>
<td>Education policy: the council is advisory</td>
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<td>Education policy: the council is deliberative</td>
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<tr>
<td>A216</td>
<td>Education policy: the council is normative</td>
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<tr>
<td>A217</td>
<td>Education policy: the council is investigative</td>
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<td>A218</td>
<td>Education policy: the council had a meeting last year</td>
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<tr>
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<td>Education policy: private partnership</td>
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<tr>
<td>A224</td>
<td>Education policy: community support</td>
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<td>Health policy: existence of a council</td>
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<tr>
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<td>Health policy: the council has community participation</td>
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*Source:* 2009 MUNIC Survey (www.ibge.gov.br)