

Concept Paper

Building Sustainable Political Economies By Aligning Citizen Driven Resource Allocation and Public Budgeting Processes

By

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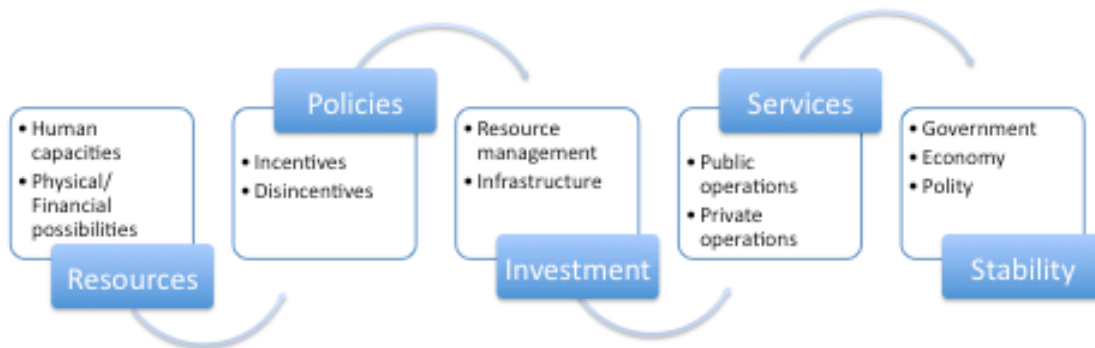
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Background

Resource allocation is a political, economic, and administrative activity that fundamentally shapes the relationship among citizens and governments. Effective resource allocation creates and sustains social stability: It links the opportunities afforded by a country's human, financial, and physical resources to policy objectives; policies create incentives for citizens (who are taxpayers, property owners, and entrepreneurs) and government officials to invest in and assume responsibility for managing resources and developing social and physical infrastructure; investment choices determine the nature of public and private operations and service delivery; and service delivery creates stability by strengthening democratic governance, the economy, and citizens' capacities.

Figure 1: Resource Allocation



The primary elements of resource allocation are budgeting and taxation: These elements together form the backbone of a strong public economy, which in turn provides the foundation for private and civic sector development.

Resource allocation – at all levels and in all aspects of government – influences and is influenced by fiscal policy, monetary policy, social policy, administrative reform, and anti-corruption efforts. Adjustments in resource allocation are essential components in

any effort to increase transparency, make government accountable to citizens, and restructure responsibility and authority among levels and branches of government.

This paper outlines an approach to developing resource allocation systems in developing countries that will build capacity and strengthen the public economy of the country at local and national levels.

The Resource Allocation Conundrum

One of the fundamental dilemmas that citizens face when they aspire to stimulate growth and development after a period of stagnation or in the wake of catastrophe or conflict, is that they cannot rely exclusively on governments at either local or national levels to plan, organize, control, direct, finance, or perform all the work that must be undertaken to provide and produce the public and quasi public goods and services such as public health, education, physical infrastructure that are needed to stimulate private sector growth and development. Governments are often new and still developing the means and mechanisms of governance. Public finances – even when augmented by external assistance – are inadequate because the economy is developing and thus producing no or very limited surplus.

Nor can citizens rely exclusively on either the private or civic sectors. Both sectors often lack capacity and while international organizations may stand ready to assist, they often encounter obstacles or introduce unsustainable solutions because they are not familiar with local needs, preferences, customs, organizations, and institutions.

Yet indigenous capacity in government, private, and civic sectors cannot be strengthened without growth and development of public economies, which presents a conundrum: How can a country simultaneously develop its public economy and its administrative and governing capacity?

The evidence from countless examples in every region of the world over many hundreds of years suggests that societies overcome this conundrum by creating mechanisms that allow citizens to self-organize and, where appropriate, to partner with local and national governments to allocate and manage resources at the community level.¹ Acting as individuals, communities, and cooperative associations, citizens rather than governments become the engines of growth and development.

¹ For an overview of a broad range of community driven development projects, see Philippe Dongier, Julie Van Domelen, Elinor Ostrom, Andrea Rizvi, Wendy Wakeman, Anthony Bebbington, Sabina Alkire, Talib Esmail, and Margaret Polski. 2000. "Community-Driven Development." In *The Poverty Reduction Sourcebook*, Volume I, Chapter 9. Washington, D.C.: The World Bank. For evidence on self-governed resource management systems, see the extensive work of Elinor Ostrom. For an overview of growth and development in the developed economies, see Margaret M. Polski. 2008. *Wired For Survival: The Rational (And Irrational) Choices We Make, From The Gas Pump To Terrorism*. Chapter One. Financial Times Press.

The rationale for self-governed citizen driven development is straightforward: Citizens are often the most legitimate, informed, and reliable source of information about not only their own priorities, but what is feasible in their community. And when citizens govern their own public economies, they have an incentive to better utilize goods and services, maintain facilities, contribute to the cost of public and quasi-public goods and services, and more efficiently employ investment funds.²

Not only does citizen-governed resource allocation simultaneously develop public economies on a large scale without substantially increasing government capacities, it strengthens democracy, increases confidence in government and the economy, stimulates the development of private and civic sectors, provides a means to avert brain drain, engages diasporas, and encourages émigrés to return and rebuild their countries.

Self-governed citizen driven development exists when communities control decisions about resource allocation, including the processes associated with identifying preferences and needs, prioritizing these needs, conceptualizing projects, identifying the costs associated with projects, raising revenues and arranging finance for projects, making investment decisions, monitoring and evaluating provision and production of goods and services, and reinvesting surpluses. In short, development occurs when citizens participate in resource allocation.

Contrary to a great deal of received wisdom, citizens already participate in resource allocation in developing countries however typically their efforts are not understood or effectively aligned with the public budgeting efforts of government representatives, philanthropists, and other development assistance partners. Misalignment between citizen driven and public resource allocation processes leads to coordination failures, missed opportunities, ill-spent resources, and sub-par political and economic performance. Coordination can be improved if those who are entrusted with public budgeting develop mechanisms and processes to better align self-governed citizen driven resource allocation activities with public resource allocation activities.

Public Budgeting: A Tool For Coordinating Resource Allocation

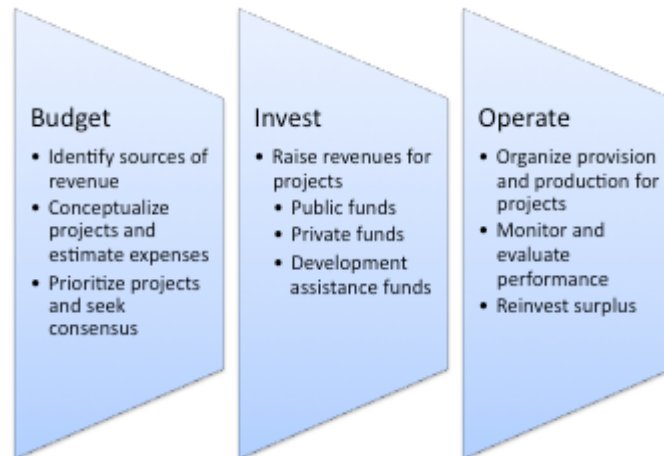
In a recent white paper on strengthening local government budgeting and accountability, Schaeffer and Yilmaz argue that budgeting is a critical tool in public finance and development efforts and a means to improve political and administrative decision-making at national and local levels.³ Because public budgeting is the primary resource allocation tool of government, the annual budget is a logical place to focus capacity building efforts.

² Ibid.

³ Michael Schaeffer and Serdar Yilmaz. 2008. "Strengthening Local Government Budgeting and Accountability." The World Bank Social Development Department Policy Working Paper 4767. November.

Public budgeting is a process that involves a series of steps that link policy, financial planning, and public and private action. The budgeting process involves identifying sources of revenue for social and public works projects, conceptualizing the objectives, scale, and scope of projects, estimating the expense involved in developing and sustaining projects, prioritizing projects, and allocating responsibilities and resources to project development, operation, and maintenance. Public budgets govern investment activities to raise funds to finance projects, and operations activities to organize production, service delivery, monitor and evaluate performance, and reinvest surpluses.

Figure 2: The Role of Public Budgeting in Resource Allocation



While there are many ways to budget and better align citizen-driven resource allocation activities, effective strategies and tactics are tailored to complement and improve upon existing processes and capacities. Several principles for designing alignment efforts can be gleaned from research, anecdotal evidence, and experience:

- Public budgeting is a political process and participation matters: The outcome is a political document that reflects the values, preferences, and priorities of those who are involved in the decision making process.
- Budgeting processes are deeply rooted in public policy making and planning and must be consistent with these processes.
- Public budgeting and resource allocation involve a deep understanding not only of physical, social, financial, and technological potentials, but also of political

and economic interests, existing and potential coalitions, opportunities for cooperation, and potential for conflicts.⁴

- Public-private coordination requires a legal framework, enabling legislation, and political support. It also requires an operating framework that clearly defines who may participate, roles, responsibilities, authorities, and methods.
- Capacity building for policy makers, administrators, citizens, and civil society organizations to design and implement enabling institutional frameworks, processes, and methods.

Building Capacity

To improve the alignment between existing citizen driven resource allocation processes and public budgeting processes, countries invest in building resource planning and public budgeting capacity at all levels and in all sectors of society. Capacity building includes education about general principles, training in specific methods and techniques, developing supportive policies, procedures, and methods that are responsive to indigenous needs and preferences, investing in communications and information management infrastructures, extensive consultation, policy making, administrative rule making and adjudication procedures, and so on.

Following is a general outline for a resource allocation capacity building program that can be tailored to fit particular development circumstances.

Goals

The goals of a program are to build indigenous capacity in citizen driven resource allocation and public budgeting processes, and to align these processes to achieve sustainable growth and development.

Objectives

The objectives of a program are to:

- Develop a shared understanding among citizens, policy makers, and public administrators of existing indigenous citizen driven resource allocation and public budgeting processes.
- Develop a comprehensive understanding of alternative approaches to citizen driven resource allocation and public budgeting processes.
- Identify opportunities to improve existing processes and to better align citizen driven resource allocation with public budgeting processes.

⁴ For an analytical framework, see Margaret Polski and Elinor Ostrom. 1999. "An Institutional Framework for Policy Analysis and Design." Workshop in Political Theory and Policy Analysis Working Paper W98-27. Indiana University, Bloomington, IN.

- Align citizen driven and public budgeting processes to improve the effectiveness of resource allocation.

Activities

Because the goal of a program is to increase indigenous capacity, it is best to have a core group of indigenous experts organize and lead program activities, relying principally on indigenous resources. They may choose to obtain and use external assistance to augment their expertise and resources but it is better if they do so in a way that assures that program investments expand the scale and scope of indigenous expertise and capacity for public service, research, analysis, and policy making.

Ways to augment indigenous expertise and resources include mixing indigenous and external experts in working and advisory groups; creating pools of funds from indigenous and external sources; participating in international professional associations and multilateral standard setting groups; and forging partnerships between indigenous groups and external groups such as university-to-university exchanges, government-to-government exchanges, business-to-business exchanges, and so on.

The principle activities or “deliverables” for working and advisory groups in this program include:

- Document and develop indigenous understanding of existing resource allocation processes.
- Develop widespread indigenous understanding of alternative approaches.
- Identify opportunities to improve indigenous processes.
- Improve and align citizen driven and public budgeting processes.

Evaluation

While it is better if the effectiveness of a program is measured against indicators that reflect the specific performance objectives of program designers, some general examples of performance indicators include changes in:

- Civic knowledge of indigenous resource allocation processes as measured by periodic public surveys.
- Civic participation in resource allocation processes.
- Availability of useful information about resource allocation and public budgeting activities.
- The extent and quality of public finance curriculum as measured by external reviews by qualified evaluators using generally accepted standards.
- The effectiveness of citizen driven and public budgeting processes.

About The Author

Margaret M. Polski is a Political Economist with over twenty years experience leading start-up, turn-a-round, and transformation initiatives in government, business, and civic sectors. Her research interests are growth, development, and the science of human behavior and she is the author of numerous publications on research and policy issues in these areas.

Currently a Research Affiliate at the Krasnow Institute for Advanced Studies at George Mason University, Dr. Polski has previously served as an Executive Advisor to security and defense teams in the consulting firm Booz Allen Hamilton; Senior Advisor in the Africa Bureau of the U.S. Agency for International Development; a Management Consultant with the Diel Group, Inc. and A.T. Kearney; and held executive positions with AMERICORD, Inc., Check Technology Corporation, Santa Cruz Imports, and BMC Industries. She has a Ph.D. from Indiana University, an M.P.A. from the Kennedy School of Government at Harvard University, and a B.E.S. from the University of Minnesota.

Dr. Polski's expertise includes:

- Economic growth, development, and the science of human behavior
- Program, project, and process management
- Strategic and policy analysis and planning
- Assessments and problem solving to improve performance
- Start-up, venture, transaction, and alliance management
- Due diligence and post acquisition assimilation
- Complex negotiations and dispute resolution
- Research, writing, teaching, and speaking for diverse audiences

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