



# Women in Informal Employment: Globalizing and Organizing

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## How to Analyse Government Budgets from an Informal Economy Perspective



# WIEGO Technical Briefs

The global research-policy-action network Women in Informal Employment: Globalizing and Organizing (WIEGO) Technical Briefs provide guides for both specialized and non-specialized audiences. These are designed to strengthen understanding and analysis of the situation of those working in the informal economy as well as of the policy environment and policy options.

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# Introduction

## Background

In 2009 Women in the Informal Economy – Globalizing and Organizing (WIEGO) commissioned four country papers analysing government budgets from an informal economy perspective. The papers analysed budgets relating to informal workers in one city in each of the four countries – Belo Horizonte in Brazil, Lahore in Pakistan, Metropolitan Lima in Peru, and Quezon City in the Philippines.

These technical notes draw on the experience of the researchers who did the informal economy budget analysis (IEBA) in these four countries. The notes are intended to assist others who might want to do similar analysis in their own cities and countries.

The country researchers who undertook the studies were Ana Paula Salej in Brazil, Khawar Mumtaz and Nadia Saleem in Pakistan, Lissette Aliaga Linares in Peru, and Florencia Casanova-Dorotan, assisted by Phoebe Cabanilla, Maria Corazon Tan and Maria Antonette Montemayor in Philippines.

As discussed below, the way government budgets are presented varies widely across countries, and also across the different levels of government in a single country. Variation occurs, for example, in terms of format, as well as in terms of the amount of information presented. These notes therefore cannot tell you exactly how to do IEBA in your own country, but they can tell you about some of the information that might be available, and some of the methods you can use to analyse and present the information you find.

## Sources of information

The notes focus on the budget documents produced by government. The budget documents are not the only sources of information that can be used by an IEBA researcher. You will, for example, also want to look for other documents produced by research agencies, civil society organisations and donors about the situation of informal workers and the government initiatives that might assist them. You will also want to look for other government documents such as sectoral plans and annual reports of agencies. You should also look on the internet. The Peru IEBA researcher, for example, found that the government of that country produces detailed monthly budget tables on the internet, and these tables provided very useful information for her analysis.

Documentary research can be supplemented with interviews with government officials responsible for the key government initiatives that target or otherwise assist informal workers. These interviews will add detail and nuance to what is written in the budget documents. Further, if at all possible the researcher should interview representatives of informal workers – either the workers themselves, or their organisational representatives. This should be done before starting on the detailed budget analysis as these interviews will help you understand the situation of informal workers and their views on whether (and how) government is currently assisting them, and how government might assist them in future.

While these other sources of information are important, budget documents constitute the key source for IEBA analysis. Further, if we hope that informal workers and their organisations will continue to use IEBA-type information over several years, budget documents are a useful source because they are produced on an annual basis.

## What is IEBA?

IEBA draws inspiration from gender-responsive budgeting initiatives and participatory budget initiatives. *Gender-responsive budgeting* initiatives take many forms and can involve diverse actors. However all the initiatives have the underlying question as to how government budgets differentially address the needs and interests of women and men, girls and boys. *Participatory budget initiatives* provide opportunities for ordinary citizens and/or representatives of organised groupings, to participate in decision-making around how government budgets are allocated. They can also involve citizens and group representatives in implementation and monitoring of projects for which budgets have been allocated.

IEBA asks how government budgets address the needs and interests of different groups of informal workers. It also investigates what opportunities exist for informal workers or their representatives to participate at different stages of the budget process.

## Defining ‘informal’

There are many differences in how people understand the term ‘informal’ in relation to the economy and employment. There are also differences in how countries define and measure informal employment. This means that you need to be very careful when presenting statistics on informal workers.

As its name indicates, WIEGO’s interest is in informal employment, or what is elsewhere referred to as the informal ‘economy’. This is often confused with the concept of the informal ‘sector’.

The informal sector is defined on the basis of the characteristics of the *enterprise*, while the informal economy is defined on the basis of the employment arrangements of the *individual worker*. In national accounting terms, formal enterprises are distinguished by the fact that they have accounts that are separate from those of the household i.e. they are separate ‘enterprises’. In contrast, informal sector activities form part of the institutional sector ‘households’ in national accounts i.e. they are ‘household unincorporated enterprises’.

In terms of workers, within the informal sector one can distinguish both *self-employed workers* and *employees*. Some of the self-employed work alone, and are then called ‘own account’ workers. Others employ others to work alongside them. Those who have only unpaid family members or casual paid workers working alongside them are officially defined as own account workers. Further complicating neat definitions, men are more likely to be named as the owner-operators while women doing equivalent work in the same businesses are named as unpaid family workers. The International Labour Organisation defines the self-employed as including employers, own account workers, unpaid family workers and members of producers’ cooperatives. However, statistical agencies, governments, researchers and others often use the terms differently from their strict definitions.

As noted above, informal employment is defined on the basis of the employment arrangements of the individual worker. Informal employment as a whole includes two broad categories of workers, who can be further divided into sub-categories as follows:

Informal *self-employment* includes:

- employers: owner-operators who hire others
- own account workers: owner-operators of single-person units or with unpaid family workers
- unpaid contributing family workers: family members who work for the family business without getting payment
- members of informal producers' cooperatives.

Informal *wage employment* consists of employees without formal contracts or social protection through their work. For these wage workers the employment relationship is not subject to standard labour legislation, income taxation, social protection or entitlement to the employment benefits specified in a national definition. The main sub-categories of informal wage workers are:

- informal employees: unprotected employees with a known employer (either an informal enterprise, a formal enterprise, or a household)
- casual or day labourers: wage workers with no fixed employer who sell their labour on a daily or seasonal basis
- industrial outworkers: sub-contracted workers who produce for a piece-rate from small workshops or from their homes. This category is sometimes called home-workers.

In practice, virtually all workers in the informal sector are likely to be part of the informal economy in that their work characteristics will usually not qualify them as formal workers because they will not have access to secure work and social protection through their work. However, informal workers can also be found in formal enterprises. The term informal economy is thus a wider one than informal sector.

For statistical purposes the concept of informal sector can be operationalised in several ways, including on the basis of the number of regular employees of the enterprise, and whether the enterprise is registered at national government level. The concept of informal economy is operationalised by asking questions about the nature of the worker's employment arrangement, such as whether they have a written contract and whether they have access to specified benefits such as social security through their work. The characteristics used to operationalise the concept vary across countries even more than the variation in respect of informal sector. And fewer countries produce statistics on informal employment than on the informal sector.

The situation is further complicated by the fact that some countries exclude the agriculture sector when defining the informal sector, and some also exclude domestic workers.

All the above complications mean that you need to be very careful when presenting statistics on informal workers. Check carefully to see what definition has been used in the sources of your statistics. Also be aware that the sources may have used definitions incorrectly. Be especially careful when using statistics from more than one source, as the two sources may not be using the same definition and you will then be comparing things that are not comparable.

## Getting started

### Selecting categories of informal workers for IEBA

The discussion of the definition of informal employment above reveals that it covers many very different groups of workers. These groups will have some aspects of their situation, needs and interests that are similar to each other, but there will also be important differences in the situation, needs and interests of different groups. If we try to do IEBA for informal workers as a whole, we will not be able to go beyond broad general statements.

For this reason, for the four country pilot studies, each researcher was asked to select three types of informal worker that were common in her country. The table below shows the types of workers chosen for each country. All four countries looked at street vendors and waste pickers, and two countries looked at home-workers or home-based workers. ('Home-based workers' include all workers who work from home, whether self-employed or doing work for others). 'Home workers' (who are sometimes called 'industrial outworkers') is a sub-category of home-based workers consisting of those workers who do 'putting out' work for factories and other producers or their sub-contracting intermediaries.

#### Types of workers by country

	Brazil	Pakistan	Peru	Philippines
Household (domestic) workers			✓	
Home/home-based workers		✓		✓
Street vendors	✓	✓	✓	✓
Waste pickers	✓	✓	✓	✓

The choice of worker in each country was partly influenced by the focus of WIEGO's Inclusive Cities project, which has a special interest in home-workers, street vendors and waste pickers. The choice was also influenced by the state of organisation of different groups of workers. As its name reveals, WIEGO is interested in promoting organisation of informal (women) workers so that they can advocate and negotiate for their interests. WIEGO's hope is that worker organisations will be able to use the IEBA to negotiate and advocate with officials and decision-makers at different levels of government. Researchers thus tried to choose groups of workers who were already organised. These organisations were, where possible, interviewed during the research process to find out about the needs of workers. Once the research was finished, the research was presented and discussed at workshops that brought together organised workers and others who might be interested in using the research findings.

## Levels of government

In each of the four pilot countries the researcher focused on the situation of the selected types of informal workers within a particular municipality or local government area. After selecting this area, the researcher started at central (national) government level and worked downwards through the levels of government looking at the budgets of all levels of government within which the chosen municipality or area fell. As expected, the number of levels differed by country given the differences across countries in how government is structured. Further, the amount of emphasis given to a particular level differed according to how much money and budget decision-making power lay at different levels of government in the different countries, and which levels bore primary responsibility for functions of most relevance to the chosen types of informal workers. In Pakistan the researcher noted that the lowest level of government had so little money that its budget did not merit more than a few sentences.

When preparing to do IEBA in a particular country, the researcher needs to determine both how much money is spent at a particular level of government, and who has decision-making power over how that money is spent. In some cases the role of a particular level of government may be largely administrative i.e. this level of government is responsible for spending and managing the money but another level of government will have decided on what the money should be spent on. The level that administers and manages does have some power, for example in determining how efficiently the money is used, and who is targeted. But if workers want to advocate for more money to be allocated, or for money to be allocated for a different purpose, then they will need to target their advocacy at the level of government that makes these decisions.

## Scope

The four pilot country papers differed in terms of what they included when analysing budgets and the related policies benefiting informal workers. At one extreme, the Philippines study included all departments with a strong poverty alleviation component for the central government budget analysis. The focus in the Philippines paper is thus on informal workers alongside the poor more generally. The Peru paper also included discussion of the cross-sector *Creceer* National Strategy which focuses on poverty alleviation. This focus is introduced for two reasons. Firstly, its focus on poverty means it could be relevant for informal workers. Secondly, *Creceer* budgeting is meant to follow the Budget by Results Law of 2008, which aims at better integration of planning and budgeting. Local governments, while not included in the Budget by Results Law, are encouraged to develop activities that can complement these efforts using participatory approaches. The researcher therefore included *Creceer* funding because of its link with participatory budgeting and the linked opportunities for informal workers to play a role in the budget process.

The two other country papers – Brazil and Pakistan – had a narrower focus, but included some references to how broader programmes and budgets affect informal workers. For example, the Pakistan report notes that electricity load-shedding was among the key complaints of home-workers interviewed.

# Understanding the budget books

## The budget books

The International Budget Partnership's Open Budget Initiative<sup>1</sup> identifies seven budget documents that all governments should produce, at least at central level. These documents are:

- Pre-budget statement: This document should be issued at least one month before the budget proposal, and should give the overall level of spending, revenue and debt levels for the next financial year.
- Executive's budget proposal: This document should be issued at least three months before the start of the budget (financial) year. The document should give a detailed description of planned allocations for the next financial year, and forms the basis for debates in the legislature.
- Enacted budget: This document reflects the budget voted by the legislature. The document will usually have less detail than the executive's budget proposal as the legislature does not vote on all the detail.
- In-year reports: These should be issued every month or quarter during the year that the allocated budget is implemented.
- Mid-year review: This report should be issued after the first six months of the financial year are complete. It should provide an update on the budget to be spent on different activities over the remaining six months of the year.
- Year end report: This report should be issued within six months of the end of the budget year, and should give a detailed picture of the government's activities over the past year.
- Auditor's report: This document is the report of the country's auditing office on whether, and how, government implemented the budget voted by the legislature.

Some countries will not have all these documents, and many do not keep to the recommended timelines. But most countries will have a set of documents that is similar to what is listed above.

These technical notes focus mainly on the executive's budget proposal document, which is tabled in the legislature. However, many of the points raised in relation to this document are also relevant when examining other documents.

## Allocations and expenditures

Allocations are the amount of money that the legislature 'votes' before the start of the financial year. In some countries and at some levels of government the budget books may show only one allocation for each item. Typically this would be the budget allocation for the coming financial year. In contrast, in many countries the budget books will show more than one number. Where this is done, comparisons of the different numbers for a particular item can sometimes give us important IEBA messages.

In some countries the IEBA analyst commented on differences between the original budget allocations and revised allocations. Revised allocations generally occur after mid-year when government agencies may, for example, request additional funds to meet changes in circumstances that were not foreseen at the time the budget was drawn up. Sometimes these

<sup>1</sup> International Budget Partnership. 2008. *Open Budgets. Transform Lives. The Open Budget Survey 2008*. Washington DC.

revisions simply reflect the inability of a government agency to spend the allocated funds. The formal revisions are sometimes referred to as a supplementary budget. Different countries have different rules about supplementary budgets.

Budget books may also show numbers for actual expenditure for past years, or expected actual expenditure for the current financial year. Sometimes the budget books show the actual expenditure alongside the allocated expenditure for the same year. In other cases the researcher would need to find the previous year's books to see how much was allocated and compare it with the number given for the actual expenditure.

While allocations represent planned expenditure, actual expenditure reflects what government actually spent. If actual expenditure is less than allocated expenditure for an item that benefits informal workers, we can argue that government has not kept to its plan (or 'promise') to informal workers on this item. If actual expenditure is more than allocated expenditure on items that benefit informal workers, we can argue that this shows that the need is greater than realised by the legislature when drawing up the previous budget.

Budget books may show budget numbers for a series of years. The books may include allocations for past years. They may also include allocations expected over the next few years. The latter happens, in particular, when government develops what is called a 'medium-term budget framework' of three to five years.

The section on calculations below describes how to compare budget numbers across years. Comparison of numbers across past years helps us see if government's attention to informal workers is increasing or decreasing. Comparison of planned numbers into the future alerts us to possible problems that informal workers will face in coming years. This gives us time to prepare longer-term advocacy to try to change problematic numbers.

## Delivery indicators

Many countries have introduced public finance reforms that attempt to move the country towards some form of performance-oriented budgeting. Different terms are used to name the reforms and the type of budgeting which the countries aim to achieve. However, a common element across many of the reforms is to introduce a closer link between plans and budgets (so that budgets become a means of implementing agreed plans rather than simply a bookkeeping exercise) and to include non-monetary 'performance' indicators into the budget-related reporting.

The non-monetary indicators typically focus on inputs (such as equipment bought for institutions providing technical training relevant for informal workers), outputs (such as number of micro-enterprises provided with loans), and outcomes (such as the unemployment rate). Many people stress the importance of outcomes as the ultimate measure as to whether government activities have achieved what they aim to do. However, in most cases you cannot prove that it was a particular activity that caused the outcome. For example, a drop in the unemployment rate might have been caused by an increase in the number of micro-loans provided. But the drop might also have been caused by many other factors, such as the collapse of a major manufacturing firm which outsourced work to informal workers. For IEBA purposes, outputs are a useful and more direct indicator that shows whether money allocated is used and reaches informal workers. Countries record indicators in their budget books in different ways. Some report target indicators

for the coming year when recording allocations for that year. A few also provide information on achieved indicators for the past year. Others might provide this information in other documents, such as the annual reports of the relevant government agencies. Some may include the indicator information in internal planning and budget documents but not make them publicly available. You will need to find out what is available in terms of indicators in your country.

Even if your government does not collect and publish indicator information, you may be able to obtain it elsewhere. For example, the Philippines IEBA researcher examined evaluation reports and research reports from civil society that provided evidence of ‘delivery’ and ‘impact’ achievements of the various programmes for which the budget was allocated.

## Budget classifications<sup>2</sup>

Budget books present government budgets in different ways. Which classifications are used, and the categories used for the chosen classifications, differs from country to country. You will need to look at the budget books for your country and assess which of the different available formats is likely to give you the most useful information.

The first type of classification is referred to as the *administrative or organisational* classification. This classification lists expenditures and revenues according to the main government agencies, such as ministries at central level, and departments at lower levels of government. Within each agency, the budget is likely to be further disaggregated by units within that agency. These units might be called departments, directorates or some other name. This classification is important because the agencies are usually responsible for drawing up and implementing their budgets. This classification therefore helps in showing who is directly responsible for spending of particular money.

The second type of classification is referred to as the *economic* classification. This classification lists expenditures according to categories such as personnel expenses (wage, salaries, benefits, allowances), goods and services, subsidies and transfers, and interest payments. This classification is useful in showing more clearly what money is being used for. For example, in a social protection programme that provides grants, this classification will show how much of the money is likely to reach beneficiaries (probably recorded as ‘transfers’) and how much is spent on other things such as the salaries of government officials who administer the scheme.

The third type of classification is referred to as the *functional* classification. This classification lists expenditures according to broad areas of activity such as general public services, education, health, public order and safety, economic affairs, and social protection. (The ‘general public services’ category is used for expenses that are related to the running of government, including expenses of the legislature.) This classification might seem similar to the administrative classification but it is not the same. For example, in Brazil the Ministry of Labour accounts for the largest proportion of money allocated for the labour function, but the Ministry of National Integration, Ministry of Industrial Development and Foreign Trade also have some allocations that are classified as labour under the functional classification.

The fourth type of classification is referred to as the *programme* classification. This classification lists expenditures according to groupings of activities that are considered to make up a ‘programme’. This type of classification is generally used by countries that have introduced some

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<sup>2</sup> This section draws heavily on training materials developed by the International Budget Partnership.

form of programme or performance-oriented budgeting in which government wants its budgets to be clearly linked to planned programmes with clear objectives. This classification is important because it is often accompanied by non-financial information, such as performance targets and indicators, related to the programme. As discussed above, this allows us to see what the money is actually delivering rather than simply what is spent.

Often more than one of the above classifications is used simultaneously. For example, often budget books present an organisational classification of expenditure by agency, and within each agency the books present the economic classification that shows how much is spent on salaries and wages, how much on goods and services, and so on.

## Recurrent and development budget

Some countries have budgets that are divided into recurrent (or operational) and development budgets (or their equivalents). Sometimes the two parts are presented in a single book, while in other cases they are presented separately.

The way the two components are defined differs between countries. The distinction often, is similar to that between local and donor funding, with the recurrent budget (mainly) funded by local revenue (and sometimes referred to as the 'revenue' budget) and the development budget (mainly) funded by foreign grants and loans. The division is sometimes linked to the division between ongoing operational (or 'current') costs that are likely to recur from year to year, and 'capital' or 'project' expenditure that will occur over a specified period and then end.

The division into recurrent and development may be accompanied by different budget processes. For example, the Ministry of Finance is generally responsible for the recurrent budget, but the Ministry of Planning or Planning Commission may be responsible for developing and managing the development budget in line with the country's multi-year development plan. In some countries, such as Philippines, the multi-year development plan and accompanying public investment plan reflect the policies of particular presidents and administrations. In these countries, there can be quite significant changes in the shape of these plans between different administrations.

The division into recurrent and development budget is commonly found at central government level, and perhaps at provincial or state level. It is less likely to be found at municipal level. However, at municipal level you may find the budget clearly divided into 'current' and 'capital' expenditure. In some ways the division between current and capital is similar to that between recurrent and development in that the former is ongoing expenditure that is likely to continue each year (such as salaries) while the latter is expenditure that will end after a specified period (for example building of a new market).

If a division similar to recurrent versus development exists in your country, you as IEBA analyst need to understand both the 'theoretical' way in which the two parts of the budget are distinguished and the way in which this happens in practice. This is important because often practice differs from theory.

Ideally, the IEBA should look at both parts of the budget. However, you may find that one part is more difficult to analyse from an IEBA perspective. For example, in some cases it is only in the development budget that one can identify programmes and projects and thus do meaningful

analysis of assistance to informal workers. And it is likely to be only the capital or development budget (or part of it) that is up for debate in participatory budget initiatives discussed below.

One question that is particularly important in respect of the development budget is whether the types of activities are appropriately placed there. As noted above, development budgets typically are meant to record projects that have a fixed time-line, such as projects that are supported by donor funding. The important question is whether the activity concerned is something that is appropriate to do for only a short period or whether, instead, it should continue indefinitely. If the latter, we need to ask what will happen in respect of the need that the activity is meant to satisfy when the project ends or the donor stops providing funds.

## Revenue

IEBA tends to focus on the expenditure side of the budget i.e. on what government is spending. However, every budget has two sides – expenditure and revenue – as every bit of money that is spent must first be obtained through revenue. Of the four pilot IEBA countries, the Peru report paid most attention to revenue. For example, for each allocation on which it focuses, the Peru report notes how much of the allocation comes from each of the various sources of revenue.

Government budget revenue can be divided into two types – *taxes* and *non-tax revenue*. Taxes are compulsory payments that government imposes on individuals, businesses and organisations. These payments are not given in return for any specific government service or activity. Instead, they are payments for the general running of, and service delivery by government.

The most common forms of taxes are income taxes which are paid by individuals and companies, and consumption taxes such as general sales tax, value-added tax, and excise tax (customs duties) that people, companies and organisations pay when they purchase goods or services.

The poorest workers will probably not pay income taxes as they should be below the income tax threshold. In contrast, everyone pays consumption taxes. Some ways of organising the other consumption taxes are more helpful than others for owner-operators of informal enterprises.

Non-tax revenue includes:

- User fees for government services, which are payments that individuals and companies make for specific goods or services. For example, street traders may pay rental to the municipality for the use of a stand, and home-based workers may make payments for the electricity and water that they use in their work. User fees also include money paid to obtain a license to operate particular kinds of businesses.
- Foreign grants and loans from international institutions and foreign governments, which are commonly referred to as 'aid'. Some of this money might go into the general 'pot' of government money as what is called 'direct budget support'. A lot of other money will be given by the donors for particular projects, or for use in particular sectors or by particular agencies.
- Internal grants and transfers, which represent money paid by one level of government to another.
- Fees based on natural resources (oil, minerals, timber, etc.) extracted by a company.

In most countries, income taxes will be primarily collected by the central government. This is also usually the case in respect of consumption taxes. Part of the money collected is then generally transferred to lower level governments. Some money may be transferred in the form of

unconditional lump sum transfers and the lower level government decision-makers can then decide how to allocate the money. In most countries the amount of money allocated to each lower level government is determined by factors such as levels of poverty and the lower level's own level of economic activity and revenue-generating capacity. So, for example, a larger amount 'per head' will be allocated to poorer areas because the people living in these areas are less able to provide for their own needs.

Other money may be transferred between levels of government in the form of conditional grants. This is money that is allocated for a purpose specified by the central government, or specified by the provincial government to lower levels. For example, the central government might allocate money to local government saying that it must be used for micro-credit or other assistance to poor households.

The difference between conditional and unconditional transfers and grants is important for IEBA purposes as it affects the level at which workers and their representatives should target advocacy. If, for example, you want to engage in advocacy around a service or activity that is funded through a conditional grant, advocacy around the amount of money allocated will need to be directed at central government. Advocacy around how the allocated money is used might need to be targeted at both levels of government, depending on how much decision-making power each has in terms of the operational and other details of the scheme.

Unlike taxes, which are concentrated at central level, user fees are more commonly found across different levels of government. Of particular interest for IEBA is the fact that user fees for goods and services as diverse as electricity, water, market stands and business licenses are frequently imposed by municipal governments. The IEBA research in Pakistan identified a range of user fees that could affect informal workers that were imposed at the lowest level of local government. Many of these were named as taxes, but were in fact user fees. They included animal tax, *tonga* or car tax, car parking, cycle and motor-cycle fee, and a fine on straying cattle.

In some countries lower level governments may not directly receive foreign grants and loans. Instead, only central government has the power to enter into these contracts. Where either central or lower level governments receive foreign money, it is often difficult to find out how it is used. In some countries the money may be recorded in the budget books. In other countries, the money may be 'off-budget'. Having off-budget money reduces the transparency of budgets and makes citizen oversight and advocacy more difficult.

Analysis of tax generally distinguishes between regressive, proportional and progressive taxes. A *regressive tax* is one where higher-income people pay a smaller share of their income than lower-income people pay. A *proportional tax* is one in which the tax represents the same share of income for all taxpayers. A *progressive tax* is one in which higher-income people pay a larger share of their income than lower-income people pay.

We can apply the same idea to user fees. For example, if all market traders are required to pay the same amount for a trading license, then the license fee will be regressive, because those who have less profitable businesses will pay a larger proportion of their income. Similarly, if heavy users of electricity and water pay a lower per-unit price for these services, then the user fees for the services are regressive.

## The budget process and actors

As with other aspects of budget, the budget process differs from country to country. Nevertheless, there are some features that are common across most countries.

Most descriptions of budget process focus on the central government level. The process is typically described as including:

- Modelling of the economy to predict what is likely to happen in the coming year
- Estimation of likely revenue for the coming year
- Determination of ‘ceilings’ (maximum amount) to be allocated to each government agency
- Formulation of agency budgets within the ceiling, in line with a ‘call circular’ issued by the Ministry of Finance (and sometimes by the Planning Commission)
- Approval of the composite budget of all agencies by Cabinet
- Tabling of the composite approved budget in the legislature
- Budget debates in the legislature
- Voting of the budget into law (perhaps with amendments, if the legislature has powers to make amendments)
- Transfer of money to the spending agencies
- Delivery of goods and services by the spending agencies
- Reporting on expenditure by the spending agencies
- Auditing of expenditure after financial year-end.

At lower levels of government the budget process is likely to be similar. However, lower levels of government would probably not include the step of modelling of the economy.

The list of steps above does not seem to show any role for civil society. Instead, the executive arm of government dominates at each step except for those relating to the legislature in the middle of the process.

However, some countries do allow for civil society engagement. Some, for example, engage civil society and other actors in discussions around a broad budget framework that is presented before the agencies begin formulating their budgets. Some involve representatives of civil society in the teams that develop the sectoral plans that inform the formulation of agency budgets. Some make space for civil society representatives to make input during the budget debates in the legislature.

At local government level more and more countries are also organising participatory budget processes in which ordinary citizens and/or representatives of interest groups can debate, prioritise and together decide how specified pots of money in the budget are spent. In some countries these processes revolve around an amount of money that is allocated to geographical sub-areas, while in others it might be that each elected politician is given a lump sum and is meant to consult their ‘community’ on how to spend it. (This latter approach is sometimes

referred to as a ‘community development fund’.) In some countries the allocated money must be spent on ‘projects’ of a particular type, such as infrastructure. In other countries, the choice as to what money is spent on is more open.

These opportunities for citizen engagement are important for IEBA because they may provide space for informal workers and their representatives to advocate for money to be spent in a way that addresses their needs and interests. But we must also be alert to potential weaknesses and disadvantages to the participatory approaches. Questions that can be asked include:

- What proportion of the budget is open to participatory debate? Often the operating budget, which can consume the bulk of the budget, is not included in the participatory exercise. So citizens are left discussing a minor part of the budget.
- How are the amounts for the participatory budget divided between different sections of the local government area? Is this done according to poverty levels? Or does each area get the same amount regardless of need?
- What types of expenditure are allowed? For some groups – and perhaps women in particular – provision of additional services may be more important than new infrastructure such as buildings or roads.
- What happens when the items prioritised by citizens add up to more than the budget allocated for participation? Who decides which items on the list will be funded, or funded first?
- Who qualifies to participate in the participatory budget process? What are the monetary, time and other costs involved in participation? Do participants need to have particular educational or language skills to participate? Are the meetings held at a time that is convenient for everyone – for example, not at times when trade is very busy for street traders, or early evenings when women are likely to be busy with household chores, or at night when women may face restrictions in leaving their homes?

## Presenting your findings

### Calculating percentages

Percentages are often used to show what proportion one number makes up of a larger number of which it is part. For example, a percentage can be used to show what proportion of a city’s budget is allocated to economic affairs. This calculation is easy. Simply divide the number for the ‘whole’ thing (e.g. the city’s budget) by the number that is allocated to the ‘part’ thing (e.g. the allocation for economic affairs).

In reporting percentages, do not use more than one decimal place. Adding extra decimal places makes it more overwhelming for the reader. It also makes it more difficult to see the overall patterns. It can also be misleading, because if two numbers differ only beyond the first decimal place, they are so similar that we should not be worrying about the difference.

Percentages can also be used to show change over time. For the IEBA, for example, you may want to show how this year’s allocation for a particular programme differs from last year’s

allocation. One way of showing change is simply to say that this year's budget is X dollars or pesos larger than last year's budget. But the real relevance of an increase of X dollars or pesos depends on how big the allocation was last year. So, for example, an increase of 1,000 is much more significant if last year's budget was 9,000 than if last year's budget was 900,000. A percentage calculation shows the size of the increase (or decrease) relative to the original size of the budget.

To calculate the percentage change (or rate of increase) between this year and last year, you should use the equation:

$$\text{(ThisYearAmount - LastYearAmount)} \div \text{LastYearAmount} = \text{Percentage Increase}$$

Remember, when reporting your findings, that there is a difference between a percentage increase and an increase expressed in terms of percentage points. If, for example, last year the economic affairs allocation was 5% of the city's budget, while this year the economic affairs allocation is 7% of the city's budget, it is *not* correct to say that the economic affairs allocation has increased by 2%. The correct way to describe this change is to say that the economic affairs allocation has increased by 2 percentage points.

In some countries budget books present allocations for a series of years. And even if a single book does not contain more than two year's numbers, a diligent researcher may look at the budget books for several years to construct the series of allocations for a particular programme over four or five years. The researcher may then want to calculate the average annual rate of change (increase or decrease) in the allocation.

Unfortunately, the formula for doing this calculation is not simple. You cannot simply take the number for the first year and the number for the second year, calculate the percentage, and divide by the number of years. That calculation will give the wrong number because these rates are 'compound' i.e. each year's change builds on the previous years' changes.

Fortunately, Excel has a special function, RATE, that will do the calculation for you automatically. The instructions for using this function are as follows:

- In a cell in the spreadsheet, type "=RATE".
- Type an open parenthesis to start the equation, "(".
- Then type the number of years of change the calculation covers. ("Years of change" means that this number will be one less than the number of years in the series. For example, if you have allocation numbers for five years, there are four years of change.)
- Then type 0, which is the way to indicate you want the average to be calculated.
- Then type the minus (negative) value of the number for the first year in the series.
- Finally, type the value of the number for the final year in the series.
- Type a closing parenthesis, ")", to end the equation.
- The rate of change should now be shown in the cell.

## Adjusting for inflation

The discussion above assumes that the value of money does not change over time. In reality, however, we know that most countries experience inflation. This means that the value of a rupee in 2010 is usually less than the value of a rupee in 2007. If we calculate percentage changes without adjusting for inflation, we exaggerate the extent to which budgets have increased over time.

A simple way of noting this point is to compare the percentage change in the budget allocation for two succeeding years with the inflation rate. For example, the Philippines IEBA report notes that while the total central government budget increased by 9.0% between 2007 and 2008, the inflation rate was slightly higher than this, at 9.3%. So the real value of the 2008 budget was a little less than the value of the 2007 budget.

This way of acknowledging the impact of inflation is simple, but it will be cumbersome and complicated if you want to make many comparisons, and across many years. Another way of acknowledging inflation is to adjust (or 'correct') the numbers so that they take the changing value of the currency into account.

Calculations that do not correct for inflation are referred to as being done in 'nominal' terms. If you correct for inflation, then your calculations will be done in 'real' terms that reflect the real changes in value.

To adjust figures for inflation, you need to know what inflation was for each of the years during the period you are analysing. Most governments publish a (consumer) price index or inflation index. This index is a table that takes one year as the 'base' year with which all other years will be compared. The base year is given a value of 100. If the inflation rate for the next year is 5%, this next year is given the value 105. The years before the base year will have numbers below 100 if prices are rising over the full period.

To adjust for inflation so that all numbers (for example, in relation to YearX) reflect the value in the current year (i.e. the year in which you are doing the analysis), use the following formula:

$$\text{YearXNominalValue} \times \text{CurrentYrInflationIndex} \div \text{YearXInflationIndex}$$

Inflation indices are usually based on detailed research that compares the current cost of buying a 'basket' of goods and services with the cost of that same basket at a previous period. This sort of research can only be done in respect of the past because we do not know what will happen to prices in the future. As a result, inflation indices are not generally available for future years.

The lack of an inflation index for the future presents problems when we want to comment on medium-term budget framework figures for the coming three or five years. If we do not adjust for inflation, the picture will be over-optimistic as it will seem that government is increasing allocations more than it is in reality. One way around this problem is to assume that inflation will continue at its current rate and construct an index for future years on this basis. An alternative solution to this problem is to use official government estimates, or estimates from respected financial or research institutions, as to the likely trend in inflation.

## Illustrating the budget numbers

As noted above, many people are intimidated by numbers. It can therefore be helpful to include some graphs in your report. But we suggest you consider the following tips if you decide to use graphs:

- If you show something in a graph, you do not need to include a table showing the same thing. Conversely, if you show something in a table, you do not need a graph. Having both a table and graph showing the same thing is unnecessary and repetitive. It makes the report longer than it need be.
- If you include a graph (or a table), tell the reader what the main ‘message’ of the graph or table is, to help them ‘read’ the graph/table.
- Graphs can also get too complicated. Keep them simple!
- Avoid three-dimensional graphs. They may look impressive, but they are more difficult to read than two-dimensional graphs and can sometimes be misleading as the reader’s eye is not sure which ‘edge’ is the correct one.
- Make sure that the axes of the graph are clearly labelled as to what they are measuring.
- Ensure that the graph or the text gives enough information to enable the reader to use it in advocacy and negotiations. For example, if you have a graph showing percentages, include the important percentages in the graph or in the text underneath.
- Do not use graphs to mislead your reader. For example, usually the graph’s axis should start at 0. Using a bigger number as the start (origin) of the axis may make the graph more dramatic, but it can be seen as a way of ‘lying’ with statistics.

## Style of presentation

Budget work can be complicated. The budget books are often thick and this makes them intimidating. The fact that the books are full of numbers makes them even more intimidating as many people are scared of numbers.

IEBA researchers need to overcome their own intimidation and fear. In practice, if one examines budget books calmly, they usually become less frightening. Firstly, the budget books are almost always organised according to standard formats. This makes the books quite boring, but it also makes them easier to understand once you have understood the basics of the formats used. Secondly, you will usually not have to read through all parts of the budget books. Budget books are generally organised according to the different agencies within government, such as ministries or departments. If you have a sense of what each agency is responsible for, you can concentrate on those that are most likely to have budget allocations that affect informal workers.

Even if you as a researcher overcome your fear, your research report is likely to intimidate many readers because your report will also have many numbers and will use some budget-related terms (jargon). Among those who will be intimidated are the informal workers and their organisers who we hope will use the research.

To address this problem, for the four-country IEBA pilot WIEGO decided to have two reports for each country. The first report (of about 30 pages) includes detail and some technical points.

The second, much shorter report of about 12 pages was written in simple language. The shorter report includes all the topics covered by the longer report, but does so in a simpler and summarised way that brings out the potential advocacy points.

The first report is important because when negotiating with officials and decision-makers workers and their representatives need to have all the important facts and figures. They also need to be able to show that they understand some of the detail as otherwise those with whom they are negotiating can use details to argue against them. The second report is important so that those who are most affected by the budgets understand in broad terms what the budget says, and can discuss and decide what changes they want to see in the budget.

## Structure of the main report

The four pilot countries structured their reports according to the following schema. This structure takes the reader logically through (a) understanding the situation to be addressed; (b) understanding how the government of the country is organised in terms of functions and funding flows; and (c) examination of the budgets of the different levels of government. The sections making up the recommended schema were:

- Brief description of the municipality, state/province and country, with information such as population, level of poverty and (sex-disaggregated) levels of employment and unemployment
- Basic and brief statistical profile of the informal economy in the country/locality, including statistics on the selected types of informal economy workers. For this section the researcher was expected to draw on existing research and reports from official government agencies, academic or research institutes, and elsewhere, rather than do primary research. The data for this section should, if at all possible, be sex-disaggregated.
- Brief description of the main problems facing the different types of informal economy workers.
- Brief description of the functions allocated to the different levels of government, focusing on those most relevant for informal economy workers. This should include a description of how financing of functions allocated to sub-national government happens e.g. through conditional or unconditional grants from central government, or through locally raised revenues.
- Budget analysis, organized by level of government and government agency:
  - Description of the policy, programme and projects (i.e. government activities) that affect the chosen informal economy workers.
  - Description and analysis of the budget allocated for these policies, programmes and projects. This should include description and analysis, where relevant, of the revenue side e.g. if the government is charging user fees for a particular service such as market space.
  - Information on who the policy, programmes and projects reach/affect – sex-disaggregated if possible.

## In conclusion

Remember that these technical notes are intended as tips. They are not intended as a strict guideline. You do not need to do all types of analysis referred to in these technical notes. You should also not feel restricted to these types of analysis. There are many others that you may find in the literature or even invent yourself!

**About WIEGO:** Women in Informal Employment: Globalizing and Organizing is a global research-policy-action network that seeks to improve the status of the working poor, especially women, in the informal economy. WIEGO builds alliances with, and draws its membership from, three constituencies: membership-based organisations of informal workers, researchers and statisticians working on the informal economy, and professionals from development agencies interested in the informal economy. WIEGO pursues its objectives by helping to build and strengthen networks of informal worker organisations; undertaking policy analysis, statistical research and data analysis on the informal economy; providing policy advice and convening policy dialogues on the informal economy; and documenting and disseminating good practice in support of the informal workforce. For more information see [www.wiego.org](http://www.wiego.org).

**About Inclusive Cities:** Launched in 2008, the Inclusive Cities project aims to strengthen membership-based organisations (MBOs) of the working poor in the areas of organising, policy analysis and advocacy, in order to ensure that urban informal workers have the tools necessary to make themselves heard within urban planning processes. Inclusive Cities is a collaboration between MBOs of the working poor, international alliances of MBOs and those supporting the work of MBOs. The following partners are involved in the Inclusive Cities project: Asiye eTafuleni (South Africa), AVINA (Latin America), HomeNet South Asia, HomeNet South-East Asia, Kagad Kach Patra Kashtakari Panchayat (KKPKP, India), the Latin America Network of Waste Pickers, the Self-Employed Women's Association (SEWA, India), StreetNet International, and WIEGO. The Inclusive Cities project is funded by the Bill and Melinda Gates Foundation. For more information, visit: [www.InclusiveCities.org](http://www.InclusiveCities.org).

