

the case for

# PUBLIC PROVISIONING

in PÓRTO ALEGRE

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*New Rules, New Roles: Does PSP benefit the poor?*



## **New Rules, New Roles: Does PSP Benefit the Poor?**

# **The Case for Public Provisioning in Pôrto Alegre**

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Much of this study was originally written in Portuguese. Alfredo Culleton, a lawyer from Pôrto Alegre, assisted in the translation and refinement of the analysis. Eric Gutierrez edited the English text. Gordon McGranahan provided commentaries.

Since this study was written, the *Partido dos Trabalhadores* (Workers' Party), the ruling party in Pôrto Alegre, has become Brazil's major political party with the election of Luiz Inácio Lula da Silva to the Brazilian Presidency in October 2002.

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### Acronyms

UNDP	United Nations Development Program
PT	Partido dos Trabalhadores (Worker's Party)
OP	Orçamento Participativo (Participatory Budget)
DMAE	Departamento Municipal de Água e Esgoto (Municipal Department of Water and Sewerage)
NBSED	National Bank of Social and Economic Development
IMF	International Monetary Fund
DGS	Diretoria Geral de Saneamento (General Director of Sanitation)
BID	Banca Interamericano de Desenvolvimento (Interamerican Development Bank)
DIEESE	Syndicated Departments of Economic, Social and Statistical Studies
AGAPAN	Gaúcha Environmental Protection Association
PROSEGE	National Program for Generating Employment
DEP	Municipal Pluvial Sewage Department
SURSAN	Rio de Janeiro Planning Commission
SMAM	Municipal Authority of the Environment

## **I. Executive Summary of the Synthesis Report**

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**G**overnments, both northern and southern, have rightly placed themselves under much pressure to achieve better water and sanitation coverage. The Millennium Development Goals aim to halve the proportion of people without access to water and sanitation services by 2015. Millions die every year from lack of access to safe water and adequate sanitation. On one hand there is an undeniable urgency about these issues that makes prolonged discussion frustrating and a questionable use of resources. But on the other, the risk of the blanket promotion of one debatable method of reform is an unnecessary waste of scarce resources.

Most southern governments have consistently failed to deliver affordable and sustainable water and sanitation to the poor. It is difficult to summarise the causes for this failure as each situation is different and complex. However, some broad problems cut across many public utilities and municipal services: bad financial management, low funding priority, lack of staff experience and qualifications, absent or weak customer service orientation, political interference, little or no independent regulation and an absence of civil society consultation. Many of these problems have been described as attributable to weak government capacity – equally acute in urban and rural contexts.

Our research shows that the policy of private sector participation (PSP) does not comprehensively tackle the underlying causes of water utilities' failure to serve the poor. In four key areas capacity building, community participation, finance and institutional reform, major problems persist, making it unlikely that the multinational private sector is going to play any significant role in achieving the Millennium Development Goals.

Currently the pursuit of a policy of PSP generally undermines local and national government capacity. For one, it limits the ability of the public sector to take services back should PSP fail or when contracts end. Private sector contracting must not result in irreversible dependence on

private companies, and there must be clauses in contracts to prevent this dependence.

Without adequate government capacity, no reform processes can be successful. The private sector cannot be contracted without tackling failing government. The government's role to facilitate, monitor and regulate is as much an essential element in PSP as in public and user-managed utilities. Yet, it seems that this requirement is being practically ignored in the rush to establish PSP. It is essential that donors refocus efforts to building government capacity at local and central levels.

The involvement of local communities is often lacking in PSP reform programmes. Where PSP has failed to deliver the promised gains, the case often is that the poor are seen mainly as recipients, rather than contributors to development. Whether projects involve large or small-scale PSP, the focus is on giving contracts or concessions to the private sector. Social mobilisation and community participation, proven time and again as prerequisites for sustainable development, are seen as burdens and non-essential components of the task. Failure to consult communities means that the interests of the poor are often not being represented. It results in a lack of ownership over projects and an absence of accountability between users and service providers. It seems that the lack of community involvement that led to previous failures is continuing, raising serious doubts over the sustainability of PSP projects.

Cost recovery and capital cost contributions are in most cases necessary for water services to be sustainable. However, there are problems in the application of these principles, which often results in denying the poor access to services. Expensive technology choices and a failure to consider the non-cash contribution of the poor are widespread in PSP contracting. Donors are guilty of promoting an approach that is narrow and mechanistic, allowing for little flexibility and absence of perspectives incorporating community action and considering the complexities of poverty.

Changing the role of government, by effectively reducing its capacity through reductions at central level, but not increasing personnel at local government levels, erases benefits that could be gained from decentralisation per se (such as responsiveness to people's needs, greater accountability etc.). Weak decentralised agencies cannot be expected to quickly learn about tenders or forms of contracting and keep track, monitor and supervise the activities of contractors fanning beyond provincial capitals.

In the rural areas that were studied, reduced government roles had a detrimental impact as work was often sub-standard leaving the communities with a costly and unreliable service. The rural case studies also show that there are, so far, no improvements in accountability. In some respects, accountability was compromised in the dilution of responsibilities that accompanied the change in roles. Because projects are between governments and contractors (communities are typically not a party in the contract), the supposed beneficiaries are in no position to seek redress for sub-standard work. Accountability is lost in the commercial/contractual, quick-fix arrangements of private sector involvement.

Political interference has been seen as contributing to the failure of many public utilities to deliver to the poor. In established democracies there is 'interference' in the running of utilities but this is seen as government exercising its duty to keep institutions to account. There is a fine line between 'interference' and the need for accountability, the difference seems to be the depth and strength of democratic institutions in individual countries.

Civil society working to strengthen the hand of government through, for example, commenting on tender documents prepared by external advisors, increases the likelihood that reforms will further the concerns of the poor. It is in the interests of government to involve a broad constituency, especially one that represents the interests of the poor and poor people themselves in the shaping of privatised basic services. Pro-active openness and transparency by government in reform processes lessens the possibility of civil strife.

With these findings, we are opposed to donors pressuring developing countries to accept PSP in water services as a condition of aid, trade or debt relief. To promote a policy regardless of specific contexts increases the likelihood of failure especially when the likelihood of success of that policy is intensely contested. Furthermore, the enforcement of PSP as the central policy reform limits the options for governments and civil society to improvise and innovate using the best possible arrangements. We believe rather that policies should be used to ensure that in any reform process the poor will be protected, their access to services increased, and the process itself actively seeks the opinion of civil society.

This does not mean that we are rejecting private sector involvement. The private sector has a role that should not be denied. But, where there is corruption and/or political resistance to serve the poor, the private sector can do very little and can, in fact, compound the problem. Where there is lack of information, participation and democratic processes, the situation is thrown wide open to opportunistic behaviour from the private sector. However, given a situation with stable rules, enough political commitment to address the underlying causes, good governance and an informed and active citizenry, the private sector can be a responsible partner in development and an important player in reforming and improving water services.

In order to move forward on this contentious issue, a multi-stakeholder review should be undertaken. We believe that it is only through such a review (similar to the World Commission on Dams) that the final, authoritative word can be made on whether PSP benefits the poor. We also believe in the necessity of building the capacity of civil society actors to influence privatisation processes and to hold governments and the private sector to account. This needs to start with improving their knowledge and understanding of the issues surrounding failing water services, and enabling civil society groups around the world to learn from each other's experiences of intervention in privatisation processes.

## II. Case Summary

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Pôrto Alegre has the highest quality of life in Brazil and relatively low infant mortality rates. A major contributor to this has been the relatively high standard of its publicly-owned and managed water and sewage utility, the *Departamento Municipal de Água e Esgoto* (Municipal Department of Water and Sewerage) or DMAE. Thanks to unique participatory structures, within the City budgeting process and within DMAE, public services have been maintained and developed for the public good and not for profit. DMAE's experience demonstrates an innovative and participatory way of how efficiency can be achieved in public services. The success of DMAE is so clearly linked to Pôrto Alegre's participatory democracy that the approach may not be easily transferable to other cities and countries.

Brazil is the largest and only Portuguese speaking country in Latin America. The country, which has an estimated population of 174 million, has been governed since January 2003 by the socialist Partido dos Trabalhadores, or PT (Workers Party), which first made it mark when it came to power in Porto Alegre City in 1989. Pôrto Alegre is a progressive southern city with a population of 1.29 million and a reputation as a leftist centre. The city prides itself on having the best quality of life in Brazil, the lowest unemployment rate and a relatively well-educated and prosperous population.

Water supply and sanitary sewerage systems play a key role in Pôrto Alegre's high ratings. The city has low rates of infant deaths, often attributed to its water and sanitation provision, and 99.5% of the population receive piped water at one of the cheapest rates in the country. In 2000 a total of 84% of houses had raw sewage collected, but just over one quarter of sewage is currently treated – though the city government is negotiating a loan to raise that level to 77%. Pôrto Alegre's water and sewerage services appear to be a unique case of an efficient, publicly-owned and managed utility in a developing country.

DMAE is the public body that supplies water and collects sanitary sewerage in the city. The delivery of this service is discussed and planned internally by a Technical Management Council, and decisions are supervised externally by the Deliberative Council – the participatory body composed of representatives of different civil associations. DMAE has its own status, budget and corporate identity, and is self sufficient, not relying on government funds for recourses.

The political body to which DMAE is accountable to – the County – retains some power, since the Mayor appoints the Director-General (subject to criteria), who in turn nominates 20 aides who are assigned to different departments. The Deliberative Council, a non-party institution for citizen's participation, is composed of several organisations and bodies which have some link or interest in water and sanitation. It meets weekly, and has formal powers to give opinions and decide on DMAE general policy. The County, the Director-General's department and his superintendents are obliged to provide the Council with legal information, plans, budgets and financial reports, all of which must be approved by the Council. DMAE is also obliged to engage the *ouvidoria*, a workers forum.

One of the most progressive policies of DMAE is the Social Tariff, which is applied to consumers with low incomes, or in deprived circumstances. The Social Tariff is also applied to educational institutions and charities.

Only 84% of Pôrto Alegre's population are connected to the sewerage network, which is high for Brazil but poor by international standards. But only 27% of sewage is treated. The lack of sewage treatment facilities poses one of the biggest problems for the DMAE. Untreated raw sewage flows into Lake Guaíba, creating huge health and environmental problems. Clearly the DMAE faces serious problems in sewage treatment and environmental protection.

Pôrto Alegre's unique system for participatory democracy is the central factor that explains the efficiency of the city's services, and the success of DMAE in particular. The two relevant participatory mechanisms are the city's participatory budgeting process (OP), and the DMAE's Deliberative Council (see above).

When the Worker's Party Administration arrived at City Hall in 1989, one of its first steps was to implement bold and sweeping tax reforms, to increase resources for investment. It had to be shown that taxes would be used for the benefit of people at large, so the tax reforms led to a citizen consultation over investment priorities, which grew over time into the more formal OP process:

- The number of association and resident entities registered in the OP process today number about 1,000.
- Participation is voluntary and universal, and any citizen associated or not with an organisation can participate in the process;
- Citizens have equal rights and entitlements to vote in the selection of priorities and representatives.
- Two councillors and two substitutes are chosen, by participating groups, for each of 16 regions and five subject areas, to sit on the OP Council for one year.
- The OP is transparent, decisions are documented, published and strictly implemented.
- The internal rules of the OP are established by participating citizens, making the process self-regulating.

Through a series of representational meetings, reporting dates, obligation and prioritisation decisions, in which the OP Council takes a central decision making role, a budget and Investment Plan is drawn up.

The success of Pôrto Alegre's publicly-owned and managed water and sewerage system can be attributed to institutional, economic and political factors:

- *Institutional*: the creation of DMAE as an autonomous self-governing body; the competence of civil servants; the tradition of public services in utilities.
- *Economic*: tariff structures, including the Social Tariff, and the adoption of cost recovery: every citizen contributes their share to the maintenance and operation of the system;
- *Political*: participation and direct democracy are the main reasons why the system has evolved into its current state; within the structure rational investment decisions are made, reforms are carried out when and where needed, and prices are socially sensitive.

The key question remains whether the Pôrto Alegre experience can be translated elsewhere. We believe the social processes are too complex to be simply planted elsewhere and expected to grow. But there are certain objective conditions -- institutional, economic and especially political (civil participation and the notion of services for the public good) -- that will determine whether this approach can be copied elsewhere.

Challenges remain, including the improvement of sewage treatment, reduction of wastage, improvement of water supply quality and investment in further capacity. The gains made by Pôrto Alegre are reversible, but clearly less reversible are the institutions of democratic participation that have been built around them, which guarantee development success into the future.

### III. Introduction

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Pôrto Alegre is a progressive southern Brazilian city with a reputation as a leftist centre. So far it has succeeded in charting that fine line between market reforms and socialism. In February 2002, around 40,000 activists from all over the world converged on the city for the weeklong World Social Forum (WSF), the alternative to the annual World Economic Forum of executives of global firms and financial institutions<sup>1</sup>. The choice of Pôrto Alegre as the site for this forum is symbolic. Pôrto Alegre's ruling *Partido dos Trabalhadores* (Workers' Party) (PT) came to power some 13 years ago when socialist governments around the world were crumbling. The party has made the city into the exception to the rule – implementing certain levels of market reforms while keeping a new form of socialism alive. For instance transport, power, water and sanitation services remain essentially publicly-run<sup>2</sup>. What is remarkable is that the services are doing well. They function efficiently, and have not been the drain on financial resources that services and utilities have become in most Third World cities. This allows Pôrto Alegre to buck the privatisation trend seen throughout most of Latin America. Pôrto Alegre's experience provides potentially important insights to any investigation of the public vs. private debate.

Pôrto Alegre City prides itself on having the best quality of life in Brazil<sup>3</sup>, according to the human development index developed by the United Nations Development Program (UNDP). Between 1991 and 1995, the city scored an index of 0.736, which is remarkably high especially in comparison to similarly sized cities

in other developing countries. In 1999, this rose to 0.792, which is comparable to the typical 0.80 rating obtained by capital cities of developed countries<sup>4</sup>. This index is derived from a number of basic service indicators – e.g. literacy, education, health, etc. In 2001, Pôrto Alegre for the second consecutive year, was ranked first among twelve other regional capitals. Water supply and sanitary sewerage systems play a key role in Pôrto Alegre's high ratings. For instance, the city has one of the lowest rates of infant death in the whole country: 13.8, as compared to the national infant mortality rate of 65 deaths per 1,000 births. It is widely accepted that there is a close relationship between low infant mortality and good water and sanitation provision. The city water system is able to serve 99.5 per cent of the population today with piped water at a price of US\$0.31 per 1000 litres, one of the cheapest in the country. The utility collected raw sewage from approximately 70 per cent of households in 1990, growing to 84 per cent in 2000. In 1990, only 2 per cent of this collected sewage was treated; today this has grown to 27 per cent. The city government is currently negotiating a loan which will be used to increase treatment to up to 77 per cent of sewage within five years.

Pôrto Alegre City's water and sewerage services appear to be a unique case of an efficient, publicly-owned and managed utility in a developing country. The objective of this study is to examine this phenomenon, and to attempt to identify the principal mechanisms, structures and practices that the city uses to guarantee, as far as possible, the efficiency of this publicly-delivered service, and that delivery remains the responsibility of government.

This study argues that the unique system of participatory democracy that has been put in place in Pôrto Alegre is the central factor that explains the city's efficient services. These participatory mechanisms, as reflected most prominently in the city's *Orçamento Participativo*

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<sup>1</sup> Participants to the World Social Forum included renowned figures like former French First Lady Danielle Mitterand, or the American activist academic Noam Chomsky.

<sup>2</sup> Rail transport and power services are owned by the state government (which is also ruled by the PT), but have opened up to some form of private involvement. Bus transport and water and sanitation services are run by the municipal/city government. Water and sanitation remain publicly-owned; bus transport has been part-privatised.

<sup>3</sup> Pôrto Alegre City was adjudged as having the best quality of life in Brazil in a survey done by *Dirigente Municipal*, an important national magazine (Vision Group, 1989-90).

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<sup>4</sup> Data from research undertaken by UNDP in partnership with the Institute of Applied Economic Research.

(OP) or participatory budgeting processes, and in the Deliberative Council of the Department of Water and Sewerage, has led to the creation of a *non-state public sphere*, where there is constant interaction between citizens and institutions of government. This interaction tears down the barriers that often build up between bureaucracy and social reality. It allows the bureaucracy to remain active and to behave as an agent of change in society. It also insures against citizen non-participation and apathy, since it provides them with specific and regular venues at which citizens have the opportunity to influence the course of politics and decision-making in their city.

A number of assumptions are evident in this argument. It is quite clear that state-building in Pôrto Alegre has followed a different path from that taken elsewhere. Rather than the creation and strengthening of the usual systems of democratic representation (e.g. election of city council members, the mayor, etc), Pôrto Alegre has strengthened its systems of direct

democratic participation. While representative systems have their value, they often become the reason for citizen non-participation and create distance between state and civil society. This is because it is easy in a representative system to “just let the elected officials decide”. Direct social control over official decision-making is exercised only through elections, or through the systems of checks and balances that may often be subverted anyway. A bureaucracy in a representative system turns into an organisation that looks primarily after itself, not necessarily after the interests of the public. What emerges is the most serious flaw of representative systems of government – the state or its institutions can be captured by whoever succeeds in mobilising votes or develops enough influence. The public, meanwhile, generally remains a passive recipient of what the captured institutions decide. Institutions of the state become easy prey to private interests coming from within (clients or technocrats) or without (corporate or class lobbyists).

**Photo 1 – Pôrto Alegre City is a progressive city and the capital of the State of Rio Grande do Sul in Brazil. (Photo from DMAE)**



Participatory mechanisms reverse this malaise of representative structures, and open up a whole new set of roles for the state. In a market society with predominantly *representative* systems of government, the debate is about reducing the role of the state in the market. Particularly for water and sewerage, it is argued that the state should move out of the task of direct delivery of services and limit itself to the facilitation, monitoring and regulation of private sector involvement. But in a market society with predominantly *participatory* systems of government, the debate is different. Because of the existence of a non-state public sphere, the chances of capture of the state or its institutions by private interests are significantly reduced. Or even if these were captured, they could not perform in a way that gives undue reward or preference to particular interests. The public good and the general public interest, not particular private interests, is thus constantly served. In this context, efficiency is easily attained. Because it is in the interest of the public good to reduce costs, measures to reduce costs are implemented. Because it is in the interest of the public good to make sound investments, such decisions are considered and implemented quickly. Because it is in the interest of the public good to recover costs, prices are adjusted to make that balanced recovery of costs while considering fully what that public may be able to afford. And so on. What Pôrto Alegre seems to be trying to prove is that the pursuit of the public good can actually replace the pursuit of profits as the invisible hand that delivers efficiency.

The direct participation of citizens in the management of public resources and in defining the guidelines for state action paves the way for the construction of Pôrto Alegre's unique political system. The people of the city directly establish the priorities and delegate a revocable mandate to their representatives or civil servants. Direct participation, therefore, has in a way rescued citizens from apathy, and has become a useful tool for the reduction of inequality.

In order to describe this unique system in detail, this study will highlight three key points:

- The *principles* that guide the PT and the municipal government in the provision of services

- The *autonomy* of the DMAE in the operation and management of the service from the government
- The *participation* of civil society; in particular its participation through the OP process.

A brief history and background on Pôrto Alegre is first presented. The conclusion at the end presents a summary and restates the case that Pôrto Alegre is making – that *um outro mundo é possível* (another world is possible).

## Background and History<sup>5</sup>

Brazil is the largest and only Portuguese-speaking country in Latin America. With a total land area of 8,547,404 square kilometres, it has borders with all South American countries except Chile and Ecuador, and covers more than half of the land area of the continent. Its population is largely Roman Catholic, but the country has no official religion. Brazil is a multi-party federal republic with two national legislative houses. The Senate has 81 members; the Chamber of Deputies has 513 members. They are all based in the capital, Brasilia. The country is divided into 26 states and one federal district where the capital is located. Its major cities are São Paulo, Rio de Janeiro, Salvador, Belo Horizonte, Brasília, Recife, and Pôrto Alegre. The currency is called the 'real' (R\$) ([Instituto Brasileiro de Geografia e Estatística, www.ibge.net](http://www.ibge.net)).

Roughly two-fifths of the country is occupied by the Amazon basin, the world's largest rain forest. Through it cuts the River Amazon, which at 6,280 kilometres, is the second longest river in the world after the Nile. Brazil is a tropical country but extends well into the temperate zone. The upland plains in the south have a cool, temperate climate and occasional snowfall. The coolest period is from May to September, and the warmest from December to March. Rains come between October and May ([Ibid.](#)).

Brazil has a population currently estimated at 174 million. Brazilians are a diverse group of people, with indigenous peoples and migrants

<sup>5</sup> Background and historical information: *Instituto Brasileiro de Geografia e Estatística* web page [www.ibge.net](http://www.ibge.net).

from Africa and Europe. Between 1821 and 1945 about 5.2 million European immigrants entered Brazil, most of them settling in the south (*Ibid.*).

Pôrto Alegre is the capital of Rio Grande do Sul, Brazil's southernmost state. Pôrto Alegre is situated on a flat area on the eastern bank of Lake Guaíba, and is surrounded by 40 hills. Four rivers meet at Lake Guaíba: the Jacuí, the Caí, the Sinos and the Gravataí. In the Tupi Guarani local language, "Guaíba" means the "bay of all the waters". It is the source of nearly all the water consumed by Pôrto Alegre. Lake Guaíba's basin has a total area of 85,950 square kilometres, which is equivalent to 30 per cent of the state's land area. There are 16 islands under the jurisdiction of Pôrto Alegre, with approximately 4,500 inhabitants. They all form part of the Jacui Delta State Park, as well as other islands from neighbouring counties (*Ibid.*).

The political subdivision is formally known as Pôrto Alegre County. This county has a total land area of 471 square kilometres, of which some 70 per cent is urbanised and 30 per cent is rural land. On average there are 102 inhabitants per hectare in the county. The most densely populated area is Bom Fim, which has 451 inhabitants per hectare. The least dense area is rural Anchieta, with one inhabitant per hectare. Pôrto Alegre is in a sub-tropical and temperate area. It has a winter low temperature of 0° Celsius, and a summer high temperature of 39° Celsius. On average, Pôrto Alegre has 140 rainy days each year (*Ibid.*).

The city was founded on 26 March 1772 by Portuguese settlers from the Azores. Since the 19th century, its development has been aided by the influx of numerous German and Italian immigrants. Probably because of its closer proximity to Argentina, Paraguay and Uruguay than to the centres of power (Brasília, Rio de Janeiro), Rio Grande do Sul has not always belonged historically to the Luso-Brazilian empire<sup>6</sup>. At various times the area has been politically independent. Pôrto Alegre has been known through time as an important centre for political and economic activity in the region. It is the seat of two large universities and is an

important cultural and literary centre as well. This explains a lot about the history of the city and its administrative management. Even during the period when dictatorships ruled Brazil, the mayors appointed by the central powers to run Pôrto Alegre were obliged to maintain the existing mechanisms of participation and dialogue with organised society.

**Table 1 – Population Growth of Pôrto Alegre (rounded)**

Year	Population
1900	73,300
1910	130,200
1920	226,200
1930	233,200
1940	272,200
1950	394,100
1960	635,100
1970	885,500
1980	1,125,500
1996	1,288,900
2000	1,360,600

Source: DMAE 40 Años, p. 15.

This city of 1.29 million is one of the chief industrial and commercial centres of Brazil. It is constituted as the centre of a larger metropolitan area of over 3 million inhabitants. It is also the nation's major river port, exporting the products of the rich agricultural and pastoral hinterland. It has a modern shipyard, meat packing plants, foundries, and various processing industries. Pôrto Alegre's power supply comes from both coal and hydroelectric facilities (<http://www.encyclopedia.com/html/p/portoale.asp>). Pôrto Alegre developed into a socialist centre in the 1980s when Brazil's military government undertook to hand power over to democratically elected representatives. Pôrto Alegre's large number of organised civil servants helped the PT win control of the city (Romero, 4 Feb 2002).

But while it has become the major socialist stronghold of Latin America, some commentators point out that few places in Brazil are as involved in the global economy as Pôrto Alegre. Among

<sup>6</sup> Luso is the Portuguese coloniser of Brazil.

the companies that have set up factories in the city are General Motors (compact cars), Dell Computers (assembly of personal computers), John Deere (tractors), and British American tobacco (cigarettes). Telefonica of Spain controls wireless communications. Pôrto Alegre is also home to Brazilian multinationals like Gerdau (a steel producer), Taurus (handguns), and Varig (the airline). Companies choose Pôrto Alegre because of its location as a gateway to the pampas, stretching to Argentina and Uruguay. But a key reason as well is Pôrto Alegre's relatively well-educated and prosperous population (Romero, 4 Feb 2002).

As a result of the investment by these companies, Pôrto Alegre has the lowest urban unemployment rate in the whole of Brazil (although it is still high at 15.1 per cent). Local politics thus is often about the mix of socialist principles and free-market pragmatism. "With its economy so dependent on the rest of the world", writes Romero, "it is no surprise that socialist politicians here tread a fine line between vociferous critiques of globalisation and subtle efforts to lure foreign investment and financing". For instance, while organisers explicitly excluded World Bank officials from attending the World Social Forum, the state government has in the past borrowed over US\$170 million in World Bank loans to improve roads and alleviate rural poverty. The municipal administration has also received US\$76 million from the Inter-American Development Bank to improve water sanitation in poor neighbourhoods, widen roads and develop bicycle paths (*ibid.*).

Disagreement within the PT on how to tread that fine line appears to be widening. For instance, Olivio Dutra, the former mayor who became governor of Rio Grande do Sul, saw his popularity decline when in 1999 he refused to honour his predecessor's promise of more than US\$400 million in incentives to the Ford Motor Company<sup>7</sup>. As a result, Ford moved its planned factory to the poorer northeastern state of Bahia, costing the metropolitan region of Pôrto Alegre some 1,500 jobs. Dutra has also halted a privatisation process initiated by the previous governor. Governor Dutra is now being challenged within the PT by his successor to the city mayorship, Tarso Genro.

<sup>7</sup> Dutra argues that the huge incentives would rather be used by the city to generate jobs directly.

Genro is a lawyer who backs a more market-friendly type of socialism. Hardliners supporting Dutra have locked horns repeatedly with followers of Genro, which is troubling party leaders.

It is not clear how this debate will be played out within the PT. But what is clear is that the discourse on the participatory budgeting process in Pôrto Alegre will in significant ways shape the outcome of the debate.

### **Pôrto Alegre's guiding principles for the provision of services**

While open to market reforms, PT and the current government of Pôrto Alegre County remain staunch believers in public administration and the civil service. There are four key guiding principles that shape the direction of their policy-making:

- That public administration can actually be as competent and efficient, if not more so, than any private enterprise
- That services essential for the population are strategic issues for a nation, and therefore have to be managed by the general will of the people and expressed through their representatives
- That the basic needs of a population cannot be regarded as a profit source
- That good public management can actually provide the conditions for giving a better and cheaper service to the public

Another basic principle is autonomy of the administrative services, which is provided for in Brazil's 1988 Constitution. For instance, the federal constitution has devolved to the counties the power to manage the water and sewerage services. Pôrto Alegre, like many other counties, makes full use of this prerogative. This devolution enables more effective social control, closer management of resources, a greater clarity in their application and also greater responsiveness to the public's demands.

The PT maintains that sovereignty over the management of a strategic natural resource like water needs to be maintained. Decisions about water should be subject primarily to the public's demand, not to commercial criteria of profitability. As an essential public service, water should not be subject to the fluctuations of the market. The dramatic situation experienced by Argentina, where resources for public services depend on what is dictated by the international market, is something that should be avoided. The PT believes Brazilian counties have the capacity to manage their own services. The public and civil society, however, should be empowered as well and guaranteed the space to demand and question the effectiveness of the management of the services.

However, autonomy has also been used by the federal government to absolve itself of its responsibility to support the counties in terms of investment. This lack of investment support is the key reason why many counties have become inefficient in terms of the management of resources. This county inefficiency is the main justification of the federal government for submitting an urgent bill (PL 4.147/01) to Congress. The bill prescribes the removal of sanitary services from the counties and their transfer to the state government.

One of the more serious problems of the bill is that it limits the concept of sanitation to domestic water and sewerage sanitation – which is the lucrative area of sanitation. It leaves out of the definition the more investment-heavy areas of sanitation, like urban drainage, solid residues and the control of vectors (live creatures that carry infections, like mosquitoes, rats, etc). Another worrying feature is that, because the bill is certified as urgent by the federal government,

this may mean passage through Congress with little deliberation and discussion by society. The bill needs more time, especially since it deals with basic infrastructure issues and standards for a growing country.

As such, the Bill is interpreted by the PT as merely a device to set the stage for a wider privatisation of sanitation services. The Bill provides for the consolidation of large supply systems because it is easier to privatise 27 state companies than 5000 county services. It corresponds to a timeline for privatisations established by the National Bank of Social and Economic Development (NBSED) for the next two years. It is also assumed to be part of the 1999 compromise with the International Money Fund (IMF) that the government divests itself of state companies and county water and sewerage services<sup>8</sup>. The Bill is needed so that the private sector can tap into Brazil's lucrative market for water and sanitation which generates about US\$7 billion per year with 100 million users (Brazil also has 13 per cent of the world's fresh water supplies). The PT therefore regards the Bill as "ignoring the public character of water and turning it into merchandise". The Bill also ignores that the provision of a universal sanitation service is the responsibility of the state.

The importance of sanitation, especially its impact on the national health and the environment, could not be understated. For this reason the PT asserts that water and sanitation services should be under public management – there should be more rather than less social control over water and sanitation resources.

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<sup>8</sup> Theo Rochefort, *Revistas ECOS*, Julio 2001, p. 10.

## IV. Pôrto Alegre's DMAE

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The DMAE, Pôrto Alegre's department of water supply and sewerage, is the public body that supplies water and collects sanitary sewage in the city. About 536,166 households – which covers about 99.5 per cent of the population – receive treated water. Sanitary sewage is collected from 84 per cent of these households. Some 27 per cent of households have their sewage treated before it is discharged in to Lake Guaiba. The DMAE plans, supervises, executes and maintains all the equipment and assets for the collection, treatment and distribution of water, as well as the net sewage.

Public sector responsibility in the installation and delivery of this service is discussed and planned internally by a Technical Management Council. Their decisions are supervised externally by the Deliberative Council – the participatory body composed of representatives of the different civil associations. DMAE is an autarkic department that depends politically on the City Council but has its own status, corporate identity, budget and internal and external management council.

### History

Pôrto Alegre was formally founded in 1772. The first records of water supplies are dated 1779, and consist of an approval for the construction of two public fountains. Before this, water was collected by the people directly from the banks of Lake Guaiba, something which worried the authorities, on account of the condition of the water.

In 1876, the authorities took the first measures to introduce a water and sanitation system. Contracts were signed with two private companies – *Hidraulica Portoalegrense* and *Hidraulica Guaybense* – giving them the power to run and supply the piped water service in the city. Apart from these two private companies, there were pipe sellers and mobile water sellers. In 1894, systematic studies on the system and on future development were started. In 1896, the administration gave the first signs that it intended to expropriate the two water companies that were

responsible for supplying the city. The Second Report of the committee for the study of water and sewage, submitted in 1900, recommended that the county administration should perfect the water collection system from Lake Guaiba. As such in 1904, it expropriated *Hidraulica Guaybense*. *Hidraulica Portoalegrense* continued running its water service until 1944 (DMAE 40 Años, pp. 19).

In 1912, a new piped water network of 51,000 metres was inaugurated. During this year, regulation of the sewerage service was also launched. In 1924, the *Moinhos de Vento* treatment station for water was constructed in an elevated region near the city centre, producing 50 million litres of treated water a day. The treatment consisted essentially of filtering the water.

Population growth increased rapidly from the 1920s to the 1940s. In the 1920s, the population was only around 7,000. During the 1930s, population went up to over 40,000. And in the 1940s, the population came to exceed 120,000. The city found itself urgently needing to update its infrastructure, and to attend to the fast population growth and urbanisation. A key step taken to deal with this rapid growth was the construction of large, new water treatment stations and the introduction of chemicals like aluminium sulphate, chalk and chlorine into the treatment. Water meters started to be introduced. In 1928, the sewerage service of Pôrto Alegre was finally organised, with the creation of the *Diretoria Geral de Saneamento* or DGS (General Director of Sanitation). In 1930, 2300 water meters were installed in the city to regulate and monitor rates of use, as well as to provide information needed for calculating charges. More precise data was developed, starting in 1941, when the city had 30,500 water meters and 46,900 extensions installed. This brought the total number households served to 58,000 that year.

With Leonal Brizola as mayor in 1956, the County General Office for Water and Sanitation was created. This office integrated the functions

of the municipalised *Hidraulica Portoaigrense* and the DGS. The new body launched new water distribution networks using asbestos cement instead of iron. Iron was described by authorities at that time as “prone to rusting and decay”.

At the beginning of the 1960s, however, the county had serious financial difficulties. The County General Office’s plans to expand the services ran the risk of not being carried out. At the same time, the possibility of a loan from the Interamerican Development Bank (*Banco Interamericano de Desenvolvimento* or BID) arose. The BID reserved funds to finance basic sanitation infrastructure in Brazil. A US\$3.15 million loan was agreed but the bank made rigorous demands. The main demand was that the money should be invested exclusively in basic sanitation. To control this, BID demanded that the institution in charge of the sanitation service be autonomous, sustainable and with its own accounts. Thus, in 1961, institutional changes were introduced. Act Number 2312 was signed on 15 December 1961 by Deputy Mayor Manoel Braga Gastal. This turned the old General County Office for Water and Sanitation into the County Water and Sewage Department (*Departamento Municipal de Água e Esgotos*, DMAE). This department, with its autonomous budget, was able to design and build all the necessary water-treatment works and improve and expand the network, along with managerial planning and technological research.

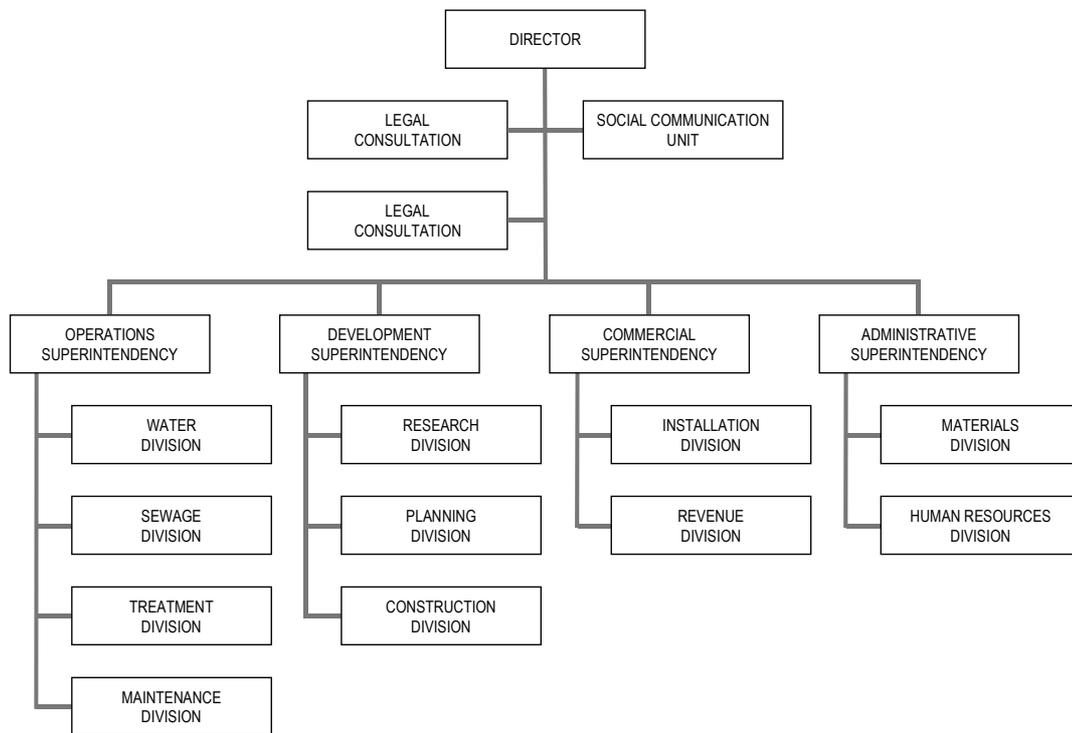
With the loans on hand, the *Menino Deus* Water Treatment Works was built and inaugurated in 1968. From this time onwards, the water tariff changed from being related to the value of the building, to being linked to water consumption. To do so, a census of all the consumers in the city was carried out, allowing the department to create a basic database for tariff collection. This process lasted many years. A General Plan for Sewerage was designed in 1966, but was never properly carried out.

In the 1970s a new data system was introduced which enabled the department to increase its revenue. At the beginning of the 80s an ambitious plan to clean the source of the water – the already polluted Lake Guaíba – was developed and called the River Guaíba Plan. But a consultant company, Corsan, estimated that the introduction of a network for sewage collection and treatment, would cost at least US\$140 million. As a result, the plans were never fully carried out and were totally abandoned by the end of the decade. However, in the 70s the Working Group for Pollution Control was created, which evolved into the Center of Basic Sanitation Studies, and became part of DMAE. It was put in charge of the detection of the degree of water pollution and the identification of the sources of pollution. It was also tasked with research on pollution control, the training of specialised workers and the verification of the efficiency of the underwater discharge system.

**Photo 2 – The main water treatment plant of São João. (Photo from DMAE)**



Chart 1 – Organisation chart



The DMAE has three functional management bodies. First is the general administration headed by the Director-General, an appointee of the Mayor and the party. Next, and most importantly, there is a Deliberative Council, a non-state, non-party institution for citizens' participation composed of several organisations and bodies, and which has some link and interest in water and sanitation. Finally, there is the Technical Management Council composed of the four superintendents and eleven divisional directors. This body provides advice and technical information to the Deliberative Council. DMAE is also subject to an Audit, which exercises some oversight and de facto management functions.

As an autarky, DMAE is structured as an autonomous department that maintains its own financial system, is self-sufficient or does not rely on government funds for resources. It maintains its own sources of revenue and is responsible for the collection of these revenues as well as having its own internal systems of accountability. As an autonomous public body it is, in theory, a separate entity from any existing government or administration – that is, it is not directly subject to municipal government decisionmaking. For

instance, it can make its own decisions on how to invest the revenues it has collected, and such decisions are not directly subject to interference or deliberation by the County Legislature. But the city government retains some degree of power, since the Mayor appoints the Director-General. Appointments must however be made on the basis of certain criteria such as that the appointee must be a graduate engineer and be selected from a list of names approved by the Administrative Council, a larger collective County governing council. The Director-General in turn has the power to nominate about 20 *cargos* who enjoy his trust, and whom he can assign to any superintendency or division, provided they possess the necessary qualifications. The rest of the positions in DMAE are filled by open public recruitment and selection. Salaries for these positions must be approved by the County Legislature.

The Technical Management Council is a special body presided over by the Director-General. This council functions as a collective, horizontal leadership and its meetings provide a forum for the exchange of information, deliberation and evaluation of projects and infrastructure work

undertaken by the Superintendencies and Divisions. Changes in management structure, financial procedures, and tax routines and processes are first discussed in this Council.

The key instrument for citizens' participation is the Deliberative Council. It should be noted that the Deliberative Council has existed since DMAE's foundation in 1961, predating the participatory budgeting process initiated by the Workers' Party by 28 years. The Deliberative Council is a forum where different interest groups with some link to water and sanitation are represented and can have a more formal influence on decision-making. Throughout DMAE's forty years of existence, the Deliberative Council has organised 1,629 committees to deliver questions of interest to the Department. DMAE officials are then supposed to act on and respond to these questions of interest. Thirteen entities currently make up the Council. They meet to analyse processes, investments, polemical questions, as well as *prestação de contas das ações* (water tariff) issues. The thirteen bodies are the:

- Engineering Society
- Economic Society
- The Medical Association
- The Chamber of Industries
- Lawyers' Institute
- Federal University of Rio Grande do Sul
- Riograndense Press Association
- Household Associations' Union of Pôrto Alegre
- Syndicated Departments of Economic, Social and Statistical Studies (DIEESE)
- Municipal Workers' Syndicate
- Gaúcha Environmental Protection Association (AGAPAN)
- Syndicate of managers of residential estate agencies

As a collegial organ that is in theory representative of the key interest groups in water and sanitation, the Deliberative Council has formal powers to give opinions and decide on general DMAE policy. Members and their substitutes are named by the County Mayor, from a list of three names submitted by each group. A member sits on the Council for three years. Every year, a third of the members step down and are replaced. One of the most important aspects of this Council is its heterogeneous composition – ranging from experts to organisations of ordinary citizens.

The Director-General presides over the meetings of the Deliberative Council. The Council performs certain general functions, including debate and approval of general plans of work; prioritisation of projects; the annual building work programme; contracts in which DMAE is a contracting party; and water and sewerage taxes (*tarifas*). But the Council's work can also be extensive, as it often also discusses the annual budget proposal, the economic and financial reports, agreements, financial operations, disposal of materials and equipment that have outlived their usefulness, or employment issues, when asked by the Director-General. The Council meets regularly once a week with a quorum of seven members. It also meets when extraordinary matters arise, or when the Director-General calls a meeting.

Another separate special body that provides for greater participation is the *ouvidoria*, which is the link between the administration and the workers. The *ouvidoria* is a forum where DMAE workers can vindicate their rights, make claims, make criticisms and suggestions as well as denunciations and demands. Once these are made, contact is established with the relevant area or department, which is then required to make a formal response.

**DMAE in numbers****Table 2 – Staff ratios at DMAE**

Total number of civil servants (Oct 2001)	2,453
Budget for 2001	R\$169,534,674.38 or US\$63,734,840.00
Number of connections to water and domestic sewerage (Oct 2001) (includes commercial, public and industrial connections)	349,759

	<i>per operational staff</i>
Budget to staff ratio	R\$69,000 or US\$25,000
Ratio of city inhabitants to staff (Oct 2001)	439 inhabitants
Ratio of connections to staff	340 connections

**Table 3 – Water figures in Pôrto Alegre**

Pumping stations for untreated water (EBABs)	8
Water treatment stations (ETAs)	8
Treated water pumping stations (EBATs)	91
Number of reservoirs	96
Capacity of reservoirs (cubic metres)	183,738
Number of trucks that deliver water	13
Number of linked branches (1 linked branch provides connections to several households)	249,340
Number of households connected	539,772
Per cent of population connected to water system	99.5%

**Table 4 – Sewerage figures in Pôrto Alegre**

Sewer pumping stations (EBEs)	12
Houses (structures) linked to sewerage	100,419
Houses linked to mixed sewage (wastewater & sewer)	74,918
Households connected to sewers	294,065
Households connected to mixed sewerage	158,362
Per cent of households linked to sewerage (55% sewer, 29% mixed)	84%
Per cent of households whose sewage is treated	27%

**Table 5 – Subsidised tariff rates in Pôrto Alegre**

Residential basic tariff per cubic metre	R\$0.8915 or US\$ 0.34
Social tariff per 4 cubic metres (water/sewage)	R\$6.4188 or US\$ 2.41
Water social tariff (4 cubic metres)	R\$3.5660 or US\$ 1.34
Sewer social tariff (4 cubic metres)	R\$2.8528 or US\$ 1.07

**Table 6 – Comparison of prices of water and sewerage in Brazilian cities**

Figures are in Brazilian Reals (US\$1 = R\$ 2.80) based on monthly water consumption

	Service/Company	City/State	20m <sup>3</sup> Water+Sewage	20m <sup>3</sup> Water	20m <sup>3</sup> Sewage
1	CORSAN	Rio Grande do Sul	65.45	41.79	23.66
2	CASAL	Maceió/AL	56.92	31.62	25.30
3	CASAN	Florianópolis/SC	56.16	31.20	24.96
4	SANEPAR	Curitiba/PR	55.35	30.75	24.60
5	COMPESA	Recife/PE	50.86	25.43	25.43
6	DESO	Aracaju/SE	47.97	26.65	21.32
7	CESAN	Vitória/ES	45.25	25.15	20.10
8	CAESB	Brasília/DF	40.30	20.15	20.15
9	DMAE	Pôrto Alegre/RS	38.36	21.31	17.05
10	SABESP	São Paulo/SP	38.16	19.08	19.08
11	CAERN	Natal/RN	37.90	18.95	18.95
12	COPASA	Belo Horizonte/MG	37.61	18.80	18.80
13	SANEAGO	Goiânia/GO	37.15	20.65	16.50
14	SANASA	Campinas/SP	31.90	15.95	15.95
15	CAGECE	Fortaleza/CE	27.86	13.93	13.93

**Notes on Consumption**

In Pôrto Alegre, 81.8 per cent of the households consume up to 20 cubic metres per month. The overall average household monthly consumption is 16 cubic metres.

**Notes on the Tariff**

The tariff is charged monthly according to consumption (if the household is not on the social tariff) using the following formula (where PB = basic price for a cubic metre; C = consumption; and E = household)

- 1 – If consumption is up to 20 cubic metres per month:  $(PB \times C/E) \times E$
  - 2 – If consumption is between 20 to 1000 cubic metres:  $\{(PB \times 0.2711 \times [(C/E) 1.43577]\} \times E$
  - 3 – If consumption more than 1000 cubic metres:  $(PB \times C/E \times 5.5) \times E$
- The tariff for sewer removal is computed as  $(PB \times C/E \times 0.8) \times E$

**The Social Tariff**

The Social Tariff is applied to consumers with low incomes, such as households where the family living area is less more than 40 square metres, multiple-occupancy or communal houses and houses built with the help of the government, usually for those in extremely deprived circumstances. The poor are also entitled to certain social benefits. The Social Tariff is also applied to schools and educational institutions and other entities such as charitable organisations that provide a service to the public.

These institutions have their first 10 cubic metres of water charged for the price of only 4 cubic metres, with consumption above 10 cubic metres charged using the base price.

It should be noted that it is difficult to compare tariff rates and subsidies in Pôrto Alegre with those of other Brazilian cities because most other cities rely on regional water supplies that are subsidised by state governments or national budgets.

## Financial Analysis

Total income increased by 9.26 per cent from 2000 to 2001. Expenditure accounted for 95.08 per cent of collections, generating a budget surplus of R\$7,884,014.17 (US\$2.964 million). DMAE has a current liquidity quotient of 1.66 which shows good financial health with a capacity to pay for debts or solve expenditure problems at short notice. DMAE is currently looking for a loan to finance the expansion of its sewage treatment facilities, but is having difficulty arranging acceptable terms with the banks.

## Comparing DMAE to the rest of Brazil

Pôrto Alegre is one of the more affluent municipalities, per capita, in Brazil. As such, a question often raised is whether the success of DMAE would have been possible had the city been less affluent.

Brazil has generally taken the route of setting up companies running as private businesses with public owners in its water and sanitation services provision. In Table 5, all companies are either fully-owned by state or municipal governments or else are, like SABESP in São Paulo, companies where private investors have minority shares. Most of these public water and sanitation companies were set up in the 1960s and early 1970s as autarkies, part of institutional reforms implemented in the country during that period. With the DMAE's lead, most of these state-owned companies are now instituting more public accountability for their operations.

## The Sanitation Situation

Only 84 per cent of Pôrto Alegre's population are connected to the sewage network. This may be poor by international standards, but is nearly the highest in Brazil. However, it is estimated that only 27 per cent of sewage is treated. This constitutes an improvement from the 2 per cent figure in 1990. Much of the improvement has been delivered via the construction of new treatment plants. The lack of sewage treatment facilities poses one of the biggest problems for the DMAE. Untreated raw sewage flows into Lake Guaíba, posing huge health and

environmental problems. A new São João-Navegantes Treatment Plant is under construction, which will improve treatment coverage to 30 per cent when it becomes operational.

**Table 7 – Coverage of sewage treatment plants**

Treatment plants	Total population in area covered by plant	Estimated population connected to treatment plants
Lami	11,000	4,195
Ipanema	142,000	93,000
Restinga	90,000	3,236
Cavahada	110,000	3,027
RubemBerta	270,000	8,908
IAPI	280,000	9,162

The government of Brazil does not have a master plan for sewerage for the whole country. In general, the national government provides some support to the cities by facilitating financing for the construction of sewerage facilities. This includes programmes such as PROSEGE (National Program for Generating Employment) that Pôrto Alegre used to finance the extension of the "separate system", a sewage-only set of pipes about 1200 kilometres long. The DMAE is responsible for building connections to this separate system, as well as for its maintenance and operation. There is another sewerage network called the "combined system" (for sewage and rain drainage), but this is managed by another County department – the Municipal Pluvial Sewage Department or DEP. DEP is largely in charge of the urban drainage system, which has about 1400 kilometres of pipes. The combined system dumps virtually raw sewage into the river.

The city of Pôrto Alegre had its first Master Plan for sewage works in November 1966. This was developed by the Planning Commission (SURSAN) in Rio de Janeiro City in co-operation with DMAE. The plan adjusted the large diameter sewers of the city to the sewage flows forecast. It also recommended the complete renewal of the

sewerage system in the downtown area, claiming that this was the only way the discharge of raw sewage into the navigation channel of the Guaíba river could be mitigated. In 1973, a second plan was developed, the “Integrated Plan for the Sewer System of the City of Pôrto Alegre”. This plan incorporated two other nearby sewage basins, and proposed a preliminary plan to construct new sewer systems in areas likely to absorb Pôrto Alegre’s growing population. The area was divided into four sewage zones: the Gravataí system; Navegantes system; Ponta de Cadeia system; and the Zona Sul system, which includes the Cavalhada system. A temporary process of diluting the sewage using the subfluvial water was implemented while an alternative treatment option on an island near the city was studied.

In 1980 came a third plan, updating the previous plan. The city of Pôrto Alegre and the government of the state of Rio Grande do Sul agreed to implement jointly the sewer system designed in the 1973 plan. But this plan was never implemented and the agreement expired in 1990. That year, a new law instructed cities to develop a master plan for basic and environmental protection. In 1996, the DMAE started to develop its new Sewerage Master Plan. It is still a work in progress involving many institutions, including the Federal University of

Rio Grande do Sul and the community of Pôrto Alegre.

Another city authority is in charge of environmental inspection and enforcement. It ensures that industries have their own wastewater and industrial effluent treatment programmes. This is the Municipal Authority of the Environment or SMAM. It regulates the environmental quality of the wastewater that can be discharged. The major industrial polluters in Pôrto Alegre are petrochemical and metallurgical plants.

Clearly the DMAE faces serious problems in sewage treatment and environmental protection. In wastewater treatment, it admits to a lack of solutions in the handling, disposal and reuse of the sludge produced in the treatment plants. Another problem is how to treat wastewater in densely populated areas that are low-lying (below river level). There are also problems for wastewater treatment in rural areas, where costs are crucial. The DMAE is looking at various technology options, such as using clay pipes that are much cheaper than other options. But it still has to know whether clay pipes offer the same efficiency. Yet another problem is dealing with the smells from the pumping stations and treatment plants.

## V. Participatory Budget: The Experience in Pôrto Alegre

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*“Actually, it is not enough to be a ‘promoter’ government, because investments can still divide society and increase social differences. The correct action is to ask: promoter of what? Of who? Of which social project? Which experimentation can be accomplished in the city besides to consider a new kind of State?”*

(Tarso Genro in *“Orçamento Participativo – A experiência em Pôrto Alegre”*)

The main argument of this study is that Pôrto Alegre’s unique system for participatory democracy is the central factor that explains the efficiency of the city’s services, and the success of the DMAE in particular. Two main participatory mechanisms are relevant. First is the city’s OP or participatory budgeting processes. Second is the Deliberative Council of the DMAE. It is these two mechanisms that have contributed to the creation of a non-state public sphere – a situation where there is constant interaction between citizens and institutions of government. We have discussed the operations of the Deliberative Council above. In this section, we focus on the participatory budgeting process.

This text does not intend to detail the OP thoroughly. The objective is to facilitate an understanding of the actors and the specific mechanisms for participation. These will show how efficiencies are gained and how paradoxes emerge in partnerships, social participation, and in the use of technical and financial resources.

The Workers’ Party administration arrived at City Hall in 1989, with Olívio Dutra’s election as Mayor. Until then, successive administrations had built bad relationships with the population, without any kind of transparency. Decisions on investments, for instance, did not champion the real needs of most of society. At least a third of the city’s population were living in areas with little or no infrastructure. Some 98 per cent of the city’s revenue was used to pay employee salaries. Income disparities were large, and while the city created wealth, little of this wealth was actually enjoyed by the majority of the population. There was an immense social debt – the obligation imposed by the constitution on the government to provide the essential services to

the population – and few resources to address the problems and needs of the community.

To respond to these problems, the new administration adopted a first step that initially appeared controversial and to contradict the PT’s principles – the implementation of bold and sweeping tax reforms. The idea was to increase the resources available for investment, and use these investments as an equaliser for more balanced growth and income redistribution. The tax reforms were also meant to address the social debt amongst the poorest and most marginalised populations. The stated goal of the tax reforms was to improve the quality of life in the city. But their introduction needed public acceptance and approval, especially among the middle and upper classes who would bear the brunt of tax increases. Transparency of the investment decisions to be made was also crucial. It had to be shown that the taxes would be used wisely, and would be for the benefit of the people at large. Managing this problem of introducing the tax reforms led to the emergence of a process of citizen consultation on taxes and participation on investment decisions. Over time, this process consolidated into a more formal OP. What emerged was that both the tax reforms implemented and the investment decisions that followed, were primarily forms of citizen participation rather than government action.

Initially, participation was low until the tax reforms began to produce results. With the recovery of investment capacity, participation began to grow. The number of people who participate in the OP is growing year after year. The number of associations and resident entities registered in the OP process today number about a thousand.

Map 1 – Map of Pôrto Alegre showing the 16 regions in the Participatory Budgeting process.  
(Map from DMAE)



Decisions made within the OP raised municipal revenue significantly. Unlike most municipalities in Brazil today, who are dependent on national government resource allotments, municipal revenue in Pôrto Alegre constitutes more than 50 per cent of the total. This is largely due to precise identification of tax sources and community involvement in choosing spending priorities. Because the application of these resources is decided by the population, it has become easier to rely on the well-defined tax base of Pôrto Alegre. The OP has allowed people to identify which demands or projects should be addressed first. Priorities became more reflective of the needs of the community, which is the direct opposite of the priorities established by previous governments. The city's investment decisions on water and sewerage are a direct result of the participatory budgeting process. As such, 99.5 per cent of Pôrto Alegre's population now enjoy piped, treated water, while 27 per cent of sewage is treated – a sharp increase from 2 per cent when the PT took control of the city in 1989. Since then, over 200 kilometres of asphalt paving, sewerage and drainage systems have been delivered.

The OP is today a practice that is being adopted in several Brazilian cities and is recognised by the United Nations as an exemplary method of public administration.

### **Concepts and characteristics**

OP is a form of direct democracy. The organisational structure of OP enables citizens to participate in a given region or subject area through some form of group representation built into the process. The participants choose which of their priorities the executive branch should implement. OP promotes direct and continual contact between the representatives and their communities. OP values and revitalises representative democracy, encouraging direct accountability between the representative and the represented.

Participation in the OP is voluntary and universal. Any citizen – associated or not with organisations such as parties, religious or neighbourhood associations – can participate in the process. All citizens have equal rights and every citizen that

participates is entitled to vote in the selection of the priorities and the selection of representatives.

OP is a deliberative and transparent process. Decisions made are documented, published and strictly implemented. Records of the decisions are presented in the year end report, which allows the public to monitor the implementation of the decisions made within OP. Billboards are placed in the city centre showing how the budget was spent, and how those projects were implemented. The information is now also available on the Pôrto Alegre City website. This transparency gives the population some social control over the government.

Finally, the internal rules of the OP are established by participating citizens, making the process self-regulating. The participating members may change the rules in order to improve the OP's performance and to ensure that it remains relevant. The purpose is to guarantee the independence of civil society in its relationship with the State. This gives the participating citizens the power and liberty to control the actions of the government.

These features of the OP fostered the emergence of a non-state public sphere. As in many poor countries, state institutions in Brazil, including banks and state corporations, have historically attended mostly to private and individual interests, and not to general public welfare. There has never been a real public sphere in the sense of a forum where society can see and evaluate itself. As a result of participatory budgeting there is *co-administration* of the city by city government structures and the council of the OP. Extra-state institutions emerge, allowing for social control over government actions.

### **The dynamics of OP: participation structures and its operation**

Local people participate in the discussion of the Public Budget of Pôrto Alegre within the region where they live or on a particular subject. The city is divided into 16 regions based on the political and cultural characteristics of the population. There are five subject areas: Transportation and Traffic; Health and Social

Services; Education, Culture and Leisure; Economic Development and Taxation; Organisation of the City and Urban Development.

In regional meetings, the population selects its priorities. In the subject meetings, priorities of a more cross-cutting character are identified. In these meetings, representatives are elected to the Forum of Representatives and the OP Council.

In addition to the public meetings, the OP has created several permanent structures for discussion and deliberation: The OP Council, the Forum of Representatives, Forum of Services, or the Commission of Works. These bodies work all year round, discussing, suggesting and choosing solutions to improve Pôrto Alegre.

Finally, the government also participates in this discussion process. In the regional and subject areas, the government presents proposals and provides basic and vital information to improve the quality of the discussion.

There are three rounds of participatory budgeting. In the first round, the government presents a detailed year end report of the previous year's activities. A critical discussion follows this presentation. Regional and subject area representatives are then elected and the Internal Regulation and the Plan of Investment are discussed. This first round occurs in March and April. At each meeting there is a coordinating committee that leads the meetings. The coordinating committee consists of the Mayor, the head of the Planning Department, the head of Community Relations, the Regional Co-ordinator of the OP and the Councillors of each region or subject area.

The election of representatives is based on a complex system of proportional representation. The elected representatives constitute the Forums of Regional or Subject Area Representatives. The principal function of the Forum is the organisation, along with the Councillors, of the discussion and deliberation process during the intermediate rounds.

At the end of the first round and before the second round begins, communities conduct

several meetings independent of government – in neighbourhoods, streets, regions or by subject area. Each community defines the number and the form of the meetings. The purpose of the meeting is to select their priorities for the implementation of works and delivery of services. In the five subject areas, the works and structural services of the city are discussed. Beside the selection of priorities, additional representatives can be elected in meetings with a large number of participants.

The government, through its departments, provides technical information to enrich the discussion. They provide the technical criteria for the implementation of works and services. They also present works and services that the government would like to include in the Investment Plan. These plans are for discussion and may be vetoed by the communities themselves.

Meetings are documented in minutes and use formulae that identify the chosen priorities and demands. The formulae list the hierarchy of demands according to subject. These demands are then given to the government for discussion in the next round.

In the second round, which takes place in June and July, the government presents the fixed expenditures (personnel, debt, payment, materials) to the public as well as the estimated revenues for the following year. The population then chooses its representatives for the Council of OP. There are two councillors and two substitutes for each of the 16 regions and five subject areas. These councillors' mandate is for one year, with only one re-election permitted, based on the Internal Regulations of the OP. The Forum of Representatives can revoke this mandate at any time.

The councillors of the OP are chosen only after the priorities for the region have been determined by the people. The role of the councillors is to co-ordinate the development, together with the government, of a Public Budget and an Investment Plan that respects the priorities chosen directly by the population. The co-ordinators of the Planning Cabinet and the government body in charge of co-ordinating



community or the government departments. After the budget proposal is submitted to the City Council, the Council of the OP begins to discuss the Investment Plan.

The Plan is developed based on: 1) the proposed Budget Proposal given to the City Council; 2) the technical, legal and financial analysis of the demands of the population; 3) the criteria for distribution of resources between regions.

Resources are distributed between regions according to their needs and population sizes. Those with greater needs and higher populations receive a larger volume of resources for the priorities that they have selected.

The Investment Plan lists details of the works and services that will be executed by the government. The availability of resources for

each region determines which works will be implemented. The availability of resources is based on 1) the hierarchy of priorities as defined by the community; 2) the cost of the work or service; 3) a technical analysis of the project's viability. With the final approval of the Council of the OP of the Investment Plan, the discussion and participation of the community turns toward the monitoring of the government's implementation of the selected projects and priorities.

In January of the following year the implementation of the projects begins and the process of the OP begins again. The first stage is a discussion of the Internal Rules, the general and technical criteria that will structure the OP during the coming year.

## **VI. Conclusions**

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**P**ôrto Alegre's publicly-owned and managed water and sewerage services are among the most efficient in Brazil although they started as privately-run enterprises in the 1800s. They were eventually taken over by the municipal government as capacity increased. Under municipal operation, the services were expanded to meet demand in a rapidly growing urban metropolis. It was during this time – from the 1920s to the 1950s – that mechanisms for more efficient economic management were instituted, like metering and a household census that provided information for investment decisions. But during the 1950s, the services encountered the typical financial problems of growing utilities – investments became more expensive and revenues fell consistently short of investment demands. Institutional reforms were introduced, the most important of which is the creation of the DMAE managed as an autarky.

In general, the success of DMAE can be attributed to institutional, economic and political factors. The creation of DMAE as an autarky, the existence of competent civil servants, and a tradition of public service in the utility are institutional factors. The economic factors include the tariff structures adopted and the adoption of cost recovery. As explained by DMAE Director General Carlos Todeschini, they looked at cost recovery as a principle whereby citizens contribute their share to the maintenance and operation of the system. As such, the tariff is designed so as not to exclude the poor from the service – a social tariff is built into the structure. Finally, the last set of factors is the political, and this is where this study has focused. It argues that the systems of participation and direct democracy in the city are the main reasons why

the system has evolved into its current state. With these political mechanisms rational investment decisions are made, reforms are carried out when and where needed, and prices are made more socially sensitive.

The key question that remains is whether the Pôrto Alegre experience may be replicable elsewhere. We believe that social processes are too complex – it cannot simply be planted elsewhere and expected to grow. But there are certain objective conditions – institutional, economic, and especially political (including a minimum of organised civil society and a politically conscious population aware of the larger public interest and not their own private interest) – that we think are the factors which determine whether this approach can be copied successfully elsewhere.

The Pôrto Alegre experience described in this paper has been generally positive but a number of key challenges remain. These include the improvement of sewage treatment; reduction of wastage; improvement of water supply quality, and investment in further capacity.

Pôrto Alegre has dramatically reduced infant mortality, provides 99.5 per cent of its population with safe water, has built more than 200 kilometres of paved roads and is improving sewage treatment. The PT may claim success because it is already in its third mandate. But these gains are all reversible. Clearly less reversible are the institutions of democratic participation that have been built and the high level of education achieved – guarantees for development and successful management even without the PT.

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