MOVING BEYOND EXPENDITURE DECISIONS: INTRODUCING REVENUE PLANNING INTO PARTICIPATORY BUDGETING

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By:
Courtney Babcock
Erin Brannan
Priyanka Gupta
Shital Shah
The heart of participatory budgeting is the public decision-making process that citizens engage in through discussion and negotiation. Even with the adoption of a participatory budgeting mechanism, citizens still may not be able to fully engage in the budgeting process with the local government. Without the proper institutions and procedures in place, their voices may not be heard or may not be very influential as decisions are made. If citizens are unable to voice their preferences and influence decisions, then resources will not be allocated according to local preferences and the coverage of essential services may not reach all groups. Thus, how participatory budgeting is designed and implemented is of great concern.

Although participatory budgeting is gaining popularity through the world in general and in Africa in particular, an important aspect of the process is still often left neglected – that of revenue generation. Much of the experience with and literature on participatory budgeting has focused on expenditure decisions, and the resources being programmed often come from outside the local community through intergovernmental transfers or specially dedicated donor funds. This background paper will briefly consider how participatory budgeting can be used to encourage local citizens to contribute their own resources to local government budgets. Locally raised resources can both increase the total amount of funding available to meet local service needs and link the desire citizens express for particular local public expenditures to their willingness to cover some of the costs incurred.

The paper will first touch on a brief general background of participatory budgeting and why citizen voice at the local level is so important, and then discuss the various stages and approaches outlined in the participatory budgeting literature. Although little has been written about the revenue side of the process to date, the relevance of the various approaches for revenue generation will be noted in the discussion and a few examples will be provided. Some perspective for the African context will be provided through insights that emerge from some recent field studies conducted in Uganda and Rwanda.

**The Logic of Participation**

Strengthening citizen voice is an important consideration for the revenue and expenditure programming process. Participatory policymaking “allows government to tap new sources of policy-relevant ideas, information and resources when making decisions,” as well as allows citizens to understand and trust the government.\(^1\) This mutually beneficial concept strengthens democracy overall.

Beyond adding value to democracy, citizen engagement in budgeting ensures better raising and allocation of resources. Since citizens are the recipients of government services, their voice during expenditure assignment increases the likelihood that services will go where they are most needed. In planning for revenue generation, citizen engagement is important so that people are able to see and understand why their money and resources are given to the government, as well as the reasoning underlying how much people are asked to pay. For example, it is rational that “when citizens can see what their tax is being used for, and when they have greater confidence that it is being used for public services, and that an effective audit

office will monitor that spending, they may be more likely to pay their taxes.”

Overall, citizen involvement in budgeting for both expenditures and revenue is potentially beneficial to all stakeholders involved.

Participatory budgeting is a two-fold exercise: allocating resources, and also raising revenues. Revenue generation is an important but often understated aspect of participatory budgeting. Just as citizens can have a role in distributing a municipality’s resources, they can also play an active part in raising the revenue needed for essential services. For a local municipality, revenue commonly takes three different forms: taxes, non-tax revenues (e.g., user charges, license fees, etc.), and intergovernmental transfers. The latter come from higher levels of government, so only local tax and non-tax revenues constitute own-source revenues over which local governments have some control. Revenue generation completes the budget cycle by allowing communities to generate some of the resources necessary to finance expenditures. This paper will outline the mechanisms of general participation but will highlight the revenue generation aspect, as this area continues to be a challenge for participatory budgeting.

**Major Participatory Enhancing Approaches**

Ensuring and leveraging citizen engagement can take the form of several approaches. Participatory budgeting itself is an approach to engage citizens, but there are several major components that represent degrees or stages of participation. These progressively build on top of one another to create a full system of participatory budgeting: information sharing, consultation, collaboration, and shared decisionmaking. Table 1 summarizes the main approaches that could be considered in the process of designing a participatory system. The first approach that will help to improve participation is *information sharing*.

- **General Use:** Several types of information sharing can aid in raising awareness and educating. The media in general can be used to make people aware of budget information. Radio in particular can help disseminate information to citizens that may not otherwise receive news, especially illiterate groups. Legal mechanisms, such as the Right to Information Act in India, allow citizens to proactively pursue information and records. Finally, public awareness campaigns through popular education materials can help clarify the budgeting process and ensure that all parties understand the nature of the process and specific decisions that are being made.

### Table 1: Participatory Approaches and Relation to Revenue Generation

<table>
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<tr>
<th>Approaches</th>
<th>Method</th>
<th>Key Ingredients</th>
<th>Challenges</th>
<th>General Examples</th>
<th>Relevance for Revenue Generation</th>
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<tr>
<td>Information Sharing</td>
<td>Local media; Awareness campaigns</td>
<td>Transparency; Oversight agencies</td>
<td>Government must be willing to be open and accountable</td>
<td>Right to Information Act (India); Making budget information public</td>
<td>Use to inform citizens on how different tax rates were calculated</td>
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Background Paper – Mechanisms for Revenue Generation

<table>
<thead>
<tr>
<th>Consultation</th>
<th>Focus groups, town hall meetings, citizen input</th>
<th>Facilitators, good information</th>
<th>Citizen groups must wait to be invited by government authorities</th>
<th>Consultation with local residents who gave presentations on proposed projects in Bradford, England</th>
<th>Ask citizen opinions on which method to raise revenues through – for example, a business tax versus property tax</th>
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<tr>
<td>Collaboration</td>
<td>Convene different groups to discuss and negotiate</td>
<td>Alliances with different groups and sectors</td>
<td>Must be facilitated and well coordinated, otherwise can lead to battles</td>
<td>Community and municipality joined together in Peru to build a dam</td>
<td>Chamber of commerce or market user association co-funds a project to improve roads or construct a market</td>
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<tr>
<td>Shared Decisionmaking</td>
<td>Citizens make decisions in conjunction with government</td>
<td>A degree of power must be transferred to citizens; Decentralization</td>
<td>Government must trust and provide power to citizen groups or forums</td>
<td>Participatory Budgeting in Porto Alegre, Brazil</td>
<td>Citizens work with government to make decisions on types and amount of taxes to cover local contributions</td>
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- **Relevance for Revenue Generation:** Local media, such as newspapers and especially radio, has a largely unutilized role to play in spreading news and posting updates on the revenue generation process. Information sharing can lead to more effective ways for the government to raise resources, because “in order to encourage citizens to contribute to public funds, they have to make people see the link between taxes, fees and charges, and public service.” When this link is clear, citizens are more likely to actively contribute. In the late 1990s, the mayor of San Fernando, Philippines helped increase revenues by creating a tax enforcement unit, improving transparency and communication, and holding an information campaign. This successful case of revenue generation demonstrates that many different factors are involved, from accountability to awareness to monitoring.

- **Consultation** is another approach to increase citizen engagement which consists of two-way information flows. With consultation, a government may seek out the advice and perspectives of citizens, but decisions may not necessarily be made on the basis of these opinions and views.

- **General Use:** Focus groups and town hall meetings are examples of ways to hold a consultation with citizens or certain elements of the general public, such as private

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4 Ibid.
sector representatives. These and other mechanisms allow local governments to consult with communities “without giving them formal control over budget resources.”

One example is in the town of Bradford, England, where local residents were given the opportunity to present the case for funding small projects, but ultimately the local service provider allocated the funds.

- **Relevance for Revenue Generation:** Consulting with the private sector can be a useful way to improve local revenue. An example of the successful engagement of members of the business community comes from Chile, where they “agreed to a temporary increase in taxation in order to remedy the ‘social deficit.’” Through meetings with representatives from industries, citizens from the business class can contribute to shaping tax policy, among other fiscal policies. Consultations with business and citizen groups can in general improve citizen willingness to pay local contributions for particular service improvements or general taxes for a range of local expenditures.

**Collaboration** is a more involved process than consultation, since collaboration involves more extended discussion and negotiation and may involve a specific role for non-government actors. With collaboration, the government usually is the convener of meetings and decides which parties to invite.

- **General Use:** One way is to involve civil society organizations (CSOs) in representing citizens or assisting citizens during the participation process. For example, CSOs can help citizens to “analyze reported government expenditures and combine these with survey instruments or case studies of particular forms of spending” so that citizens are able to track the budget properly. Involving different stakeholders that are willing to cooperate can increase the likelihood of including citizen voice. In Indonesia, the local government in the cities partnered with neighborhood associations for trash collection. They would contract with neighborhood groups to create a collaboration where the associations would pick up trash and carry to collection point, and the government would then dispose of the waste. Neighborhood associations would also collect fees from individual households to pay for the services.

- **Relevance for Revenue Generation:** In terms of collaboration for revenues and resources, the case of Peru provides a clear illustration. In order to build a dam, major actors collaborated to raise resources, from an NGO to the community to the municipality. In Uganda, the idea of “co-funding” is shown when a vendor pays a fee for a stall at the community market, and that fee goes toward the construction of market itself.

The most substantial participatory approach is *shared decisionmaking*. The main feature here is that citizens hold strong power in shaping the results of the process. Shared decisionmaking may have elements of both consultation and collaboration, but citizens more directly influence the outcome.

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• **General Use:** Joint committees or taskforces that focus on revenue and expenditure assignment can be platforms for shared decisionmaking. This is shown through the popular Porto Alegre case. Decentralization is key in increasing citizen voice during the budgeting process. In Porto Alegre, “citizen engagement is structured around two rounds of public meetings coordinated by the municipal administration, accompanied by smaller meetings organized by the community in different locations.”

• **Relevance for Revenue Generation:** Shared decisionmaking can mean that citizens work with local government to decide on the base and rates of taxes, or how to distribute the share of taxes that need to be paid by different sectors of society. Since civil society ultimately pays taxes, this is an effective way to link revenues and expenditures. In Kenya, local governments would negotiate with particular market user groups, but the citizen groups also had some say in the design of the market, such as how many water spigots were needed or the installation of public toilets.

Across all of these mechanisms, government support is key in participatory budgeting, and even more so for ensuring that citizens are able to voice their opinions during budget assignment and revenue generation. Transparency from all levels of government allows citizens to more effectively voice their opinions in an environment free from corruption. Examples of this include “dissemination of written material through official documents, newspapers, or magazines; distribution of documents from local government offices; press conferences; radio or television broadcasts; or establishment of websites.” Support from the government really drives the creation of all the mechanisms, and without this facilitation, citizen engagement will not be possible.

**Necessary Conditions for Revenue Planning**

Achieving ideal forms of and good results from the participatory approaches described above assume a set of normatively desirable conditions to create a supportive environment around participatory budgeting, and specifically, revenue generation. According to an Institute of Development Studies working paper, there are several political, social, and institutional conditions that need to be in place in order to design effective mechanisms for citizen engagement. These conditions include: a broad membership base and alliances with middle class and elite groups, technical knowledge, knowledge of policy discourses and of effective alternative discourses, publicity, autonomy, time and scale, social capital, ‘horizontal slice’ strategies (coordination of the expression of voice by civil society with decision-making occasions), formal standing and a regular presence for citizens’ groups in service quality oversight agencies, statutory rights to know and rights to redress. Countries will need to take these into consideration when designing participatory processes, whether with expenditure or revenue budgeting.

In most cases, all these conditions are not in place and it is not possible to have perfect participatory mechanisms. But in each individual case, it is possible to try to identify

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appropriate entry points from which mechanisms can be created or strengthened for the purposes of enhancing participation. For example, if people have very little connection to the local government, information sharing is an important first step. For deeper forms of participations, the government would have to build on further conditions. Localities will have to consider which mechanisms already exist and which ones can be built on to encourage participation in revenue generation.

**Case Studies: Uganda and Rwanda**

**Uganda:** Uganda has several information-sharing mechanisms in place to explain the nature and contents of local budgets, but revenue generation is still a new area that needs further development.

- As a form of information sharing, the process for participation in the budgeting process is very straightforward and is laid out in a step-by-step process in the “General Guide to the Local Government Budget Process for District & LLG Councilors, NGOs, CBOs & Civil Society,” which provides tools to guide local governments through the local government planning and budgeting cycle.
- Information is also shared by the central government when they print information on transfers to local government in newspaper once a month. Even while information sharing exists for expenditures, a challenge in Uganda is that the forums provided for participatory budgeting are not adequately structured to encourage revenue generation.
- The plans and projects presented in the areas of Kasawo and Nansano are not attached to a specific project with associated costs and resource requirements, and are served more as a wish list.\(^{11}\)

Although revenue generation has not received much attention in Uganda, there are several examples of innovative participatory budgeting and revenue generation mechanisms.

- In the Masindi District, local government uses a social capital mechanism to generate revenue. They issue different colored tax tickets depending on the individual’s level of tax contribution, relying on the generated social pride to improve compliance.\(^{12}\)
- As part of its formalized participatory budgeting process, another local government unit gave tours of an unfinished community building, a capital project prioritized in the PB process, to citizens. This feedback mechanism prompted community members to donate materials and resources towards the successful completion of the building.\(^{13}\)
- Reaching the collaboration and shared decision making stage, communities have also come together to build schools where there are not enough classrooms to support the Universal Primary Education decree. In addition to the capital aspect of constructing the school, the communities also take on the recurrent staffing costs.\(^{14}\)

**Rwanda:**\(^{15}\) In a post-conflict setting, gaining trust in the budget process is very important. Rwanda expanded several information sharing mechanisms to increase transparency and

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\(^{12}\) M. Onyach-Olag Interview with World Bank Tuesday, January 22, 2008

\(^{13}\) Local Government Finance Commission Interview January 21, 2008


provide a monitoring system. Collaboration is also a useful mechanism in order to start getting different stakeholders to work together. Examples of relevant innovations include the following:

- A local business association in Kigali formed to create a local depot that has eased tax collection by organizing tax collection through their association. They have created forms for all business owners so that they can know when it is time to pay and can track if they paid and how much. This has greatly increased the amount of taxes collected, reduced the work of the tax collector, and helped the business owners know they were paying the correct amount.

- The Ministry of Local Governance has encouraged innovations and helped to disseminate good ideas through innovation days, awards for sector level executive secretaries that implement the best strategies, and new bulletins that publish successful innovations. Social recognition helps increase tax collection and economic development. Transparency has also increased through tax payer’s days, where good tax paying is awarded and businesses can display their products and ideas.

- The Ministry of Local Governance has mobilized local governments to encourage citizens to fill the gap in educational funding by contributing and supporting vulnerable students qualified but unable to afford public secondary school. To encourage monitoring, individuals are given receipts when they contribute and then village collections are brought to cell officials. Cell officials provide the villages with a receipt and deposit the funds into the sectors account at the local bank.

**Conclusion**

Participatory budgeting is an approach by which to increase citizen engagement in public resource generation and allocation. Much attention to date has focused on expenditure decisions, so this background paper presented the major approaches available for citizen engagement in revenue generation, which has been neglected. Through information sharing, consultation, collaboration, and shared decisionmaking, progress can be made towards creating a more participatory budgeting process. With the proper conditions in place, it is possible to create these approaches to further engage citizens in budgeting and raising revenues throughout the budget process. Where the conditions do not exist, local governments will need to strategically build the participatory process.

When designing approaches to engage citizens in expenditure and revenue budgeting, African countries can take away several broad lessons from the discussion above. First, basic information sharing is the first and necessary approach that needs to be designed, and information should be shared at all stages of the budget process. The first step is to have awareness campaigns and educate the public on the budgeting process and their role; once structures are in place, citizens should have access to information and the right to redress when necessary. For revenue generation, citizens need to be able to hold the government accountable for the amount of taxes that are collected as well as how the taxes are allocated. Corruption in tax collection is too common and leads to noncompliance. A transparent monitoring system of collected taxes, contributions, and intergovernmental transfers can build trust and encourage honesty and efficiency in revenue generation activity.

The content of the published information should include numbers, not just general projects. If citizens are able to see and understand how much is allocated to different projects,
they will have a better understanding of the overall situation and be able to plan more appropriately. For revenue generation, once citizens prioritize programs they would like to allocate money for, they will need concrete numbers to understand how much money needs to be raised from local sources to supplement other available resources. Various approaches incorporating consultation, collaboration and shared decision-making can be considered.

The participatory process by itself, however, is not sufficient. In order to deal with the issue of tax noncompliance and to increase revenues from taxes, local governments will also need to focus on “improved billing and accounting systems, establishing convenient and transparent payment facilities, and strengthening the capacity to follow up cases of non-payment.”16 This may require technical improvements to revenue collection, such as better record keeping (computerization where appropriate) and tracking of records. Citizens are more likely to comply with taxes when their contributions are monitored and published.

As the Ugandan and Rwandan cases demonstrate, there is still much room for innovation and expansion of revenue generation within the framework of participatory mechanisms. Additionally, the major participatory enhancing mechanisms of information sharing, consultation, collaboration, and shared decisionmaking all aim to contribute to increasing citizen engagement with local budgeting. By building on existing structures and incorporating deeper forms of participation, local governments can develop a more effective participatory budgeting cycle which includes not only expenditure assignment, but also revenue generation.

More applied research and efforts need to take place to understand possibilities for revenue generation in a broader range of countries and under various circumstances. The literature on this topic is limited, and with more exploration, local governments will have a better foundation from which to create and implement their own strategies for strengthening citizen voice in the complete participatory budgeting process.

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Bibliography


