BRAZIL

Federal Public Financial Management Performance

Based on the PEFA Methodology

December, 2009

Abbreviations and Acronyms

ASSEC	Assessoria Econômica	Office of the Economic Advisor
BCB	Banco Central do Brasil	Central Bank of Brazil
CMPOF	Comissão Mista de Planos, Orçamentos Públicos e Fiscalização	Joint Budget and Finance Committee (of the Legislature)
FMIS	Sistemas Integrados de Administração Financeira	Integrated Financial Management Systems
IGP-M	Índice Geral de Preços do Mercado	General Index of Market Prices
IT	Tecnologia de Informação	Information Technology
LDO	Lei de Diretrizes Orçamentárias	Budget Guidelines Law
LOA	Lei Orçamentária Anual	Annual Budget Law
LRF	Lei de Responsabilidade Fiscal	Fiscal Responsibility Law
MoF	Ministério da Fazenda	Ministry of Finance
MoP	Ministério de Planejamento, Orçamento e Gestão	Ministry of Planning, Budget and Management
PAF	Plano Anual de Financiamento da Dívida Pública	Annual Public Borrowing Plan
PPA	Plano Plurianual	Multi-Annual Plan
PLOA	Projeto de Lei Orçamentária Anual	Bill of Annual Budget Law
RFB	Receita Federal do Brasil	Secretariat of Federal Revenue
SECEX	Secretaria de Controle Externo–Tribunal de Contas da União	External Control Secretariat–Federal Court of Accounts
SERPRO	Serviço Federal de Processamento de Dados Federal	Data Processing Service
SFC	Secretaria Federal de Controle	Federal Control Secretariat
SIAFI	Sistema Integrado de Administração Financeira	Government's core Integrated Financial Management System
SIEG	Sistema de Integração e Gestão de Governo	Government Management Information System
SIAPA	Sistema Integrado de Administração Patrimonial	Integrated Asset Management System
SIAPE	Sistema Integrado de Admin de Recursos Humanos	Integrated Human Resources Management System
SIASG	Sistema de Administração de Serviços Gerais	Administration System of General Services
SICONV	Sistema de Gestão de Convênio, Contrato de Repasses e Termo de Parceria	Management System of Agreements, Contract Transfers and Terms of Partnership
SID	Sistema Integrado da Dívida Pública	Integrated Public Debt Management System
SIDOR	Sistema Integrado de Dados Orçamentários	Integrated Budget Data System
SIEF	Sistema Integrado de Informações Econômico-Fiscais	Integrated Economic-Fiscal Information System
SIEST	Sistema de Informações das Estatais	State Enterprise Information System
SIGPLAN	Sistema de Informações Gerenciais e de Planejamento	Budget Planning and Management Information System for the PPA
SIORG	Sistema de Informações Organizacionais do Governo Federal	Organizational Information System of the Federal Government
SISAC	Sistema de Apreciação de Atos de Admissão e Concessões	System of External Audit
SISPAC	Sistema de Monitoramento do PAC	PAC Monitoring System
SISTN	Sistema de Coleta de Dados Contábeis de Estados e Municípios	System of Collection of Accounting Data from States and Municipalities
SLTI	Secretaria de Logistica e Tecnologia da Informação	Secretariat of Logistics and Info. Technology
SOF	Secretaria do Orçamento Federal	Federal Budget Secretariat
SPI	Secretaria de Planejamento e Investimentos Estratégicos	Secretariat of Planning and Strategic Investments
SPIU	Sistema de Patrimônio Imobiliário de União	System of Union Real Estates
STN	Secretaria do Tesouro Nacional	Treasury Secretariat
TCU	Tribunal de Contas da União	Federal Court of Accounts

Table of Contents

Abbreviations and Acronyms 2

Executive Summary – going from good to great 5

1. Introduction 12

2. Country background information 13

2.1. Recent budgetary outcomes 13

2.2. The legal and institutional framework for Public Financial Management 15

3. Assessment of the PFM systems, processes and institutions 20

3.1. Budget credibility 22

3.2. Comprehensiveness and Transparency 27

Indicator 5. Classification of the budget 27

Indicator 6. Comprehensiveness of information included in budget documents 28

Indicator 7. Extent of unreported government operations 30

Indicator 8. Transparency of Inter-Governmental Fiscal Relations 31

Indicator 9. Oversight of aggregate fiscal risk from other public sector entities 32

Indicator 10. Public Access to key fiscal information 33

3.3. Policy-based budgeting 35

Indicator 11. Orderliness and participation in the annual budget process 35

Indicator 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting 37

3.4. Predictability and control in budget execution 41

Indicator 13. Transparency of taxpayer obligations and liabilities 41

Indicator 14. Effectiveness of measures for taxpayer registration and tax assessment 43

Indicator 15. Effectiveness in collection of tax payments 45

Indicator 16. Predictability in the availability of funds for commitment of expenditures 46

Indicator 17. Recording and management of cash balances, debt and guarantees 50

Indicator 18. Effectiveness of payroll controls 51

Indicator 19. Competition, value for money and controls in procurement 52

Indicator 20. Effectiveness of internal controls for non-salary expenditure 53

Indicator 21. Effectiveness of internal audit 54

3.5. Accounting, recording and reporting 55

Indicator 22. Timeliness and regularity of account reconciliation 55

Indicator 23. Availability of information on resources received by service delivery units 56

Indicator 25. Quality and timeliness of annual financial statements 57

3.6. External scrutiny and audit 59

Indicator 26: Scope, nature and follow-up of external audit 59

Indicator 27. Legislative scrutiny of the annual budget law 62

Indicator 28. Legislative scrutiny of external audit reports 63

Rapid Assessment of PFM Information Systems in Brazil 65

Annex 1: Performance Indicators Summary 67

Annex 2: Sources of information 68

Annex 3: Brazil, Public Financial Management Information Systems 69

Acknowledgements

The main field work for this report was carried out during April 2009, by Theo Thomas (Sr. Public Sector Specialist, LCSPS), Cem Dener (Sr. Public Sector Specialist, ECAPS), Joseph Kizito (Sr. Financial Management Specialist, LCSFM) and Tarsila Velloso (ETC, LCSEP) in parallel with a mission on the efficiency of investment management comprising Jim Brumby (Sector Manager, PRMPS) and Juliana Wenceslau (Research Analyst, LCSPS). The project was prepared under the sector management of Nick Manning (LCSPS).

This mission was conducted in April 2009 in response to a request of the Ministry of Planning, Budget and Management through its continuous dialogue with the Bank. The team would like to acknowledge the significant support and enthusiasm for the project throughout its development of Francisco Gaetani, Aline Dieguez and Ariosto Culau as well as many other officials of the Federal Government. The team is grateful for the inputs of all involved. The Report benefited from peer review by Frans Ronsholt (PEFA Secretariat at the World Bank), Justin Tyson (IMF) and Bill Dorotinsky (World Bank).

Executive Summary – going from good to great

Over the preceding decade, the Government of Brazil has successfully restored aggregate fiscal discipline, with low inflation, through the use of fiscal rules, enhanced expenditure controls, and a high degree of fiscal transparency. Since 1999, strong fiscal adjustment has turned a primary deficit, of 0.2 percent of GDP for the consolidated public sector in 1998, to a surplus of over 4 percent in 2008. There is currently "a high degree of transparency, underpinned by a sound public financial management system that provides reasonable assurance over the use of government and other public resources."[1] During this time, the Government has continued strengthening its internal and external control and compliance framework. Also Brazil has recorded some significant advances in government performance auditing at the federal level.

Building on the solid foundation of aggregate fiscal control, the Federal Ministries of Planning and Budget (MoP), and Finance (MoF) have shifted the focus of their modernization efforts toward the promotion of growth enhancing public investment and enhancing the quality of public expenditure. To help establish a baseline and benchmarks for the Government's reform program, the Government requested the World Bank's support in conducting an assessment of federal level public financial management performance (PFMP) and related information systems and investment management efficiency.[2] This work provides the initial suggested direction for overcoming constraints to federal level public investment and for strengthening the performance orientation of the budget process.

These Reports show how the sound financial management systems have helped the Federal Government of Brazil to successfully restore aggregate fiscal discipline and improve fiscal transparency. The Reports highlight the positive progress that the Federal level public sector has made in reestablishing macro fiscal control since 2000, through enhancements in financial management systems, controls, compliance, reporting and transparency. This PFMP report suggests that Brazil's financial management system, as reflected in the aggregate PEFA ratings, is on a par with those of many other OECD countries in terms of budget planning, expenditure control, reporting and accounting. A sophisticated culture of control, compliance and transparency has been established in the federal level public sector.

However, on the down-side, the understandable focus on fiscal control has predominated over measures to improve performance and public investment levels have remained disappointingly low. As highlighted below, the budget has become quite inflexible and the quality of public expenditure (i.e. allocative or technical efficiency) has not kept pace with the improvements in public financial management. Indeed, the PFMP highlights a number of areas where the focus on control and compliance can hamper the pursuit of efficiency—for example, cash management is focused on meeting the cash based primary deficit target, rather than on promoting certainty and predictability for program managers. The high level of budget rigidity and focus on controls and compliance has also, arguably, led to a rather rigid, complex budget system that, despite an array of sophisticated instruments, does not easily help to shift the budget toward spending priorities or to support a multi-year performance orientation. This suggests a need to adapt the nature of budget controls to encourage a performance orientation in programs and projects.

[1] See the World Bank Policy Note: *Issues and Recommendations Enhancing the Performance of Federal Financial Management Systems* (Report No. 39780-BR), June 2008, and the World Bank *Country Financial Accountability Assessment*, (Report No. 25685-BR), June 30, 2002.

[2] A separate report, "Assessment of the Efficiency of Public Investment Management" was prepared together with this report, but is presented separately for ease of use.

There are also likely to be considerable economic and social benefits associated with tackling infrastructure shortages in Brazil, with the focus on quality as well as quantity. As highlighted in the companion investment Report (noted above), the authorities are making a concerted effort to overcome the constraints to increasing investment, stemming largely from reduced levels of capacity (due to the decline in investment levels from the 1990s), the highly rigid fiscal allocation process, and the plethora of expenditure controls. Most recently the high profile initiative, known as PAC, has relaxed the fiscal constraint on investment, provided a greater focus for priorities and lightened implementation procedures. However, while the apparent drive for 'more projects, less appraisal' has resulted in more highly visible projects getting started; the companion Report suggests ways that the authorities "could gainfully invest in actions to improve the quality of public investment management without introducing additional or undue hurdles or delays to the process." The Report recommends the following three major institutional reforms for the consideration of the authorities:

- Continued refinement the nature of the role of the PAC: the role of the PAC could be articulated further, and perhaps become more specialized. The operational engagement of the Casa Civil is a precious commodity; it may make sense for the PAC to focus on a narrower band of higher value projects, where the payoffs are greater and the downside risks commensurably larger;
- Introducing a 'gateway' process into the project cycle to improve the quality of public investment; and
- Adapting the role of the central Committee for Monitoring and Assessment of projects to reflect the emerging distribution of roles and responsibilities within Brazilian public investment management. First, further specialization of the PAC to focus on higher value projects would increase the pool of projects to be reviewed by the CMA. Second, the CMA could gainfully play a role in reviewing PAC-overseen projects at completion. At the very least, post-completion reviews (preferably backed-up by refreshed economic appraisals) should be conducted to assist the learning process within the Executive Branch. Thirdly, the gateway process referred to above will require an administrative unit as owner. This role could be overseen by the CMA.

Brazil is in a transition period and now faces the challenges of implementing reforms to enhance government performance, similar to those in many other OECD countries. There is a growing recognition among Brazilian policy makers, and in the society at large, of the need to substantially improve the effectiveness and cost efficiency of public spending. This is needed to create fiscal space to attend to new spending priorities, while further reducing debt levels and moderating the already relatively high tax burden; and to increase the value citizens receive from their taxes through public goods and services. The investment management report and sections in this report (including on information systems) highlight some of the initiatives that are being implemented to try to work around the current budget rigidities, capacity constraints and the sometimes constraining focus on controls and compliance. The focus of reforms is therefore moving toward more general measures that will improve the strategic prioritization of the budget and enhance the efficiency and effectiveness of government programs and investment, to strengthen human development and economic growth.

(I) INTEGRATED ASSESSMENT OF FEDERAL PUBLIC FINANCIAL MANAGEMENT PERFORMANCE

Credibility of the budget (questions PI-1 to PI-4 in the PEFA framework)

The federal budget has become a key vehicle for implementing government aggregate fiscal policy, and the approved budget is a relatively reliable guide to aggregate expenditure and revenue policy. Following the hyperinflation of the 1990s, Brazil has established a legal and procedural framework primarily designed to control the primary fiscal deficit and reduce debt levels. In addition, the budget is extremely rigid, with considerable revenue and expenditure earmarking. Nonetheless, the budget approval process in Congress allows a proliferation of micro-oriented amendments that combine with significant budget amendments during execution to reduce predictability. While the need for policy changes can occur at any time during the fiscal year, necessitating changes to the budget, consistent large changes during the year suggest the budget process could be used more effectively in the planning and policy development process (currently controlling fiscal aggregates is the prime fiscal objective). There is no indication that arrears generation is undermining fiscal discipline or composition of spending decisions, as the stock of arrears appears low. However, a growing carry-over of expenditures, both legally committed (in terms of having a firm contractual basis) and not, poses problems for cash management and ensuring the responsiveness of the budget to more immediate policy concerns.

Comprehensiveness and Transparency (PI-5 to PI-10)

Brazil's budget is comprehensive and unreported government expenditures are quite limited. Formerly extra-budgetary funds have been integrated into the government reporting systems. Budget classification and the public chart of accounts meet international standards, and there is a high degree of transparency in the budget process. Indeed, there may be an over-abundance of documents, and detailed information, which might hinder policy-level official use of the budget for decision-making. There is a high degree of transparency to intergovernmental fiscal relations and the financial information on state-owned enterprises; nonetheless, this is an area where strengthening the monitoring and transparency of their financial status, and producing a timely consolidated public sector balance sheet, would be useful.

Policy-based budgeting (PI-11 and PI-12)

Policy based budgeting is hampered by a high-level of rigidity and need to strengthen the medium-term policy orientation. The budget process is well developed, regulated by law, and orderly, albeit complex, processes are followed in annual budget development. Brazil has well developed, albeit relatively complex, budget processes and sophisticated planning, budgeting, expenditure control and compliance, monitoring, audit and reporting tools. However, strengthening the policy content of the budget, and the linkages between planning, spending, and policy requires a deepening of these reforms, including strengthening the multi-year orientation of the budget and strengthening line ministry accounting, budget, management and policy roles. This is likely to be the major focus of Brazil's future reform effort.

Predictability and control in Budget execution (PI-13 to PI-21)

On revenue administration, Brazil's tax laws are well documented and relatively clear and accessible at the federal level. Tax registration systems have good coverage and tax audit systems are formal and well documented, although the dispute mechanism is cumbersome and can lead to long delays and there are frequent amnesty programs. There are also considerable tax raising powers at the subnational level, leading to the number of annual payments and time taken by the average company to complete each tax payment being amongst the highest in the world. The Government has proposed a tax simplification reform to tackle some of these issues.

Treasury cash and debt management procedures are extremely well developed with clear and well established procedures, although cash management controls could be adapted to better support program performance. The Treasury operates a well developed system of recording and reporting domestic and foreign debt, including guarantee issuance. Government cash balances are consolidated through on-line cash monitoring system of the Treasury and the payroll system is relatively well organized and documented, with regular updates and clear procedures for updating records. However, cash management in Brazil is strongly linked to financial control functions, with the overriding imperative to meet the annual fiscal targets, and consequently there is a strong incentive to match revenues and expenditures throughout the year and there are frequent within year budget revisions. This can complicate the predictability of funds flowing to spending units and hence hinder management effectiveness. Improvements in systems and procedures have strengthened procurement practices, with most contracts over the minimum threshold levels using competitive procedures, and a clear complaints mechanism.

Accounting, Recording and Reporting (PI-22 to PI-25)

Brazil scores relatively well on all counts in this area. Brazil has a well developed financial management information system (known as SIAFI) which has been certified by the external auditors. Bank reconciliations are daily and suspense and advance accounts are closely monitored and reconciled at least monthly. SIAFI allows clear identification of the resources received by service delivery units. In-year budget reports are comprehensive, timely and produced monthly, including for commitments, and there are no material issues with data accuracy. The quality and timeliness of annual financial statements is also good, but sometimes presented in great detail making aggregation somewhat complex and undermining the commitment to a full disclosure of accounting standards.

External Scrutiny and Audit (PI-26 to PI-28)

Brazil's external audit function is independent and has been pursuing a comprehensive modernization program. External audits are based on standard international practices, with a range of audit approaches including performance audits, and risk-based caseload management. The federal accounts are generally assessed to be of high integrity. External audit reports are submitted annually to the legislature and legal requirements for timeliness are met. Audit findings, particularly those involving irregularities and the loss of funds, are followed-up. In contrast to the level of involvement with budget preparation, the legislative scrutiny of annual audit reports and final financial accounts is generally very low, despite adequate time for review.

(II) THREE LEVELS OF BUDGETARY OUTCOMES

Macro-fiscal discipline, strategic allocation of resources, and operational or technical efficiency are the three levels of budgetary outcomes. These objectives are interlinked; fiscal discipline is the basis without which neither a strategic allocation of resources nor operational efficiency is possible.

Macro-fiscal discipline

Brazil's well-developed legal, procedural, treasury, accounting, and reporting systems provides strong tools for managing aggregate fiscal positions. Well established controls over debt and guarantee issuance and cash management also help assure targets are met. While the period under review was one of growth, Brazil outperformed its aggregate targets and many of the systems developed after the previous periods of fiscal crisis and should serve the country very well in any period of fiscal stringency. Nonetheless, these hard won gains have come at the cost of increasing rigidity and the predominant focus on control and compliance. The challenge for Brazil is to maintain its high level of credibility for fiscal discipline, while improving the ability of the budget to respond to changing policy demands and continuing to enhance the quality of service delivery.

Strategic allocation of resources

There is scope for improving the degree to which the budget and planning process is responsive to the government's policy orientation, although there are improvements under implementation and others under consideration. At the federal level Brazil has a sophisticated legal framework and array of tools, combined with significant capacity, for planning and budgeting. For example, a multi-year plan provides the framework for setting out government policy priorities and linking the planning process to spending and there is a well articulated hierarchy of the medium-term plan, a process for separately approving fiscal aggregates and the general fiscal framework (including risks), and the annual budget process. The planning and budget systems are well developed with a sound program structure. Nonetheless, significant changes to the composition of spending, both at the late stage of budget approval and during the fiscal year, suggest that the budget and planning cycle is not the primary vehicle for policy decisions. While within-year deviations are not in themselves problematic, and partly reflect the political nature of the budgeting process, such large changes occurring mid-way through a fiscal year may not always allow implementing agencies sufficient time or predictability to efficiently plan and execute the spending well.

Cash management is also primarily focused on meeting the overall deficit targets. Current procedures reinforce a strong link between cash management and the budget appropriation and financial control functions (in contrast to the practice in most OECD countries). Increasing the predictability and certainty of within-year financing in a well-designed program structure might better allow the costing of policies and translation of these policies into the budget, and the subsequent tracking of policy implementation and impact. These improvements would also help to support policy-level officials in using the budget cycle for pursuing government policy.

Operational efficiency

Reforms in recent years have aimed towards supporting greater operational efficiency in spending. The Government has been strengthening its capacity and procedures for managing spending more efficiently, both at the centre in the Ministry of Planning and Budget (MoP) and in executing agencies, although it is still in the early phases of these reforms and it would be too early to assess their impact. For example, the MoP is continuing to refine the systems for the performance reporting and evaluation of federal programs, and has developed systems for monitoring the execution of voluntary transfers to subnational levels, through agreements (*convenios)* with states and municipalities. The automated financial management system (SIAFI) provides a critical support tool for managers to support further operational efficiency gains. However, given the priority for controlling aggregate spending, moves to shift autonomy toward the line ministries and spending units—to encourage managers to focus more on productivity and outcomes than compliance, and yield greater operational efficiency gains—have been relatively modest.

(III) THE GOVERNMENT REFORM PATH

Brazil is now witnessing growing demand for a more fundamental transformation of the State, aimed at improving the quality of public expenditures, at both the federal and subnational levels. In general, public policy reforms are increasingly focusing on "What" *the public sector is accomplishing with the resources provided*, in contrast to "How" *much money is being spent* in each area, mirroring recent reforms in OECD countries. While the Federal Government has been moving in this direction for sometime—e.g. developing sophisticated multi-year planning and performance monitoring and evaluation systems—performance-informed budgeting requires further reorientation of budget systems, public sector cost accounting, and public management systems, institutions and incentives.

The political and technical commitment required to implement these reforms appears to be emerging. The Federal Ministries of Planning and Budget (MoP), and Finance (MoF) have started a process focused on identifying reform priorities to enhance the quality and efficiency of Government expenditures. Working Groups have been considering the following priority issues:

- Improving medium-term fiscal management—improving the link between pluri-annual fiscal and investment planning and budgeting, managing mandatory expenditures, etc.);
- Planning and budget integration—developing a vision for the medium-term policy and program prioritization (enhancing the focus of planning, revising evaluation systems, selection of programs, etc);
- Information management—simplification, integration and management of systems (procedural simplification, information process mapping and the redesign of the systems, costing systems, etc.);
- Enhancing fiscal statistics—supporting the ongoing movement towards the standards of the IMF published Government Financial Statistics Manual (GFSM) 2001;
- Developing public accounting—supporting the ongoing improvements in cost-accounting and accrual accounting;
- Focusing on results/performance budgeting and management (increasing flexibility for results, flexibility for within year adjustments, revision of control instruments, publication of results).

In addition to the above, a Peer Review of Human Resource Management has been commission with the OECD to identify opportunities for improving the performance of the public service.

This benchmarking assessment of public financial management performance (PFMP) and related information systems and investment management efficiency supports these initiatives by identifying problematic areas and helping to develop appropriate institutional solutions. However, it will be important to generate sufficient consensus on the reform strategy and an action plan to address these challenges.

(IV) THE POTENTIAL WAY FORWARD

Drawing lessons this benchmarking exercise from international experience this report suggests a package of reforms:

- **On reforming the budget structure and policy orientation**, progress could be made in simplifying the program-based budget classification to make the multi-annual plan (PPA) more strategic (and less detailed), with full involvement of spending ministries and the MoP in defining programs. This should be aligned with the ongoing improvements in cost-accounting and accrual accounting;

- **On reforms of the budget approval process,** once the spending programs are defined and properly costed, the Legislature could appropriate the budget on a program basis. This would reduce the number of line items currently included in the budget (and the significant amendments made on this basis) and would shift the focus of discussion toward strategic policy priorities and their trade-offs with current policies;
- **On reforms of the budget preparation process**, a number of steps could be taken to strengthen the rolling three-year budget estimates to reflect the cost of delivering policy objectives. As in many OECD countries, the introduction of a **spending review**[3] process could become an integral part of the budget system. These are centrally driven exercises focused on ways to improve the efficiency and effectiveness of spending across government, including a review of the likely impact of differing funding levels. Amongst OECD countries the development of spending reviews, and the institutional mechanisms that support them, have tended to be driven both by the need to tackle fiscal stress (e.g. Canada, Australia, Netherlands) or to better manage a fiscal upturn (UK, France, Korea). The design has varied greatly—being ad hoc or systemic, comprehensive or narrow—to suit both their primary objectives and the country specific institutions, but have increasingly also emphasized the use of performance criteria for routinely assessing program effectiveness and efficiency.
- **On reforms of budget execution, monitoring, and reporting**, ex-ante controls, particularly on cash management and virement, during budget execution could be streamlined, so as to gradually allow managers greater predictability and freedom to allocate funds within each program. In-year amendments could also be consolidated, perhaps introducing a single mid-year review process to replace the current system of significant ad hoc amendments during the year. Performance indicators for programs should be the basis for strengthened ex-post monitoring and budget managers' accountability for results.

This package of reforms would need to be supported by a well-structured communication strategy. This would need to highlight how the different stakeholders (the Government and Legislature, the MoP and MoF, the spending ministries, civil servants, and society at large) could benefit from these reforms; and establish milestones for implementation that are sufficiently ambitious to deliver visible results in the relatively near term, but not unrealistic so as to make them unachievable.

[3] Spending reviews have been developed in a number of OECD countries under various names: "strategic policy reviews" (Australia), "strategic program reviews" (Canada), "interdepartmental policy reviews" (the Netherlands) and "spending reviews" (United Kingdom)." These procedures are seen as a tool that can particularly support the allocative (priority-setting) function of the budget. There are three main differences with the policy evaluations conducted by line ministries: i) spending reviews not only look at the effectiveness and efficiency of programs under current funding levels but also at the consequences for outputs and outcomes of alternative funding levels;22 ii) the ministry of finance holds final responsibility for the spending review procedure; and iii) the follow up of spending reviews is decided in the budget process." (Kraan D., 2009. Programme Budgeting in OECD Countries, OECD. p.21). See also Box 3.

1. Introduction

Objectives of the PEFA-plus: Enhancing the Efficiency and Quality of Public Spending

The Government of Brazil has successfully restored aggregate fiscal discipline through the use of fiscal rules, enhanced expenditure controls, and a high degree of fiscal transparency. On the down-side, the focus on fiscal controls has predominated over other measures of performance and been accompanied by low, but recently improving, levels of public investment. Building on the solid foundation, the Federal Ministries of Planning and Budget (MoP), and Finance (MoF) have shifted the focus of their modernization efforts toward the promotion of growth enhancing public investment and the quality and efficiency of public expenditure.

The objective of this piece of work is to produce, at the Federal level, an assessment of the public financial management system and investment management efficiency, with options and recommendations to enable the Federal Government to develop, focus and measure performance of its managerial and technical resources to areas where they will yield the greatest impact. The approach is based around the Public Expenditure and Financial Accountability (PEFA) framework[4], in which well-defined symptomatic indicators can be used to identify problematic areas and, based on more detailed analysis, to develop institutional remedies to the identified problems.

The 'customized PEFA assessment' (PEFA+) provides an overview of the performance of the public financial management system, to understand strengths and weaknesses and develop strategies to advance second generation reforms. It is a snapshot in time, using information available around April 2009. To help establish a baseline and benchmarks for the Federal Government's reform program, the PEFA+ will incorporate additional analysis in a number of areas, including a rapid assessment of the PFM information systems, and the sharing of international experiences in overcoming the constraints to public investment and performance-informed budgeting.

The process for conducting the study is also expected to support consensus among key stakeholders on the challenges ahead**.** A comprehensive evaluation of the status of PFM in Brazil is critical before moving forward with the reforms. The next phase of reform will probably be large-scale—covering almost the entire public sector—and complex—requiring fundamental behavioral changes. These reforms are therefore expected to be implemented over several years and require ongoing adjustments based on outcomes. Evaluation of the progress achieved until now, after several years of implementation, would thus help define and build consensus on the way forward.

[4] See www.pefa.org

2. Country background information

The Federal nature of government has been critical in shaping fiscal policy public financial management in Brazil. Since the 1960s, Brazil has gone through various periods of political and economic central consolidation and decentralization. The latest trend has reinforced the Federal, decentralized nature of the Brazilian state under the 1988 Constitution—the federation comprises three levels of government, the Federal Government, twenty six states plus the Federal Capital District, and 5,564 municipalities. The Constitution has given a relatively high degree of autonomy to the states and municipalities, particularly with regard to control over revenue sources, compared with many other Federal Government systems (IMF, 1997).

Table 1: Brazil, selected indicators

Population (2007, millions)	189.3
Population growth (av. 1990-2007%)	1.6
GDP at market prices (R$ billions)	2,598
GDP at market prices (US$ billions)	1,314
GNI per capita, PPP (US$)	9,270

Source: BCB, IBGE and World Bank

Decades of high and then hyper-inflation and macroeconomic instability spurred the public finance reform. Brazil's macroeconomic performance has been strong in recent years. Since the economic turbulence of the 1990s, successive Governments have restored aggregate fiscal discipline, tamed inflation and reduced debt-to-GDP ratios through the use of fiscal rules, enhanced expenditure controls, and measures to promote fiscal transparency. The cornerstone of Brazil's current policy framework has been the 2000 Fiscal Responsibility Law (FRL) which, for all levels of government, has helped in placing public debt ratios on a downward trend, set limits on consolidated debt and bond-issuance and personnel spending, and required a high level of fiscal reporting and transparency. This has been combined with inflation targeting and flexible exchange rate regimes to stabilize the macro economy and enable it to adjust more quickly to external shocks. Sustained and broad-based economic growth, together with well-targeted social programs, has also contributed to sharp reductions in poverty rates and a decline in income inequality.

Figure 1. Growth and inflation trends have improved

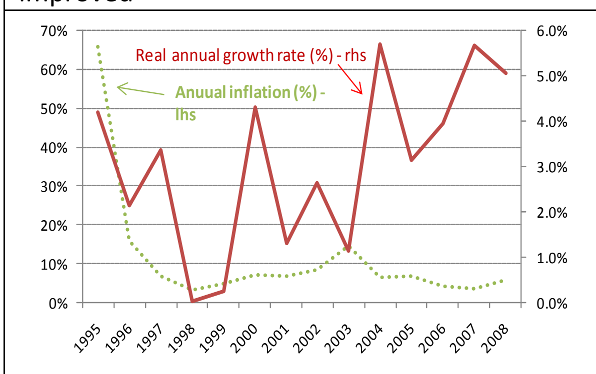
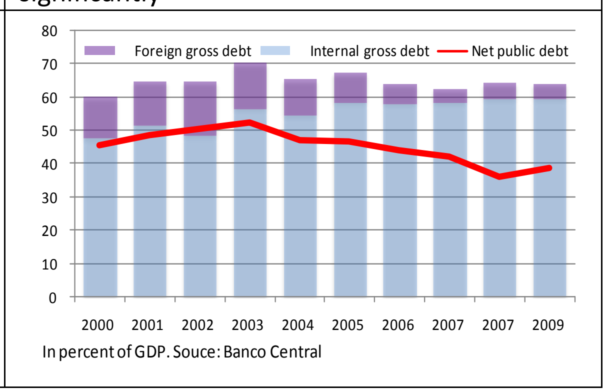


Figure 2. While debt levels have declined significantly

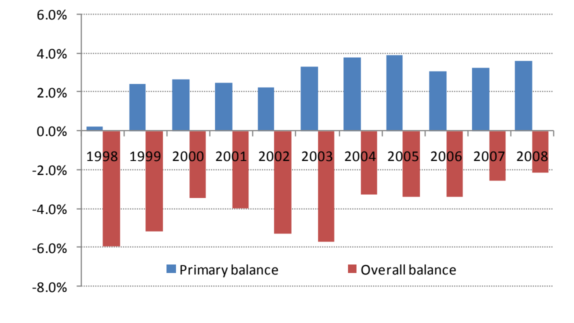


2.1. Recent budgetary outcomes

The sharp fiscal adjustment policy, which followed the deterioration in the economy in the early 1990s, has relied on increasing the primary surplus, to stabilize and then reduce public debt, combined with a debt management strategy that has reduced the exposure to foreign currency fluctuations and lengthened the maturity structure. Figures 3 and 4 show how the strong fiscal adjustment, at the Federal and state and municipal levels, has turned the general government's primary balance, of 0.2

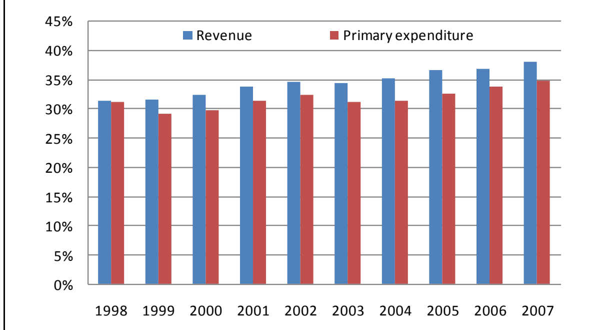
percent of GDP in 1998, to a surplus of over 3 percent over the last six years—the Federal Government ran a primary surplus of around 2.5 percent of GDP with the state and municipalities estimated surplus of just over 1 percent of GDP respectively in 2008. Given strong expenditure rigidity, as outlined below, and increasing current expenditures, the adjustment was chiefly accomplished by increases in revenue—revenue grew from 31 percent of GDP in 1998 to over 38 percent in 2007 (including Federal, state and municipal government).

Figure 3. General government balances have improved significantly



Note: Excludes Central Bank and Public Enterprises.
Source: STN, IBGE and BCB.

Figure 4. Based on a significant increase in general government revenue



Note: Excludes Central Bank and Public Enterprises.
Source: STN, IBGE and BCB.

Around two-thirds of primary spending is dedicated to the social sectors, including social security. Table 1 indicates how the composition of spending has changed, between the functional uses and also the different levels of government. While overall spending increased significantly between 2003 and 2008, as a share of GDP there has been a significant increase in welfare and social security, health and transport. This is partly explained by the expansion of the pension and unemployment schemes, the highly acclaimed *Bolsa Familia*—currently the largest conditional cash transfer program in the world—and an effort to increase public investment that has had a large focus on the transport sector. The relative share of total general government spending being undertaken by the states and municipalities, which play a major role in social services, has also increased and now comprises over 50 percent.

Table 1: Functional primary expenditure by different levels of government in 2003 and 2008 (Percent of GDP)

Function	General Government	Federal	State	Municipal	General Government	Federal	State	Municipal
	2003				2008			
Legislative	0.7	0.2	0.3	0.2	0.7	0.2	0.3	0.2
Administration and planning	2.0	0.4	0.7	0.9	2.3	0.5	0.9	0.9
Judicial	1.5	0.6	0.9	0.0	1.7	0.7	1.0	0.0
Welfare, care and social security	10.8	9.1	1.2	0.5	12.3	9.9	1.7	0.7
Health	4.2	1.6	1.2	1.4	4.9	1.7	1.6	1.7
Housing and urban development (inc. sanitation)	1.3	0.0	0.2	1.0	1.8	0.2	0.3	1.2
Education	4.8	0.8	2.3	1.6	5.1	0.9	2.3	1.9
Agriculture	0.7	0.5	0.1	0.1	0.7	0.5	0.2	0.1
Transportation	0.8	0.2	0.5	0.2	1.4	0.5	0.7	0.2
Other	4.1	2.1	1.7	0.3	4.6	2.5	1.7	0.4
Total (excluding debt)	**30.8**	**15.4**	**9.0**	**6.3**	**35.3**	**17.5**	**10.6**	**7.3**

Source: Federal Government and Bank staff calculations. Note: totals exclude debt refinancing, servicing and other charges. There have also been changes in the classification of some spending between years.

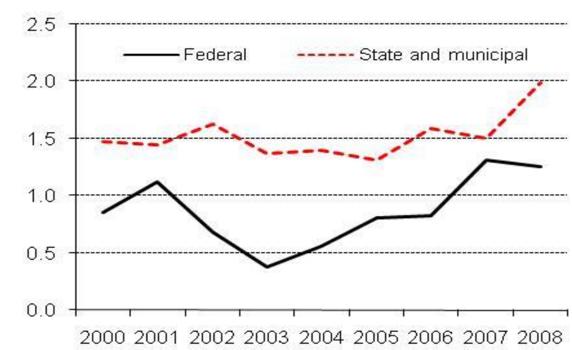
A World Bank report[5] highlighted five "*stylized facts*" about the link between Brazil's fiscal circumstances and economic growth: (i) the public sector budget, at over 40 percent of GDP (including debt service), is

[5] World Bank, *Brazil, Improving Fiscal Circumstances for Growth*, March 2007, Report No. 36595-BR.

large and has been increasing; (ii) containing social security spending, particularly pensions (at over 7 percent of GDP in 2008), has become a major challenge; (iii) the budget is very inflexible with a high level of earmarked tax revenue, social contributions and entitlements (see below); (iv) growth would also benefit from increasing the share of public investment (Federal investment fell to about 0.4 percent of GDP in 2003, but has begun recovering steadily—Figure 5); and (v) "*the budget is not well linked to planning and execution of public expenditure*"—this is discussed later.

In response, the Government has set an objective to raise the total investment ratio to sustain higher rates of growth. It established a number of high profile programs to increase public infrastructure spending, including the *Pilot Project for Infrastructures* (PPI) in 2005 and the *Growth and Acceleration Program* (PAC) in 2007, in addition to investment programs implemented by public enterprises. The objective of these initiatives is to improve the budget execution of infrastructure projects by dedicating resources to them, avoiding funding freezes, and using central agencies to closely monitoring their execution.

Figure 5. Government investment
(Percent of GDP)



Source: Federal Government

2.2. The legal and institutional framework for Public Financial Management

The Constitution of 1988 created a new set of rules and processes to manage budgetary decision-making. The main goal was to coordinate the planning of the budget through a hierarchical structure that develops this process over a four-year period, coinciding with each political administration. Three main institutional instruments used to regulate planning, the allocation of Federal resources and financial management include: the multi-annual plan (*Plano Plurianual–PPA*), the Law of Budgetary Guidelines (*Lei de Diretrizes Orçamentárias–LDO*), and the Annual Budget Law (*Lei Orçamentária Annual–LOA*). The main purpose of the reform was to better integrate public sector policy, planning, budgeting and management in a way that better balanced fiscal controls with flexibility. A high level of transparency and accountability were also targets of the reforms introduced in the Constitution.

According to the Constitution these three instruments are hierarchically interconnected at different stages of the budget cycle: the PPA is formulated by the Executive four months before the end of the first year of a government and defines the main strategic targets and programs of the Federal Government, serving as the institutional framework for planning expenditures and government action for the coming four years. The Plan must be analyzed, amended and approved by Congress by the last month of the first year of its mandate and is valid until the end of the first year of the next elected government.

The LDO is renewed annually and is sent by the Executive to Congress no later than the first quarter of the second year of the Government's term. Congress has to endorse it by June of the same year. The LDO defines the main economic assumptions and fiscal targets for the primary budget balance (see Figure 6) and debt levels and priorities, and becomes the major institutional device for guiding the formulation of the Annual Budgetary Law (LOA) in the next fiscal year.

Figure 6: Fiscal targets and outturns 2004-09 (Percent of GDP)

	Consolidated primary budget surplus	
	Target [1]	Outturn
2004	4.5	4.6
2005	4.25	4.8
2006	4.25	4.3
2007	3.8 [a]	3.9
2008	3.8	4.1
2009	2.5 [b]	

1. Targets set annually in *LDO*.

a. Target reset following revision to GDP series.

b. Target originally set at 3.8% of GDP, but reduced following the exclusion of Petrobras from the public sector.

Source: STN.

The Executive then uses the targets and guidelines defined by the PPA and the LDO to formulate the Annual Budget Proposal (*Proposta de Lei Orçamentária–PLOA*). It is this budget proposal that estimates the total revenue and allocates expenditures for the next fiscal year. The President has to send the PLOA to Congress by August 30 of the same year and the Congress has to amend and approve it by December 15. This is done first in the Joint Budget Committee (Senate and Chamber of Deputies) and then by Congress as a whole. The LOA is then sent back to the Executive to be enacted as a law with or without vetoes[6]. The LOA is authoritative, meaning that the Executive may spend up to the limits expressed in the law, including a provision enabling the spending of any additional revenues that may be received during the year (usually up to 10% of the appropriations), but the Executive may curtail spending it does not deem a priority or to meet the fiscal targets.

The Annual Budget Law (LOA) is made up of three different budgets: fiscal, social security and state-owned enterprises. The fiscal budget embodies revenues that will be collected by taxation as well as expenditures (current and capital) for all public administration, including the Legislature, Judiciary, Executive and foundations maintained by the state. The social security budget corresponds to government action in pensions, social aid and social insurance. Finally, the state-owned enterprises budget incorporates the total amount of investment that is planned to be done by state-owned companies which do not depend on fiscal revenues for their current expenditures.

One of the most striking features of the Brazilian budget system is the degree of rigidity arising from the high share of constitutionally or legally mandated expenditure and extensive revenue earmarking. There are essentially three broad sources of budget rigidity in Brazil: (i) earmarking of tax revenues, the most important of which are for constitutionally mandated spending on social protection and health, and transfers to states and municipalities; (ii) social security contributions; and (iii) non-discretionary expenditures that include legal or constitutional obligations, specifically interest payments, wages and salaries, entitlements (such as social security), and social assistance benefits[7]. There are overlaps between revenue and expenditure rigidities and the actual degree of budget flexibility is less than the "free" portion of either the expenditure (around 10 percent) or revenue (around 20 percent). Table 3 shows the composition of the Federal budget, where primary discretionary spending is the portion of

[6] In Brazil the Executive can veto the budget proposal approved by Congress in parts or as a whole.

[7] See Annex 1 of World Bank (2007), which provides a more comprehensive overview of Brazil's Federal Budget Rigidities.

the budget that may be allocated by the Executive, although a portion of this money must still be allocated toward priority expenditures as mandated in law.

Table 3: Total Federal Expenditure (Fiscal and Social Security)

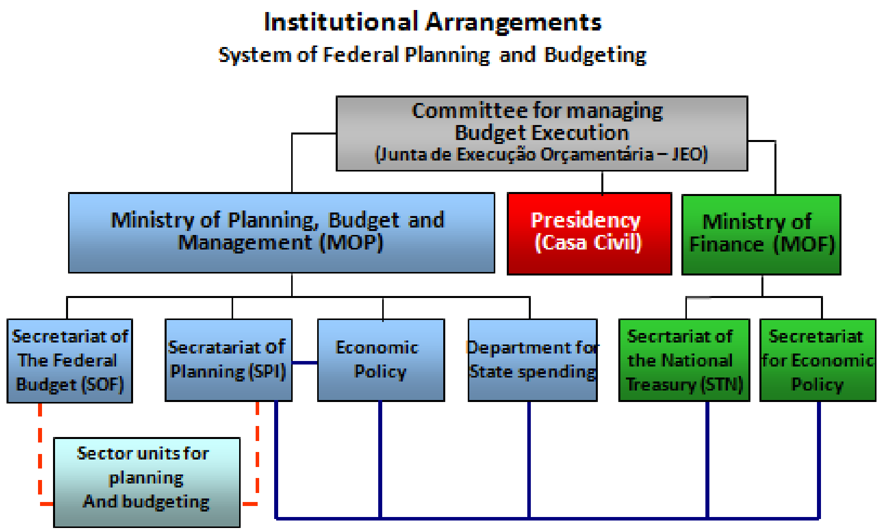
			R$ Milhões
Classification of expenditure	**2006**	**2007**	**2008**
Transfers to subnational governments and other entities			
Revenue transfers	87,403.4	99,695.5	124,680.9
Constitutional Fund (DF)	405.0	453.8	479.5
FGTS	2,858.1	2,005.7	1,837.7
Grant Rec Dir Rec Water Use	17.7	19.5	23.1
Export Promotion (Law Kandir)	4,343.3	3,888.6	5,216.1
FUNDEF / FUNDEB	320.3	2,015.4	3,174.3
Social protection (Care and Welfare)			
Welfare benefits	166,054.1	182,890.0	201,350.6
Allowance and unemployment insurance	14,757.6	17,993.3	20,411.4
LOAS	9,678.7	11,566.5	13,747.8
Special Benefits of Legislation			
Monthly Lifetime Income	1,892.0	1,901.8	1,892.7
Political amnesty	0.0	124.1	127.0
Other primary expenditure obligations			
Personal and Social Costs	107,205.8	117,695.9	132,400.1
Court Judgments - Other	1,022.2	1,271.0	1,520.4
Subsidies and grants	4,543.7	3,781.9	2,645.8
Donations and Covenants	183.3	196.1	182.3
Contingency Reserve Primary	0.0	0.0	0.0
Extraordinary Claims	6,079.0	13,849.3	10,262.8
Primary discretionary spending			
Discretionanry spending for the Executive	78,424.2	86,527.6	103,111.4
Leju + MPU	4,535.5	4,766.0	5,611.2
Financing expenditures			
Debt	648,478.7	611,734.8	558,899.9
Financial expenses	27,459.9	34,501.8	47,786.7
Total	**1,165,662.5**	**1,196,878.7**	**1,235,361.7**
Primary discretionary spending/total spending	6.7%	7.2%	8.3%
Primary discretionary spending/total spending (less financing)	16.0%	15.7%	16.4%

Notes: Annual expenditure from the budget (OGU) and carried over spending.
Source: Federal Government of Brazil, Budget Office.

The Federal Government has introduced a number of mechanisms to try to reduce the level of earmarking in the Federal budget. The current mechanism, the *Desvinculuqa'o de Receitas da Unia'o* (DRU), is an ad hoc de-earmarking instrument granted by a provisional constitutional amendment, periodically renewed since 1994, which is designed to increase room for discretionary expenditures in the Federal budget. It simply slashes a fifth of all earmarked fiscal resources, freeing that part to be allocated in a more flexible way. However, the impact of the DRU is somewhat undermined by the high levels of mandatory expenditures on education and health and the indexation of the minimum wage and other personnel costs. Consequently "the use of formerly earmarked revenue has been directed to non-discretionary expenditure, as much as possible, making the independent effect of earmarking on budget rigidity rather innocuous" (World Bank, 2008).

Organizational Responsibilities in the Budget Process

Budget and financial management responsibilities in the Federal Government are split between the office of the President (*Casa Civil*) and the two central ministries, the Ministry of Planning and Budget (MoP) and the Ministry of Finance (MoF). As shown in the diagram below, a high-level committee comprising these main agencies is responsible for managing budget coordination (the *Junta de Execução Orçamentária*, JEO).



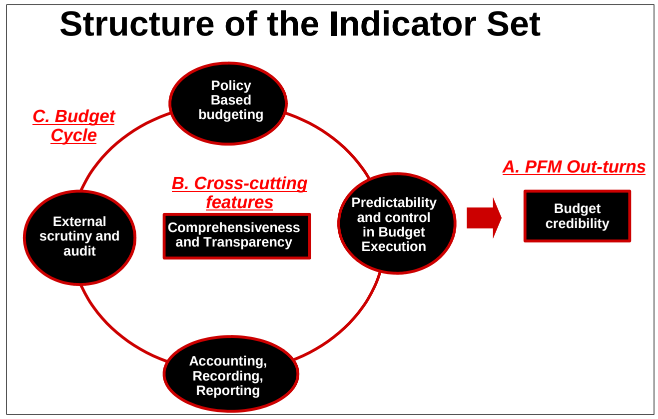
The Federal Budget Secretariat (SOF) in MoP is responsible for the formulation of the annual Federal Budget Proposal (OGU) and, jointly with STN, programming its execution once it is approved by Congress. Budget monitoring is also the responsibility of spending ministries themselves and of SOF and STN. SOF liaises closely with the Secretariat for Public Investment (SPI) in MoP, which is responsible for the PPA and budget capital expenditures, including foreign funding of projects. SPI uses the SIGPLAN system for the preparation and management of Multi-annual Plan (*Plano Plurianual,* PPA) and SISPAC system for monitoring the Program of Accelerated Growth (*Programa de Aceleração do Crescimento,* PAC). SOF also works closely with the Department of Coordination and Control of State Enterprises (DEST) in MoP, responsible for the preparation of the Comprehensive Plan of Expenditures (PDG) for state enterprises using the SIDEST system. SOF prepares the budget using a central budget information system, SIDOR.

The MoF, through the National Treasury Secretariat (STN) is responsible for the control of and accounting for budget execution in terms of cash receipts and payments, and the financial programming needed for this, as well as for preparation of the financial statements. STN uses the Integrated System of Federal Government Financial Administration (SIAFI), introduced in January 1987 (currently interconnecting over 5,000 management units with approximately 60,000 users for budget execution) for the execution of budget as well as accounting and reporting needs.

An overview of the existing PFM information systems is provided in **Annex 3**.

Together these ministries exercise a strong '*gate keeping*' role in the budgetary process, and control the overall budget preparation and execution agenda. Reflecting the Brazilian civil service as a whole, the relatively high level of civil service salaries coupled with merit-based recruitment and promotion have ensured a strong professional budgeting and accounting cadre in these ministries, and also in spending ministries.

3. Assessment of the PFM systems, processes and institutions



The PEFA program was established to provide a framework, based on international experience and widely accepted good practices and an agreed set of indicators, to assess and monitor the performance of Public Financial Management (PFM)[8]. The PEFA includes 28 high level indicators (measured along 69 dimensions) that assess the performance of different aspects of the PFM system. As a basis for its design it incorporates a range of internationally accepted standards e.g. GFS, IPSAS, INTOSAI, although these can be interpreted flexibly to adapt to different country contexts. The PEFA addresses the following critical dimensions of performance of an open and orderly public financial management system (PFM):

1. *Credibility of the budget*—The budget is realistic and is implemented as intended.

2. *Comprehensiveness and transparency*—The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.

3. *Policy-based budgeting*—The budget is prepared with due regard to government policy.

4. *Predictability and control in budget execution*—The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.

5. *Accounting, recording and reporting*—Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.

6. *External scrutiny and audit*—Arrangements for the scrutiny of public finances and follow up by the Executive branch.

Against these six core dimensions, a set of high-level indicators (28 indicators) measures the operational performance of the PFM systems, processes and institutions of a country's central government, Legislature and external audit[9]. Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used.

- Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of

---

[8] See: www.pefa.org, many countries, including Norway, have completed a PEFA exercise. Turkey conducted an assessment in early 2009.
[9] A detailed guidance on the scoring is available on the website www.pefa.org.

good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given, where any of the other dimensions are scoring higher.

- Method 2 (M2) is based on averaging the scores for individual dimensions of an indicator. It is prescribed for selected multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though all the dimensions fall within the same area of the PFM system, progress on individual dimensions can be made independent of the others and without logically having to follow any particular sequence. A conversion table is then provided for 2-, 3- and 4-dimensional indicators to set an overall score.

In both scoring methodologies, the 'D' score is considered the residual score, to be applied if the requirements for any higher score are not met. The following paragraphs provide the detailed assessment of the Brazilian PFM system for each of the six core dimensions of the PFM performance. A table will follow at the end of the discussion of each dimension specifying the scoring on the indicators with a brief explanation for the scoring.

In order to improve the focus of the analysis at the Federal level, the PEFA needs to be 'customized' to reflect the Government's main reform priorities and the work of the Working Groups. This will involve the drill-down into specific areas of the assessment, as it is likely that the most interesting analysis will come from looking at the various dimensions of the high-level indicators in more depth. For example, the high-level indicators of transparency and comprehensiveness might be expected to score very well, given the requirements under the Fiscal Responsibility Law, while certain dimensions could be strengthened. The preliminary areas identified in discussion with the Working Groups for additional focus include those related to strengthening the credibility and predictability of the annual budget process (an intended area for recommended actions, partly derived from the PEFA), i.e.:

(i) Improving the credibility of budget revenue forecasts and tax policy, both from a technical perspective and in terms of generating a policy/political consensus;

(ii) Managing the growing overhang of expenditure commitments (*Restos a Pagar)* and the high level of in-year budget amendments is a considerable problem for planning and budget management; and

(iii) The predictability and impact of cash management for expenditure management. The current cash management system, operated by the Treasury (in consultation with other departments), is closely focused on compliance with the primary deficit target as set out under the framework of the Fiscal Responsibility Law (FRL). Under this system, cash released on the basis of a bi-monthly cash plan, might make it difficult for spending ministries to prioritize payments for long-term projects as they are uncertain of the timing of the cash payments. While not wanting to compromise the FRL in any way, the team will consider mechanisms to support greater predictability and certainty in cash management for program managers.

A complete listing of the individual indicators is found in **Annex 1**.

3.1. Budget credibility

The capacity to implement the budgeted expenditure is an important factor in supporting the Government's ability to deliver public services for the year as expressed in policy statements, output commitments and work plans. To assess whether the budget is sufficiently realistic and is implemented as forecasted, this section focuses on four indicators: (a) deviations in aggregate expenditure; (b) deviations in expenditure composition; (c) deviation in total revenue; and (d) the balance of expenditure payment arrears.

In order to assess the deviations in aggregate expenditure, a comparison of outturns against the original budget is presented below in Tables 4 and 5. The two tables show execution of primary expenditures for the years 2006-2008 *in aggregate* (i.e. total expenditure excluding debt service payments); however, they differ in their definition of "actual primary expenditure". While Table 4 uses the "total" actual expenditures which include payments made against commitments or budgeted amounts carried over from previous years to the one under consideration, Table 5 uses only the actual expenditures against the annual budget for the year under consideration.

As can be seen below, when expenditures against previous years' commitments are considered, the deviations in all three years are less than 2.5 percent. When only expenditures against the original annual budget are considered, the deviations are above 5 percent in 2007 and 2008 and close to 5 percent in 2006. In all cases actual expenditures are below the original budgeted amounts.

Considering that the purpose of an annual budget is to state the Government's policy intentions for a given year, it may be argued that the results presented in Table 5 are more relevant to assessing the Government's ability to implement the budget as approved in any one year. Therefore, the Performance Indicator 1 is evaluated based on Table 5.

Table 4: Comparison of Original Budgeted and Total Actual Expenditures (Including actual expenditures against carry-overs) 2006-2008

	2006	2007	2008
Budgeted primary expenditure (R$ mm)	492,894	562,072	636,413
Actual primary expenditure (R$ mm)	488,272	549,842	628,091
Difference between actual and budgeted primary expenditure (R$ mm)	-4,622	-12,229	-8,323
Difference as % of budgeted primary expenditure	-0.9%	-2.2%	-1.3%

Table 5: Comparison of Original Budgeted and Actual Expenditures (Excluding actual expenditures against carry-overs) 2006-2008

	2006	2007	2008
Budgeted primary expenditure (R$ mm)	492,894	562,072	636,413
Actual primary expenditure (R$ mm)	469,534	526,833	596,607
Difference between actual and budgeted primary expenditure (R$ mm)	-23,360	-35,238	-39,806
Difference as % of budgeted primary expenditure	-4.7%	-6.3%	-6.3%

Notes: Budgeted amounts exclude additional credits added during the year.
Source: Government of Brazil, MoP, SOF.

It is important, nevertheless, to consider the role of carry-overs in the budgetary system and how they affect budget credibility (this is discussed in Box 1). As shown in Table 6, the expenditures made against prior years' commitments (i.e. amounts carried over from previous years' budgets) increased over the period 2006-2008 and reached 5 percent of the total actual primary expenditure in 2008. However, given the high levels of mandatory spending in the budget, a better comparison might be against the Federal Government's discretionary spending, which comprises the amount that the Executive can reallocate[10]. This shows the growing influence of the carry-over, which has grown to be equivalent to almost 30 percent of discretionary spending. Moreover, as suggested by the data presented in Tables 4 and 5, the execution of carry-overs contributes to increasing the difference between budgeted and actual primary expenditures.

Table 6: Total Actual Expenditures and Expenditures on Carry-Over 2006-2008

	2006	**2007**	**2008**
Total Actual primary expenditure (R$ mm)	488,272	549,842	628,091
Total primary discretionary expenditure (R$ mm)	82,960	91,294	108,723
Actual primary expenditure on carry-overs (R$ mm)	18,738	23,009	31,483
Actual primary expenditure on carry-overs as a % of Total Actual primary expenditure (%)	3.8%	4.2%	5.0%
Actual primary expenditure on carry-overs as a % of Total primary discretionary expenditure (%)	22.6%	25.2%	28.96%

Source: Government of Brazil, MoP, SOF.

Deviations in composition of spending were also analyzed, broken down by the main administrative units (mostly ministries) and considering the 20 spending units (by amount)[11]. In all three years these 20 heads represented more than 95 percent of the budgeted expenditure. Similarly to what was done for the aggregate deviations, Table 7 presents the deviations calculated with and without the actual expenditures made against prior year commitments.

The inclusion of the carried-over expenditures increases the absolute deviation between the budgeted amounts for line ministries and their outturns (i.e. with a maximum deviation of over 9 percent in 2006). However, this indicator measures the difference between the aggregate deviation (Tables 4 and 5) and deviation between administrative units, so as not to rate the same type of deviation twice. Therefore, when the carry-overs are excluded from the outturns, the deviations in the composition of spending do not exceed the aggregate deviation by more than 5 percent in any of the years. When the carry-overs are included from the outturns, the difference between budgeted and actual outturns by ministry exceeds the aggregate deviation by more than 5 percent in only one year.

[10] See the discussion in Tollini (2009).
[11] The other administrative units were considered in aggregate as a 21st head.

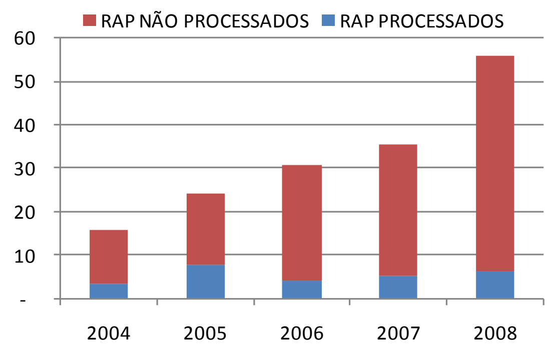
Box 1: Managing the carry-over of expenditures: *Restos a Pagar*

Brazil appropriates the budget on an *expenditure authorization* basis, and during budget execution the financial management system puts limits on agencies commitments (*empenho*) and on cash payments (*pagamento*). At the end of each fiscal year, expenditures which have been committed (*empenho*) but not yet paid may be carried over into the following year (*Restos a Pagar*, RAP).

There are two distinct types of RAP: (i) processed (*Processados*); and (ii) non-processed (*Não Processados*). Processados refers to expenditure that has reached the commitment stage (*empenho*), where a legal obligation to pay a supplier has been made, but the good or service has yet to be delivered and paid for—this liability can be carried forward for up to five years after registration (unless extended by Decree). Não Processados are appropriations that have been allotted to ministries, but for which legally binding commitments have not been registered—this type of liability can be carried forward for 12 months after registration unless extended by Decree (or transformed in to a *RAP Processados*). There is also provision for cancelling RAP authorizations carried over from previous periods, which was applied to around 10 percent of the stock in 2007-08.

Notwithstanding cancellations, the residual expenditures carried forward are significant, particularly as a component of discretionary spending, and have increased rapidly as the budget has expanded in recent years (Figure 1). In 2008, the RAP was R$ 55.6 billion, equivalent to just under 9 percent of the Federal Government primary budget (LOA), while payments against carried-forward liabilities constituted 5 percent of total payments, and for some ministries—notably Transport, Cities and National integration—RAP constituted 50 percent or more of total spending. The bulk of the RAP are Não Processados.

Figure 1: Volume of spending carry-over
(R$ billions, registered amount)



Source: SIAFI

An important reason for allowing the carry-over of spending between fiscal years is that it allows greater flexibility for budget managers to plan and execute spending, rather than rushing to spend before the end of the fiscal year. This may be particularly important for investment spending where the rate of execution is uncertain. However, growing levels of carry-over increase the demand for financial resources in subsequent years and can consequently reduce the ability of the budget to shift spending to meet more immediate priorities. This can be particularly apparent during periods of falling or static revenues, following a build-up of RAP, as general resources are squeezed. A more cautious approach—especially where rolling medium-term budget frameworks are not fully developed and parliaments can raise revenue projections in order to increase spending programs—would be to limit the carry-over to investment projects and purchases that have been legally committed (i.e. Processados), either up to a certain percentage of budget or subject to central pre-approval. The Federal Court of Accounts (TCU) has stated its concern over the growth in RAP and recommended that the Government strengthen the regulation of the RAP to reduce the high amounts that are Não Processados to avoid "*compromising financial planning in the following years*" (TCU Preliminary Report and Opinion on the Government Accounts, 2007). However, the Report also notes the difficulty that the Government has had in enforcing such limits—e.g. an Executive Decree (Art. 14, no. 6046, 22 February 2007), stated that the RAP be limited to "costs which contracts, agreements or similar instruments could be formalized until December 31, 2007, except constitutional and legal expenses" . A proposal to limit RAP Não Processados was also vetoed by Congress in 2008 (see August 2007 LDO) and the RAP Não Processados have continued to grow rapidly.

Considering that the aim of this indicator is to evaluate to what extent the original budget is a useful statement of policy intent for a given year, the Performance Indicator 2 is measured excluding the carry-over of spending from previous years in the outturns.

Table 7: Aggregate and Composition Deviations as a percentage of the originally budgeted expenditure

	2006	2007	2008
Absolute Aggregate deviation–including exp. on carry-over (a)	0.94%	2.18%	1.31%
Composition deviation–including exp. on carry-overs (b)	6.94%	4.73%	4.42%
Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (b)-(a)	6.00%	2.55%	3.11%
Absolute Aggregate deviation–excluding exp. on carry-over (a)	4.74%	6.27%	6.25%
Composition deviation–excluding exp. on carry-overs (b)	9.26%	8.04%	7.02%
Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (b)-(a)	4.52%	1.77%	0.76%

The analysis of the deviations between budgeted and actual revenue collection is presented below for total revenues, revenues administered by the Brazil Federal Revenue, revenues from the *Regime Geral de Previdência Social*, and for other revenues. As may be seen in Table 8, for the past three years actual total revenues were very close or above revenue estimates, suggesting that the Government has been able to accurately forecast its revenues (although see Box 2 for a discussion of recent trends). The estimates for the revenues administered by the Brazil Federal Revenue, which represent more than 65 percent of total revenues, were also close to the actual amounts collected over the year, despite having been underestimated by 5 percent in 2008. The source of information for the data on budgeted and actual revenues is the Government's financial management and accounting system, SIAFI.

Table 8: Budgeted (LOA) vs. Actual Revenues

	2006	2007	2008
Budgeted Total Revenues (R$ mm)	545,902.1	618,272.4	687,577.5
Actual Total Revenues (R$ mm)	545,630.4	620,357.3	717,442.2
Actual as % of Budgeted Revenues	**99.95%**	**100.34%**	**104.34%**
Budgeted Revenue Adm. by Brazil Federal Revenue (excludes RGPS[12]) (R$ mm)	364,461.2	412,572.6	444,019.7
Actual Revenue Adm. by Brazil Federal Revenue (excludes RGPS) (R$ mm)	359,189.2	417,509.4	466,337.0
Actual as % of Budgeted Revenues	**98.55%**	**101.20%**	**105.03%**
Budgeted Net Revenue for the RGPS (R$ mm)	123,672.9	135,910.2	161,740.0
Actual Net Revenue for the RGPS (R$ mm)	123,520.2	140,411.8	163,355.3
Actual as % of Budgeted Revenues	**99.88%**	**103.31%**	**101.00%**
Budgeted Other Revenues (R$ mm)	57,986.9	70,661.3	81,999.4
Actual Other Revenues (R$ mm)	62,921.0	62,446.2	87,750.9
Actual as % of Budgeted Revenues	**108.51%**	**88.37%**	**107.01%**

[12] RGPS: *Regime Geral de Previdência Social* or General Regime of Social Welfare.

Box 2: Estimating Revenue in Brazil

The estimation of revenues remains something of a contentious issue in Brazil, despite the apparently good recent track of performance between the budget estimates and outturns (as shown in Table 5).

The Federal Constitution (Article 166) imposes restrictions on the Legislature's ability to alter the draft budget submitted by the Executive branch (the PLOA). Modifications to "personnel and social charges" are prohibited, while any additional spending (above the suggested ceilings) must be funded either by cancelling an equivalent amount or from additional revenue. Furthermore, the Legislature cannot amend the revenue estimates, unless they are *correcting errors or omissions* (Article 166, clause III). These restrictions, and the exception clauses, provide a strong incentive for the Legislature to introduce higher revenue estimates in order to incorporate additional spending in the LOA. Indeed, during 2006-2008 the Congress invariably increased the estimate of revenues (for the 2009 budget, following the onset of the global financial crisis in late 2008, the Congress reduced the revenue estimates).

The IMF has suggested that while the majority of revenue gains over the last decade have come from structural factors, at least a portion of the gains over the last few years maybe cyclical (and temporary). On the structural side, revenue has benefited from increasing economic stability, strengthening GDP growth, declining inequality, improved tax administration and a general broadening of the tax base. However less predictable, and perhaps temporary, revenue gains came from the rise in international commodity prices, significant capital gains and profit taxes from the buoyant financial sector.

Additionally, one of the main reasons that the Government's revenue estimates, in the PLOA, have been more conservative than the Congress' is that their sophisticated revenue estimation techniques focus on the structural dynamics. The temporary cyclical dynamics are typically much harder to predict and, unless explicitly identified, do not constitute *correcting errors or omissions.* This suggests a certain element of "luck" in the closeness between Congress' re-forecasting of revenues for the budget and the actual outturns. Given that neither the draft budget forecasts (PLOA), nor Congress' revisions, have explicitly incorporated a systematic analysis of structural and cyclical components, this raises the risk that the recently good track record of revenue forecasting could unwind if the "temporary" component reverses.

Sources: Tollini (2009), IMF (2008)

Indicator 4. Payment arrears

The integrated financial information system (*Sistema Integrado de Administracão Financiera*, SIAFI), captures reliable and timely information on each stage of the expenditure cycle—(i) allocation of appropriations; (ii) quarterly cash and commitment allotments; (iii) commitment (*empenho*); (iv) acquisition, verification and certification (*liquidação*); and (v) payment (*pagamento*)[13]. The SIAFI therefore provides a central system for monitoring all accounts payable of the Central Government, and regularly reports amounts carried over between fiscal years (see above Box on the *Restos a Pagar*[14]).

[13] The general public sector accounting system is established under the Budget Framework Law 4320 of 1964 and the Fiscal Responsibility Law: http://www.stn.fazenda.gov.br/legislacao/leg_contabilidade.asp .

[14] Arrears are generated by an overly long gap between the verification/certification and payment stages (the permissible gap between stages varies depending on the type of expenditure) rather than the legitimate carry-over of spending (*Restos a Pagar*), whether *Processados* or *Não Processados*. Arrears would be a small subset of *Restos a Pagar Processados.* SIAFI also monitors the type and age of commitments outstanding and invoices are entered in the system when received.

The total stock of payment arrears is assessed to be negligible. No arrears are known to exist in personnel (payroll)[15] or debt services and an invoice is payable when it has been received and verified/certified according to the finance ministry accountants, invoices are processed and paid within three days. The Court of Auditors (*Tribunal de Conta da União*, TCU) considered that the financial management processes, through SIAFI, are robust and showed negligible payments arrears, delays or errors in expenditure payments. On a separate issue the TCU has consistently recommended that the Government reduce the carry-over of spending authority for which there is no firm legal commitment (*Não Processados*) as this could hamper financial planning in subsequent years, particularly if there is a negative revenue shock[16].

Budget Credibility–Performance Indicators PI-1 to PI-4

Indicator	Score	Brief Explanation
PI-1. Aggregate expenditure outturn compared to original approved budget	B	Deviations between actual and original budget primary expenditure were: 2006: -4,7%; 2007: -6,4%; 2008: -6,3% Although the actual expenditure <u>did not</u> deviate from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure, it did deviate by an amount equivalent to more than 5% of budgeted expenditure <u>in two years</u>.
PI-2. Composition of primary expenditure outturn compared to original approved budget	A	Variance in primary expenditure composition exceeded overall deviation in primary expenditure by: 2006: 4.5%; 2007: 1.8%; 2008: 0.8% The variance was less than 5 percentage points in all of the years.
PI-3. Aggregate revenue outturn compared to original approved budget	A	Actual domestic revenue collection was above 100% for two of the three years and very close to 100% for the third year. 2006: 99.95%; 2007: 100.34%; 2008: 104.34%
PI-4. Stock and monitoring of expenditure payment arrears	A	(i) The stock of arrears is insignificant (Score=A) (ii) Reliable and complete data on the stock of expenditure payment arrears is generated centrally through routine procedures (Score=A)

3.2. Comprehensiveness and Transparency

Indicator 5. Classification of the budget

The Brazilian budget classification system is very detailed and generally well aligned with international standards. The Budget Framework Law (law 4320 of 1964) sets out the basic classification framework for government income (cash) and expense (cash and accrual basis). The Federal Government provides further, more detailed, guidance for the classification of revenues, expenses (including assets and liabilities) that are used for the formulation, execution and reporting of budgets by the Federal Government, all 26 Brazilian states and the Federal District in the form of separate manuals, which are kept updated, for the classification of receipts and expenses[17].

[15] This finding was confirmed by Global Integrity's latest survey: www.globalintegrity.com
[16] See TCU (2007).
[17] The manuals used to prepare the 2009 Federal budget can be found on the Ministry of Planning website:
For revenues: https://www.portalsof.planejamento.gov.br/bib/publicacoes/Manual_Receita_Nacional.pdf
For expenditures: https://www.portalsof.planejamento.gov.br/bib/publicacoes/Manual_Despesa_Nacional.pdf

There is a detailed classification for public receipts (eight digits). These are classified by Economic Category—with subcategories for current, capital, current extra-budget, and capital extra-budget—Origin, Type and by Line.

The Administrative classification is designed around the organizational structure of the Federal Government. The administrative classification enables the planning and tracking of budget performance of ministries and agencies. It comprises the main organizational units (two digits) and budget units (three digits). Appropriations are set to the budget units, which are responsible for carrying out actions, and do not always correspond to a Federal administrative unit, for example in the case of transfers to other levels of government or debt service.

Expenditures are also classified by economic category (two digits) in relation to the type of expense, as follows:

- Current expenditures: personnel and social benefits, interest payments, and other current expenditures;
- Capital expenditures: investments, financial transactions and debt operations (amortization);

The functional and sub-functional classification system meets the UN COFOG standards. The current functional classification was established by Decree No 42 of 14 April 1999, and seeks to show what government is doing in areas like education, health, defense etc. It is composed of 28 primary functions (twodigits) and 109 sub-functions (three digits). For example, the Education Ministry (function 12) and the Legislature (function 01) may both spend money on primary education (sub-function 365).

Brazil has also developed a detailed program classification in order to better reflect the organization of government spending around stated objectives. Every action of government is structured into programs, which aim to achieve objectives that are outlined in the multi-year (4-year) Strategic Plan (*Plano Plurianual, PPA*) at the start of the administration. Programs are organized by the main program heading (four digits, for example, primary health care or social housing) and the program activity (four digits). All government entities must have their work organized by programs, and there were approximately 350 programs in the 2004-07 PPA[18], but each establishes its own structure (in accordance with Decree No. 42/1999). Furthermore, all expenditure is classified by location and source of funding.

While all the above classification structures have been amended to suit the specific nature of fiscal management in Brazil, for example covering transfers to sub-national entities, they are generally in line with the international standards outlined in the 2001 Government Finance Statistics (GFS) manual produced by the IMF[19]. The Government is continuing to develop its classification framework, particularly with regard to the management of nonfinancial assets and liabilities.

Indicator 6. Comprehensiveness of information included in budget documents

The Budget proposal is presented to the Legislative in six volumes and is accompanied by a document titled "Complementary Information to the Bill of Budget Law"[20] (in four volumes). These documents present seven out of the nine types of information considered under the PI-6, as explained in detail below:

---

[18] For a list of programs see: http://www.sigplan.gov.br/v4/appHome/

[19] See http://www.imf.org/external/pubs/ft/gfs/manual/

[20] In Portuguese: *Informações Complementares ao Projeto de Lei Orçamentária Anual.*

1. Macroeconomic assumptions: the macro-assumptions are presented in Volume I of the Complementary Information to the Bill of Budget Law as part of the explanation of the methodology used for estimating primary revenues. Assumptions for the following parameters are presented: inflation, aggregate growth, exchange rate, interest rate, and personnel expenditure growth.
2. Fiscal result: presented in *Quadro 11* of Volume I of the Bill of Budget Law, according to the GFS 1986 methodology.
3. Deficit financing, describing anticipated composition: presented in *Quadro 11* of Volume I of the Bill of Budget Law.
4. Debt stock: presented in Volume III of the Complementary Information to the Bill of Budget Law.
5. Financial Assets, including details at least for the beginning of the current year: this information is not sent to Congress together with the PLOA.
6. Prior year's budget outturn, presented in the same format as the budget proposal: the budget documentation does present the prior year's outturn, but in a more aggregate level than the current year's budget proposal. However, given the level of detail in which the budget proposal is presented, it would be somewhat unfeasible to present the prior year's outturn in the same level of detail. Therefore, this is considered fulfilled.
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal: same as above. It is presented, but not in the same level of detail. However, this is considered fulfilled as per the reason presented above.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year: presented in the *Quadros Consolidados da Receita e da Despesa* of the Volume I of the budget proposal.
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs: this may be presented in the President's message to Congress that accompanies the budget documentation; however, this is not obligatory and does not necessarily include estimates of the budgetary impact of new programs. Therefore, this is considered as not being fulfilled.

The Annual Budget Law is comprehensive and, according to Law 4,320 of March 17, 1964, should include all revenues (including credit operations—domestic and foreign) and expenditures. The budget has three components, but all are combined into a consolidated budget: (i) the fiscal budget, covering the expenditures of the Executive, Legislative and Judicial branches, and of the Attorney-General's Office, direct and indirect administrative entities and including foundations receiving public funding; (ii) the social security budget, covering social expenditures—health, pension and severance payments and social assistance; and (iii) the capital expenditures of state-owned enterprises[21].

In practice, the annual budget includes nearly all of the Government's public resources and expenditures; obligations related to the issuing of money and implicit subsidies are not included in the budget. Implicit subsidies include, for instance, securitization of agriculture debt (as provided for by Law 9,138/95), and transfers to constitutional funds such as the regional development funds and financing funds. These primary extra-budgetary expenditures reached an amount of R$ 2,045 million in 2008, accounting for less than 1% of total primary expenditures (Table 9).

[21] See also Report No. 25685-BR, Brazil Country Financial Accountability Assessment.

Table 9: Extra-budgetary Expenditures (R$ mm)

	2006	2007	2008
Extra-budgetary Expenditures	**2.567**	**2.770**	**2.045**
Issuing of notes and coins	387	508	600
Implicit Subsidies	2.180	2.262	1.445
Securitization of the Agriculture Debt (Law 9,138/95)	466	1.438	861
Transfers to EMGEA[22]	1.482	499	-
Transfers to Constitutional Funds	-	-	536
Registration in Active Debt of the Union (PESA, Securitization and Prodecer II)	231	325	299

Source: Federal Government of Brazil

Indicator 7. Extent of unreported government operations

Coverage of the budget and fiscal statistics in Brazil is very broad. In accordance with the Constitutional provisional (Article 165, paragraph 5) the Federal Annual Budget Law, and subsequent fiscal reporting, includes the following:

- Direct administration (e.g., Executive, Legislative, and Judicial powers);
- Indirect administration, including funds and foundations instituted and maintained by the Government, dependent nonfinancial public corporations (NFPCs)[23] controlled by the Federal Government, and independent NFPCs that produce goods and services mainly for the Central Government;
- The investment budget of companies in which the union directly or indirectly holds the majority of the voting capital;
- The social welfare budget, comprising all direct and indirect administration entities or bodies connected with social security, as well as funds—e.g. the *Regime Próprio de Previdência Social* (RPPS) and the *Regime Geral de Previdência Social* (RGPS)—and foundations instituted and maintained by the Government; and
- Government controlled Funds, including the *Fundo de Garantia do Tempo de Serviço* (FGTS)—the FGTS was created by Law 5107 (1966) to promote household savings (via compulsory private employer contributions set at 8 percent of salary) that are invested in housing and urban infrastructure (the financial public corporation *Caixa Econômica Federal* performs the risk assessment for housing loans).

[22] The *Empresa Gestora de Ativos* (Emgea–Asset Management Company) is a Federal enterprise, nonfinancial in nature, linked to the Ministry of Finance and established by Decree No. 3848 of 26.6.2001, based on the authorization contained in the Provisional Measure No 2155, of 26.6.2001—current MP No 2196-3, of 24.8.2001. It was created as a result of the Program for Strengthening the Federal Financial Institutions (PROEF) with the purpose of acquiring property and rights of the Union and other entities of the Federal Public Administration. Its initial capital was subscribed by the union through a transfer of receivables of *Itaipu*, in an amount of R$ 5.8 billion. Subsequently, the union did an additional transfer of capital in the amount of R$ 4.2 billion, represented by contracts of real estate credit operations acquired from *Caixa Econômica Federal*—CAIXA. The union made further contributions of capital to cover the deficits of *Emgea*, especially those arising from provisions for credits difficult to recover. Today Emgea has a total equity of R$ 26.7 billion.

[23] Defined as a public corporation that receives transfers from the Central Government (*LRF,* Article 2, Section III).

There are a few, relatively small, extra-budgetary units within Central Government. The Government does not include the so-called *Sistema 'S',* entities in fiscal statistics. These comprise entities created in the 1940s and 1990s that are financed with compulsory private sector employer contributions to promote professional training and social welfare for private sector employees, and have aggregate turnover of less than 1 percent of federal government spending. These are separate institutional units controlled by the Government (the Government sets policy, but does not control operations), and are classified as nonmarket non-profit institutions.

Brazil's annual fiscal targets are set very broadly and include the net fiscal contribution of the complete state-owned enterprise sector. The primary surplus target is subdivided into: (i) the Central Government; (ii) states and municipalities; and (iii) state-owned enterprises. The state-owned enterprises subsector comprises Federal independent corporations, both nonfinancial and financial, including the Central Bank (CBB). However, the current global economic downturn has led to some changes in coverage. In 2009, the primary fiscal balance of **Petrobras** (the large oil and gas corporation)—equivalent to about 0.5 percent of GDP—was removed from the consolidated public sector aggregate position. Accordingly, the consolidated primary surplus target was reduced from the original 3.8 percent of GDP, to 2.5 percent of GDP, reflecting the exclusion of the primary surplus of Petrobras from the aggregate target (0.5 percent of GDP), and a reduction of the Central Government primary surplus target to 1.4 percent of GDP (from the original 2.15 percent of GDP), and a reduction in the primary surplus target of states and municipalities to 0.9 percent of GDP (down from the original 0.95 percent of GDP).

Indicator 8. Transparency of Inter-Governmental Fiscal Relations[24]

Intergovernmental transfers represent one of the pillars of Brazil's fiscal federalism structure. Transfers between the three tiers of government represent more than 8 percent of GDP, or more than 20 percent of general government tax revenues[25]. Brazil's large and complex system of intergovernmental transfers encompasses unconditional and conditional transfers, as well as mandatory and voluntary ones. Moreover, transfers may or may not require beneficiary contributions. The vast majority of intergovernmental transfers are financed through revenue-sharing rules laid down in the 1988 Constitution[26]. Their automatic and formula-based nature guarantees transparency and autonomy, keeping political interference at bay.

Unconditional transfers—financed by well-defined revenue-sharing mechanisms—account for about 5 percent of GDP or just over 60 percent of total transfers. About half of these transfers are aimed mainly at reducing regional disparities (equalization) and represent direct transfers of income taxes to states and municipalities under the states' and municipalities' participation funds (respectively, FPE—*Fundo de Participação dos Estados* and FPM—*Fundo de Participação dos Municípios*). The FPE redistribution formula, embedded in the Constitution of 1988, is positively correlated with a state's population and the inverse of state per capita income in 1989. Although the law required these proportions to be reviewed in 1992, this still has not been done. For its turn, the FPM rules establish two groups of municipalities: state capitals, which receive 10 percent of the FPM resources, and non-capital municipalities, which receive 86.4 percent. The remaining 3.6 percent form a reserve to be distributed to the most populous municipalities. The allocation to state capitals depends on both population and per capita income criteria. However, non-capital municipalities' allocation depends exclusively on population, with a minimum allocation based on population ranges.

---

[24] This section is largely based on the Nov. 2008 Report by Blanco, F. *et al*, *Brazil–Topics in Fiscal Federalism*.

[25] The percentages are World Bank estimates based on data for 2006 provided by STN. See the Report *Brazil – Topics in Fiscal Federalism* (Nov.2008) by Blanco, F. *et al*. for additional information.

[26] See Chapter I "National Taxation System" of Title V of the 1988 Federal Constitution.

The other half of the unconditional transfers–also arguably aimed at reducing regional disparities–redistribute revenues from taxes on goods and revenues (such as ICMS) and royalties, accounting for 1.7 percent and 0.5 percent of GDP respectively, from higher to lower levels of government. These transfers are origin-based, benefitting municipalities where factories are located or where extraction activities occur (for royalties). Municipalities receive one-quarter of the ICMS revenue, with three-quarters of this amount accruing to the municipality generating the revenues. It tends to benefit municipalities with strong industrial activity, especially extractive industry.

Conditional transfers, representing roughly 3 percent of GDP, are directed mainly to education and health. Most of them are mandated by the Constitution and financed by revenue-sharing schemes. However, there are also several conditional non-matching grants totaling 0.5 percent of GDP, most of which are voluntary. The Fiscal Responsibility Law (LRF) establishes more formalistic rules for voluntary transfers, but not regarding amounts.

Subnational governments are provided with information on their allocations from Central Government for the coming year, *although this may vary from actual disbursements*. The Federal Government sends its budget proposal (PLOA), containing revenue estimates and thus transfers estimates, to Congress one month before subnational governments are required to do so. Thus, subnational governments receive clear and timely information on projected transfers (with the exception of voluntary transfers) before finalizing their budget proposals and can therefore make adjustments (but not before starting to elaborate their proposals). Congress, however, frequently amends the revenue forecasts for the Final Budget Law (LOA), which consequently changes the allocations to the states. Following approval of the LOA, the National Treasury Secretariat (STN) publishes a schedule according to which the transfers will be made during the year as well as estimates of how much will be transferred every 10 days. However, the financial program of the STN is typically updated at the start (and at least every two months during the year), and therefore differs from either the LOA or PLOA, while transfers to states are based on actual receipts[27]. Nonetheless, the Federal Government uses sophisticated methods to estimate revenues and provides regular updates in a transparent manner so that transfers to subnational governments are reasonably predictable.

Finally, regarding the extent to which consolidated fiscal data is collected and reported, subnational governments are required by law to provide to the Federal Government: (i) reports on their budget execution every two months; (ii) consolidated fiscal reports every four months; and (iii) annual statements and audited accounts. These reports are prepared following specific guidelines set by the National Treasury Secretariat and are subject to external review by the Courts of Accounts. According to the Fiscal Responsibility Law (art. 51), the Federal Government is responsible for consolidating the accounts at the national level and by level of government by June 30th, and making them available to the public[28].

Indicator 9. Oversight of aggregate fiscal risk from other public sector entities

The role of public enterprises (PEs) remains important in Brazil. For the three levels of government in 2008, nonfinancial public corporations' total revenue represented around 9.5 percent of GDP and total expenditure represented 8.7 percent of GDP. However, a good share of this was associated with largely commercial activities. Investment by PEs (at over 2 percent of GDP in 2008) constitutes a significant proportion of total public investment.

---

[27] See Indicator 16 for a discussion of the Federal Government's annual financial program. In order to ensure compliance with the FRL's primary deficit targets, the STN tends to adopt conservative revenue assumptions.

[28] See also Indicator 25 for format of the accounts, which includes a sectoral classification.

Nonfinancial public corporations (NFPCs) are subdivided into dependent entities, controlled by the Federal Government, and autonomous independent entities that are regulated by financial or corporate regulations. The LRF*,* Article 2, Section III states that a "state dependent enterprise is a controlled enterprise that receives from the entity that controls it, financial resources to pay for personnel or general expenses or capital expenditures, excluding those resulting from an increase in shareholders' equity." According to the IMF, quarterly balance sheet reporting and annual audited accounts of the NFPCs controlled by the Central Government are "reasonably complete"[29]. The Department of Coordination and Control of State Enterprises (DEST) in the MoP is responsible for the preparation of the comprehensive plan of expenditures (PDG) and the publication of an annual report for state enterprises using the SIDEST system.

Over the last ten years the Federal Government has attempted to institute stronger controls on subnational spending. In 1997 the Federal Government bailed out 25 of the 27 states and firmed debt restructuring agreements with them conditional on them undergoing a fiscal adjustment and restructuring program. As a result, these 25 states are legally bound to follow an adjustment path through the achievement of targets for selected indicators as agreed with the National Treasury Secretariat. Hence, the Federal Government monitors fiscal risk from all states and in particular these 25 states on a yearly basis.

Moreover, in 2001 the Fiscal Responsibility Law was approved and it introduced new procedures and requirements aimed at establishing a stronger fiscal management. All levels of government are required to report potential fiscal risks and these are outlined in the Budget Guidelines Law (LDO): to follow spending limits; to institute spending control procedures; and to produce budget execution and fiscal management reports etc. While this improves fiscal management and increases availability of information on fiscal risks, it is not in the Federal Government's mandate to review these reports and oversee the fiscal risk from subnational governments. However, in practice, the Federal Government oversees the risk from the 25 states on an annual basis and reviews the compliance with the Fiscal Responsibility Law by municipalities only when they apply for the National Treasury's authorization to sign a credit operation.

Indicator 10. Public Access to key fiscal information

The public has access to a great deal of fiscal information that is made available through many different government publications and websites:

(i) Annual budget documentation: A complete set of documents can be obtained by the public at most 15 days after the budget proposal has been submitted to Congress. All documents are available on the internet. However, given the extent and complexity of the documentation, summary information and explanations of the types of information contained in each volume would make it more user-friendly[30].

(ii) In-year budget execution reports: the Federal Government prepares and makes available to the public every two months summary budget execution reports, up to 30 days after the end of the period[31].

[29] Data for NFPCs are prepared under private sector accounting standards. The reporting requirements are laid out in the FRL. Federal government includes 17 Federal Dependent Corporations and five nondependent corporations selling products exclusively to Central Government. The largest are the Petrobras and the Eletrobrás Groups.

[30] The budget proposal is available at the Ministry of Planning website (www.planejamento.gov.br).

[31] Reports made available at the National Treasury's website (http://www.tesouro.fazenda.gov.br/contabilidade_governamental/gestao_orcamentaria.asp)

(iii) Year-end financial statements: the Federal Government presents its year-end unaudited financial statements by the end of March each year. These are made available to the public at the National Treasury's website[32].

(iv) External audit reports: The conclusive preliminary audit report is issued by the Court of Accounts and is sent to the Legislative to be approved. It is available simultaneously to the public on the Court of Accounts website[33].

(v) Contract awards: according to the Brazilian Procurement Law (Law 8,666/93), contract awards have to be published in the Official Diary (*Diário Oficial da União*). However, they are published individually and a compilation is not available through the internet. Therefore, access to this information is not user-friendly.

(vi) Resources available to primary service units: the Federal Government budget is very detailed and includes the resources allocated to primary service units under its responsibility. However, the budget is authoritative—meaning that the Executive can limit spending within the budget ceilings during the year—and the information is not easily available to primary service units' users. Moreover, most primary service units are under subnational authority and there are no central regulations requiring that other levels of government publish information on resources available to primary service delivery units.

In conclusion, a lot of information is made available by the Federal Government; nonetheless, they are not always made available in a user-friendly format making it hard for the public to assess it.

Comprehensiveness and Transparency–Performance Indicators PI-5 to PI-10

Indicator	Score	Brief Explanation
PI-5. Classification of the budget	A	The budget formulation and execution is based on administrative, economic and detailed functional and program classification, which meet GFS/COFOG standards
PI-6. Comprehensiveness of information in budget docs	A	Recent budget documentation fulfils 7-9 of the 9 information benchmarks
PI-7. Extent of unreported government operations	A	(i) Extra-budgetary expenditure is insignificant (score = A) (ii) Donor-funded projects are insignificant at the Federal level. All borrowing is included in the budget and fiscal reports (score = A)
PI-8. Transparency of Inter-Governmental Fiscal Relations	B+	(i) The horizontal allocation of resources among SN governments is based on clear rules and is highly transparent (score = A) (ii) SN governments are provided with information regarding Federal transfers at different points throughout the budget cycle, although amounts many vary substantively (score = B) (iii) Fiscal data for general government is consolidated according to sector categories (score = A)
PI-9. Oversight of aggregate fiscal risk from other public sector entities	C+	(i) Reporting by dependent public enterprises is timely and reasonably complete. Fiscal risks are included in the LDO annex where relevant (score = A). (ii) The net fiscal position is monitored at least annually for the most important level of subnational government, but a consolidated overview is missing or significantly incomplete (score = C)
PI-10. Public Access to key fiscal information	A	(i) The Government makes available to the public five of the six types of information. Nonetheless, there could be improvements in the way the information is presented to make it more accessible to the (non-technical) public

[32] Idem.
[33] Source: http://portal2.tcu.gov.br/portal/page/portal/TCU/comunidades/contas/contas_governo.

3.3. Policy-based budgeting

Indicator 11. Orderliness and participation in the annual budget process

The budgetary cycle is well known and respected. The Constitution and the Fiscal Responsibility Law (FRL) establish the main instruments for budget management[34]. They require the preparation by the Executive of the following key documents: a Pluriannual Plan (PPA), the annual Budgetary Directives Law (LDO) and the Annual Budget Law (LOA) and a consistency between the PPA and LDO (see Box 2). For each level of government the preparation of the LDO precedes the LOA, as the LDO sets out the main fiscal targets and priorities of the public administration, including the capital expenditures for the subsequent fiscal year, along with the fiscal risks. The LDO provides a guide to the drawing up of the LOA.

Chapters II and III of the FRL describe in more detail the contents of the LDO and LOA, and the requirements that the LOA "must be consistent with the PPA and the Budgetary Directives Law." Box 2 also sets out the main schedule for the budget process. Preparation of the annual Law on Budget Directives (PLDO) begins around mid-February of the preceding year. The Joint Budget Board (*Junta de Execução Orçamentária*, JEO), which comprises the Ministries of Finance (MoF), Planning and Budget (MoPB), and the Presidency (*casa civil*), firstly determine the macro-fiscal framework for the year. On this basis the MoPB issues a clear annual budget calendar that all agencies must adhere to, along with revenue estimates and individual budget ceilings. The first round of budget discussions between the JEO and budget agencies commences after around 30 days, though discussions can continue well past the six weeks.

The budget calendar is clear, allows sufficient time for preparation and oversight and is generally well respected. In the past three years, the Annual Budget Law proposal (PLOA) and has been submitted to the Legislature within the mandatory deadline (i.e. by end-August). In the same period, the LOA was approved after the beginning of the year in one of the last three years (for the 2008 Budget)[35].

[34] Articles 165-166 of the Constitution set out the budgetary responsibilities of the Government in preparing the budget. Chapters II and III of the FRL describe the contents of the LDO and LOA, and requires that the LOA "must be consistent with the Multi-year Plan (PPA) [and] the Budgetary Directives Law".

[35] Although the Legislature approved the 2007 Budget before the end of the year (22/12/2006), the President was not able to complete the sanction of the Bill until February 7 in 2007.

Box 2: Major Documents for Budget and Fiscal Reporting

The 1998 Constitution introduced a new set of rules to regulate the budgetary decision-making process, with three main instruments: the Multi-Annual Plan (*Plano Plurianual, PPA*), the Budget Guidelines Law (*Lei de Diretrizes Orçamentárias, LDO*), and the Annual Budget Law (*Lei Orçamentária Annual, LOA*).

Timing	**Document**	**Purpose**
By the end of the first year of a new administration	Multi-annual plan (*Plano Plurianual, PPA*)	The plan covers all government expenditures–current, capital and transfers–in several hundred outcome- or output-based programs. The Executive sends the PPA to the Congress four months before the end of the first year (August 31) of a new government. The Congress should amend and approve it by December 15 of that year.
June of preceeding budget year (updated periodically)	Technical Budget Manual (*Manual Técnico de Orçamento, MTO*)	New versions of MTO are produced annually to provide technical guidance for drafting proposals for the following year's budget and for budget execution. The MTO includes the budget classification for revenue and expenditure and the relevant laws and is periodically updated to include revisions and amendments.
Submitted to Congress by April 15	Draft Budget Guidelines Law (*Projeto de Lei de Diretrizes Orçamentárias, PLDO*)	The Federal LDO sets the macroeconomic and fiscal targets for the Government and the nonfinancial enterprises, as well as providing guidelines on budget formulation and execution. As required by the LRF, the LDO provides budget execution information for the proceeding two fiscal years, the fiscal targets and fiscal risks (Annex V) and projections for the following two years in terms of primary balances, debt stock, and revenue and expenditure aggregates.
By June 30	Annual Budget Guidelines Law (*Lei de Diretrizes Orçamentárias, LDO*)	As above: approved by the Congress. Congress should approve the LDO **by June 30**, but has approved the LDO after the due date for the PLOA twice in the last four years (2006 and 2007).
Submitted to Congress by August 31	Draft Budget Law (*Projeto de Lei Orçamentária, PLOA*)	The PLOA includes: a budget statement, the macroeconomic framework and a discussion of spending priorities and the main budget programs; the budget bill; and annexes with very detailed information and classifications (i.e. administrative, functional, and economic, by program, by projects or activities as well as the source of resources). The PLOA also identifies earmarked revenues, tax expenditures, and the main contingent liabilities.
By September 15	Complementary information (*Informações Complementares ao PLOA 2009*)	Fifteen days after sending the PLOA to Congress the Executive provides more detailed information in the complementary documents, including detailed information on each program.
By December 15	Budget Law (*Lei Orçamentária, LOA*)	As above: approved by the Congress, often with substantial amendments to revenue forecasts and discretionary spending appropriations.
30 days after the President signs the *LOA*	Financial Program (*Programação Financeira*)	Within thirty (30) days after the closing of each two-month period the Government publishes a summarized report on budget implementation.

Source: Government of Brazil

Indicator 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

A multi-year budget perspective provides a helpful tool for promoting Government objectives, many of which are achievable only over the medium term, and ensuring that fiscal and policy measures are affordable, sustainable and can adjust more smoothly to manage fiscal shocks.

Brazil has a well-established legal framework for the formulation, execution, and monitoring of the budget, which includes a focus on the medium term. The 1988 Constitution established a hierarchy of interconnected budget instruments designed to integrate multi-annual planning, budgeting and management in a way that balanced restraints with flexibility and transparency (these were further reinforced by the FRL)[36]. The instruments include:

- The Government's primary instrument for forward planning is the *Plano Plurianual* (PPA). Since 1996, the Federal Government has prepared the PPA, which projects revenues, expenditures and targets over a four-year period and is developed by the Executive and approved by Congress during the first year of each new administration[37]. The PPA is designed to assist with the strategic allocation of Federal resources to spending programs—the 2008-11 PPA comprises a total of 306 programs, divided into *actions*, capturing three main government strategies (Education's *Plano de Desenvolvimento da Educação*, Social Agenda and PAC portfolio), and totaling around R$ 3,525 billion. The PPA also highlights the Government's political priorities—about one-quarter of the programs are designated as "priority", which means they are considered mandatory, and protected from cuts during budget implementation. However, the PPA does not explicitly contain a medium-term macro-fiscal scenario to support the design of spending programs, especially for investment.
- The annual Budgetary Guideline Law (LDO) sets out three-year rolling projections for the main macroeconomic and fiscal aggregates, including GDP, interest rates, the exchange rate, primary revenue and expenditure, the primary deficit target and debt[38]. The LDO also includes annexes that provide projections for pensions and social security (actuarial basis), contingent liabilities, and revenue projections that define the fiscal envelope.
- The Annual Budget Law (LOA) authorizes appropriations for the subsequent fiscal year only. The law is based on the LDO, although as discussed earlier, revisions can be made to the revenue projections and consequently spending limits to meet the fiscal primary deficit and debt targets.

As there is a hierarchy of laws, the Constitution states that amendments to the LOA may only be approved if they are compatible with the PPA and LDO (as well as being funded). Over time the MoP has developed sophisticated review and evaluation processes associated with the PPA, to ensure that it is evaluated and amended annually following the approval of the annual LOA[39]. The Secretariat of Planning and Investment (SPI) from the MoP is in charge of negotiating with line ministries the programs that are included in PPA while the Budget Secretariat (SOF) in the MoP develops the LDO and LOA (both use the same revenue estimates).

[36] 1988 Constitution, Article 166, Paragraph 3.

[37] The coverage of the PPA gradually expanded from a small set of programs, to a comprehensive instrument in 2000-03 plan.

[38] See the LDO Annex III: https://www.portalsof.planejamento.gov.br/pldo2009/index_html.

[39] The SPI in the MoP maintain the management information system (SIGPLAN) for managing the PPA and the plans, revisions, evaluations and guidance material are published at: http://www.sigplan.gov.br/v4/appHome/

However, there are considerable constraints and adjustments to the annual budget that are not always consistent with the PPA, including:

- The structure of the budget is very rigid, with a considerable amount of predetermined earmarked revenue and '*mandatory*' spending, and there is consequently limited fiscal space within which to adjust spending towards policy priorities (see section 2.2 above). The volatility of the nominal primary fiscal deficit target also means that it is difficult to provide multi-annual predictability of resource flows;
- During the approval process the Congress makes significant adjustments to the revenue projections (see indicator 3) and discretionary spending (Table 10); and
- During budget execution, partly as a means of ensuring compliance with the deficit target the Executive restricts the release of funds for discretionary commitment and spending *(contingenciamento)* that do not always prioritize consistent with the PPA.

Table 10: Legislative amendments to the Executive's draft budget

Draft budgets (PLOA: *Projeto de Lei Orçamentária Anual*)) from 2006 to 2009

	Number of amendments	Value (BRL million)	As a share of total PLOA spending (%)	As a share of discretionary PLOA spending (%)
PLO 2006	8,621	10,857	2.3%	13.2%
PLO 2007	8,822	15,370	2.8%	17.3%
PLO 2008	9,619	16,186	2.6%	13.2%
PLO 2009	9,341	19,461	2.8%	15.1%

Source: Based on Tollini (2009), and World Bank calculations.

Notes: Budget spending excludes debt and financial obligations.

Consequently the budget is not well linked to planning and execution of public expenditure. In general the LOA targets are not well linked to the PPA even though all budget proposals are required to be consistent with the PPA*.* Tables 6 and 7 indicate some of the significant divergences between the budget proposed by the Executive (PLOA, mostly consistent with the PPA), the budget approved by the Legislature (LOA) and the executed budget in terms of amounts and composition. For example, the Legislature routinely increases the budgets for Urban and Transport Ministry projects, both in absolute terms and as a proportion of the overall budget. The Transport Ministry budget is also routinely under executed due to problems with implementing capital works. These differences serve to undermine the link between forward planning and the budget.

In addition to PPA, some sectors produce their own strategy. One example is the Transport Plan (*Plano Nacional de Logística e Transportes*–PNLT). Table 11 indicates that a number of sectors have developed their own strategies—these represent just over 40 percent of discretionary primary spending in 2008, although around 35 percent of total annual payments in 2008. However, not all the sector strategies are fully costed, nor are they broadly consistent with the projections in the PPA or LDO. This may be partly due to the relative political autonomy of some ministers, who do not necessarily come from within the President's party.

Table 11. Federal Government discretionary spending and sector strategies

R$ Milhões

Item	2006 PLOA	2006 LOA	2006 LOA (+) Créditos	2006 Total Payments (Budget+ carry-over)	2007 PLOA	2007 LOA	2007 LOA (+) Créditos	2007 Total Payments (Budget+ carry-over)	2008 PLOA	2008 LOA	2008 LOA (+) Créditos	2008 Total Payments (Budget+ carry-over)	Sector Strategy
Setcors	**24,436.7**	**30,508.7**	**30,553.0**	**22,162.7**	**21,643.5**	**31,420.4**	**32,088.9**	**21,909.0**	**30,302.1**	**37,538.4**	**42,326.1**	**24,869.5**	
Agriculture	533.0	868.8	869.2	580.3	587.3	1,076.9	1,075.7	658.8	836.2	1,408.7	1,474.8	864.4	
Agu	63.3	60.1	88.2	74.5	108.9	108.9	108.9	86.8	278.9	229.0	244.0	142.8	
Cities	1,042.2	2,653.4	2,656.9	1,341.2	858.2	3,160.4	3,094.5	1,101.0	523.6	3,221.2	3,755.4	1,169.0	*Yes*
Science and Technology	223.1	208.4	217.3	188.8	224.2	224.2	234.6	203.4	266.3	238.7	260.2	246.6	*Yes*
Communications	400.4	400.1	420.8	287.0	463.3	476.3	510.9	275.2	448.8	369.9	390.6	276.9	
Culture	387.2	516.5	526.3	352.3	405.6	619.2	635.2	365.8	741.3	838.5	843.1	517.4	
Defense	3,396.1	4,236.4	4,267.3	3,872.8	4,174.5	5,411.1	5,306.3	4,394.6	7,104.0	6,780.7	7,713.8	5,760.2	
Des. Agrarian	2,142.7	2,233.1	2,237.3	1,697.3	2,077.6	2,277.4	2,477.4	1,876.9	2,888.7	2,685.4	3,561.4	1,746.0	*Yes*
Industry, Commerce and Trade	467.4	526.7	562.0	511.8	497.5	564.6	750.7	693.3	662.5	715.1	823.0	543.9	
Charges Fin. Union	371.9	340.8	340.8	331.6	395.0	395.0	390.6	286.8	274.8	226.6	154.7	103.8	
Sports	376.2	875.5	893.3	415.7	435.7	911.5	904.5	708.3	272.7	1,127.3	1,369.5	440.3	
Finance	2,221.2	2,202.3	2,136.6	1,784.3	2,120.1	2,146.3	2,462.0	2,261.5	3,094.5	2,719.1	3,193.9	2,545.2	
National Integration	1,535.4	2,008.2	2,048.4	1,034.9	493.4	1,513.9	1,522.2	513.7	310.9	1,628.4	1,992.1	682.4	
Justice	1,316.0	1,342.8	1,409.3	1,039.7	1,582.6	1,817.9	1,867.6	1,469.1	3,043.9	3,125.7	3,216.3	2,130.6	
Environment	426.8	461.7	505.8	414.1	503.1	581.9	628.8	485.6	636.3	691.1	786.2	517.0	
Mines and Energy	476.6	574.9	542.6	365.0	481.3	508.9	531.2	388.3	581.1	453.3	762.2	525.6	
Op Official Credits	65.1	56.7	56.7	76.0	56.9	56.9	57.1	46.7	75.6	75.6	114.6	86.5	
Planning	481.0	511.9	560.0	417.0	827.4	825.5	826.6	650.5	558.8	490.3	580.2	333.4	
Presidency	1,057.7	1,045.9	1,048.4	840.7	963.7	1,081.5	1,332.1	755.0	2,289.0	2,144.3	2,372.6	1,420.8	
Social	947.8	940.4	871.9	651.7	1,231.9	1,238.4	1,274.8	1,186.6	1,540.5	1,405.1	1,528.0	1,113.7	
Foreign	621.3	624.7	638.0	550.8	685.9	713.2	705.2	598.2	874.5	706.3	748.6	858.1	
Work	616.8	776.8	655.7	532.7	813.8	870.7	857.6	715.8	1,636.2	1,540.3	1,564.7	747.4	
Supervision of Transfers MF	9.0	9.4	19.4	26.4	16.8	68.3	65.9	8.6	12.8	17.8	17.8	46.3	
Transport	4,940.7	5,789.6	5,737.0	4,110.1	975.2	3,009.2	2,664.1	1,111.7	849.8	2,070.3	1,888.9	889.8	*Yes*
Tourism	315.5	1,241.1	1,241.1	662.8	661.2	1,759.8	1,801.8	1,064.1	497.9	2,626.8	2,966.4	1,158.6	
Vice President	2.5	2.3	2.9	2.8	2.5	2.5	2.5	2.5	2.6	2.6	3.1	3.0	
Programa de Aceleração de Investiment	**57,812.8**	**61,453.7**	**62,591.9**	**56,261.5**	**67,387.5**	**72,214.4**	**72,138.2**	**64,618.6**	**92,675.7**	**91,652.5**	**99,029.7**	**78,242.0**	
PAC	0.0	0.0	0.0	0.0	5,149.9	5,361.0	4,336.6	4,001.8	16,428.9	14,473.1	16,771.0	5,556.0	*Yes*
Others	2,175.9	2,238.6	2,293.5	2,140.6	2,427.2	2,495.8	2,413.2	2,355.3	2,944.9	2,838.1	3,010.3	2,740.1	
Sectors, of which	55,636.9	59,215.1	60,298.3	54,120.9	59,810.4	64,357.6	65,388.3	58,261.5	73,301.9	74,341.4	79,248.4	69,945.9	
EMBRAPA research	*153.2*	*189.1*	*189.1*	*156.8*	*188.3*	*229.9*	*229.9*	*202.9*	*196.9*	*203.7*	*326.8*	*236.2*	*Yes*
Science & Technology	*2,388.2*	*2,686.2*	*3,123.8*	*2,333.9*	*3,113.7*	*3,327.1*	*3,507.1*	*2,940.0*	*3,683.7*	*3,695.9*	*3,829.2*	*3,429.3*	*Yes*
Education	*7,985.3*	*8,361.5*	*8,451.8*	*7,471.3*	*7,910.6*	*8,559.5*	*8,649.4*	*7,286.3*	*12,694.2*	*13,161.3*	*13,657.6*	*10,356.3*	*Yes*
Health	*35,998.1*	*36,651.9*	*37,209.7*	*33,963.7*	*37,288.1*	*40,587.4*	*40,539.2*	*35,867.5*	*42,467.5*	*43,226.1*	*46,830.0*	*41,841.0*	
Flight Safety	*530.4*	*530.4*	*530.4*	*412.4*	*487.6*	*548.4*	*672.3*	*577.8*	*583.0*	*525.1*	*780.4*	*732.4*	
Fight Against Hunger	*8,210.0*	*10,439.0*	*10,442.8*	*9,384.6*	*10,495.8*	*10,763.7*	*11,362.5*	*11,094.3*	*13,248.7*	*13,167.1*	*13,445.8*	*12,915.5*	*Yes*
International Organizations	*371.7*	*357.0*	*350.7*	*398.1*	*326.4*	*341.6*	*428.0*	*292.8*	*427.9*	*362.2*	*378.6*	*435.2*	
Total discretionary spending	**82,249.5**	**91,962.4**	**93,144.9**	**78,424.2**	**89,031.0**	**103,634.8**	**104,227.1**	**86,527.6**	**122,977.8**	**129,191.0**	**141,355.7**	**103,111.4**	

Source: Government of Brazil, SOF.

While many investment decisions are consistent with sector strategies, the lack of rigorous project appraisal can undermine the ability to cost forward budget estimates. The World Bank (2009) companion study on the efficiency of investment management concluded that in order to expedite capital spending "Many projects, especially PAC projects [included in the PPA], appear to be exempted from rigorous cost benefit screening." Indeed the study notes skepticism in the necessity for such ex ante appraisals, where capital gaps are so "self-evident". In another "work around" solution to overcome rigidity and capacity constraints, PAC projects are also exempt from the scrutiny of the *Câmara e Monitoramento e Avaliação* (CMA) a committee designed to scrutinize infrastructure projects before inclusion in the PPA[40]. Consequently, despite the best efforts of the SPI to ensure that future capital and recurrent costs are incorporated into the PPA (e.g. through guidance for project appraisal), the lack of systematic feasibility and appraisal methods not only obscures the trade-offs between competing projects, but also undermines the ability to project future costs.

Improving the performance orientation of policy formulation and implementation is essential to enhance its effectiveness. The above analysis highlights the need to focus on enhancing the institutions, processes and capacity for fiscal policy formulation (i.e. expenditure prioritization as well as fiscal discipline). Many OECD countries, like Australia, Canada, and the Netherlands have introduced '*spending review*' processes that effectively (and durably) consolidated spending in the 1990s (Box 3). Spending

[40] The CMA has two technical branches: the Technical Committee for Monitoring and Evaluation (CTMA) and the Technical Committee of Large Projects (CTPGV). CPTGV responsibility was to analyze infrastructure projects that cost above R$ 50 million to verify their technical and socioeconomic feasibility to be included in the PPA.

Reviews are centrally driven exercises focused on ways to improve the efficiency and effectiveness of spending across government (i.e. between and within sectors/programs) and in consideration of differing funding levels. They commonly seek to systematically incorporate performance measures and evaluations and set performance targets or goals to be achieved. Other countries adopted similar mechanisms in more benign circumstances to change the prioritization of spending (e.g. the UK, France, and Chile).

Box 3: Developing a spending review

Spending reviews have emerged as a central tool in a number of OECD countries for: (i) budget prioritization, (ii) for enhancing the quality (efficiency and effectiveness of spending); and also for (iii) transparency and accountability. The basic purpose of a spending review is to improve the quality of public services. It focuses on the objectives of government programs, their relevance to current government priorities, the outcomes being achieved and at what cost.

Spending reviews are necessarily about changing programs and allocations and thus require that choices are made. Where spending reviews have proved most useful, such choices have not been confined to only a small amount of "discretionary" expenditure, as that limits what can be achieved by spending reviews. Indeed, countries have been prepared to review entitlement programs, such as pensions, to improve, for example, their effectiveness in encouraging people to move from welfare to work or to postpone their retirement.

Spending reviews are also most effective if they target those programs where there is reason to believe that cost effectiveness can be substantially increased and significant savings realized. Some of the most significant spending reviews (e.g. in Canada, Australia or the UK) considered cross-cutting issues—such as child poverty or how to improve assistance to disabled people to return to work—that cover a range of programs in more than one ministry. Such reviews necessarily involve staff from the relevant spending ministries, but are often led by a central agency to ensure proper coordination; for example, from the President or Prime Minister's office. The basic sequence of activities for a spending review includes:

- Analysis of Expenditure by Program/Objective
    - Breakdown of expenditure by program, historic costs, current expenditure and forecast trends (i.e. baseline)
- Identify Areas of Highest Priority/Return
    - Identify relationship with government priorities and scope for improving value for money in programs or processes
- Reprioritization of Expenditure
    - Revise forward estimates based on savings/new money and revised performance framework (indicators etc)
- Delivery Planning and Implementation
    - Actions required to refocus expenditure on objectives identified and remove obstacles

Debt management is comprehensive and incorporates sophisticated risk management and sustainability analysis. Following the passage of the fiscal responsibility law in 2000, debt issuance by the Central Bank ceased, and debt management is now consolidated within the National Treasury. Brazil has developed a transparent debt management strategy comprising an overall objective with long-term goals, coupled with annual borrowing plans, which include short-term targets in pursuit of these goals, and a well developed risk management framework. An integrated public debt management system (Phase I completed in April 2009; Phase II is expected to be completed in December 2011) has been developed to support front office (CODIP: domestic auctions, market relations, international capital market operations), middle office (COGEP: strategic planning, research, investor relations, new products) and back office (CODIV: accounting and budgeting, cash-flow, information systems). Performance against these targets and sophisticated risk analysis, including stress testing and more recently stochastic cost-at-risk analysis, is published in annual debt reports[41].

Policy-based Budgeting–Performance indicators (PI 11-12)

Indicator	Score	Brief explanation (Scoring method M2)
PI 11. Orderliness and participation in the annual budget process	A	(i) A clear annual budget calendar exists, is general adhered to and allows ministries enough time to prepare their detailed budget proposals. (Score = A) (ii) JEO approves ministry expenditure ceilings before the budget circular is issued. (Score = A) (iii) The Legislature has, during the last three years, approved the budget once after the start of the fiscal year. (Score = B)
PI 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	(i) Forecasts of fiscal aggregates are prepared for three years on a rolling annual basis, although the links to multi-year program estimates are undermined by large changes in the annual budget allocations and, with the exception of changes in the macro economic assumptions, differences are not explicitly explained. (Score = C) (ii) Analysis of the sustainability of fiscal debt is undertaken each year. (Score = A) (iii) Sector strategies cover around 35 percent of discretionary primary spending. Of these not all are fully costed or consistently linked with aggregate fiscal forecasts. (Score = C) (iv) Many projects, including those in the PAC, appear exempt from rigorous cost benefit or other quantitative screening that would form the basis for projecting recurrent cost implications. (Score = C)

3.4. Predictability and control in budget execution

Indicator 13. Transparency of taxpayer obligations and liabilities

The Federal Constitution sets out general principles, the limits of taxing authority, jurisdictions and the sharing of tax revenues[42]. This provides for a Federal tax authority—the Secretariat of Federal Revenue (SFR–*Recieta Federal*), which is part of the MoF—while the 27 states and over 5,000 municipalities also have considerable tax powers. This adds to the level of complexity of the overall tax system as each level of government issues a range of tax laws and the quality of the tax administrations can vary significantly. Overall the Federal Government raises around 25 percent of GDP in revenue, equivalent to over 70 percent of the total for general government of which over half is from the social security system, while the rest is mainly from income and trade taxes. The states generate around 25 percent of total general government revenue, with the majority coming from the value-added tax (ICMS), while municipalities

[41] http://www.tesouro.fazenda.gov.br/english/public_debt/index.asp
[42] Articles 153-154 set out the Federal tax powers. The National Tax Code (Law 5172/66) requires that each tax has an explicit legal basis.

raise under 4 percent of total revenue through service and property taxes[43]. Table 12 highlights some of the main taxes, by jurisdiction, the number of annual payments and time taken by the average company to complete each tax payment, and summarizes the overall tax rates.

Table 12: Paying taxes in Brazil

Tax or mandatory contribution	Jurisdiction	Payments (no.)	Payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% profit)
ICMS (similar to VAT)	States	1	online filing	1374	18.00%	value added (inc. taxes)	91.4
Value added tax (IPI)	Union	1	online filing	-	20.00%	value added (inc. taxes)	84.6
PIS/COFINS (similar to VAT)	Union	1	online filing	-	9.30%	value added	39.1
Social security contributions (INSS)	Union	1	online filing	491	20.00%	gross salaries	22.6
Corporate income tax (IRPJ)	Union	1	online filing	736	15%+10%	taxable profit	15.6
Payroll tax	Union	1	online filing	-	8.80%	gross salaries	9.2
Severance contribution (FGTS)	Union	0		-	8.50%	gross salaries	8.9
Social contribution (CSLL)	Union	1	online filing	-	9.00%	taxable profit	5.6
Property tax	Municipalities	1		-	2.50%	market value	3.7
Financial transactions tax (CPMF)	Union	1		-	0.38%	bank transactions	2.8
Municipal services tax	Municipalities	1		-	5.00%	price of service	0.9
Totals:		**11**		**2600**			**69.4**

Notes:
Name of taxes have been standardized. For instance income tax, profit tax, tax on company's income are all named corporate income tax in this table.
The hours for VAT include all the VAT and sales taxes and for Social Security all the hours for labor taxes and mandatory contributions in general.
For IRPJ the 10% surcharge applies on annual taxable income exceeding R$ 240 thousand
Source: World Bank and PricewaterhouseCoopers (2009), *Paying Taxes 2009: The global picture*

The Federal Government has presented new tax reform proposals designed to simplify and streamline the tax system. The proposals are largely in response to recent surveys that have suggested that the tax system is cumbersome to comply with high effective tax rates[44]. Proposed measures include the harmonization of the state collected VAT (ICMS) and unification of Federal VAT-like taxes, the consolidation of profit taxes and simplification of payroll taxes. This initiative also builds on the efforts of the Federal and state tax authorities to coordinate tax policies, assessment and collection processes, particularly through the common digital registration of taxpayers[45].

Federal tax legislation and a wide range of user-friendly taxpayer information are available online. Information on Federal tax legislation, tax collection and taxpayers' services is provided on the website of the Secretariat of Federal Revenue (RFB–*Receita Federal do Brasil*), which is part of the Finance Ministry[46]**.** The RFB administers all Federal personal and company taxation, customs duties and in 2007 it took over responsibility for social security contributions. Tax legislation for most taxes is clear and comprehensive and the administration has limited discretionary powers. The RFB conducts numerous outreach programs for taxpayers, with tax guides and rulings for different types of taxpayers (the website is divided between individuals, companies and customs), even for children. There has been a steady move to online filing, which has expedited most processes, although significant delays are reported for credit refunds on IPI, PIS and Confins taxes (e.g. 48 months for the purchase of machinery and equipment)[47].

---

[43] A complete schedule of all the taxes and responsibilities is provided on the SRF website: http://www.receita.fazenda.gov.br/principal/Ingles/SistemaTributarioBR/Taxes.htm
[44] A recent global survey (World Bank, 2009b) found that companies in Brazil were taking longer than anywhere else to comply with all the tax requirements, around 2,600 hours in total (second also only to Belarus in time taken to comply with corporate income tax). The reform proposals (*Reforma Tributária*) can be found at: http://www.fazenda.gov.br/
[45] See SRF website for details of the agreements between different levels of government and the move toward digital registration through the *Sistema Publico Escrituração Digtal* (SPED): http://www.receita.fazenda.gov.br/
[46] http://www.receita.fazenda.gov.br/
[47] See OECD Economic Survey, vol. 2009/14, July 2009, page 85.

The Federal tax system provides for both administrative and judicial tax appeal mechanisms. In late 2008 the Government unified the Taxpayers' Council (*Conselho de Contribuintes*) and the Fiscal Appeals Superior Chamber (*Câmara Superior de Recursos Fiscais*) into one institution, the Fiscal Appeals Administrative Council (*Conselho Administrativo de Recursos Fiscais*)[48]. This body is part of the Ministry of Finance and has jurisdiction to decide over administrative appeals related to the application of taxes administered by the RFB. The body comprises officials and representatives of taxpayers and business associations and is considered impartial (with the majority of findings by the former agencies in favor of the taxpayer). The procedures are clearly defined by law and effectively communicated to the taxpayers, with brochures and guides available through the RFB web site and CARF's own web portal[49]. There are currently no external service standards or processing targets, and long delays have been reported, although it is hoped that the new agency will develop these and move toward paperless workflows, which will expedite processing times. The existence of administrative appeal procedures does not prevent taxpayers from pursuing legal appeal mechanisms after the administrative appeals process or as a first recourse, although the court system can also be very slow.

PI 13 (Scoring Method M2)		**Score: A**
i) Clarity and comprehensiveness of tax liabilities	Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers	A
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on Federal tax liabilities and administrative procedures for all major taxes, and the SFR supplements this with active taxpayer education campaigns	A
(iii) Existence and functioning of a tax appeals mechanism.	The administrative and judicial appeal process is independent, with clear, transparent procedures. However, processing times can be long	B

Indicator 14. Effectiveness of measures for taxpayer registration and tax assessment

An effective taxpayer database system exists based on unique Federal taxpayer identification numbers. There is a unique taxpayer identification number with an online registry for individuals (*Cadastro de Pessoas Físicas*, CPF), which is comprehensive and complete for all taxpayers and for social security throughout the union, states and municipalities. The identification number is also synchronized between tax agencies for corporations and other legal entities (*Cadastro Nacional da Pessoa Jurídica*, CNPJ) and at the Federal level there are links to ensure the tax status of businesses in the public financial management (SIAFI) and procurement (SIASG) systems for contracts, purchases etc. The link to these systems is based on the "negative certificate" principle—for example suppliers cannot bid for public sector contracts without a tax identification number and certification that they are current on their obligations. Information is routinely reviewed and checked (albeit in a nonintegrated fashion) with other

[48] Law 11,941/2009.
[49] http://www.portaltributario.com.br/tributario/carf.htm

government and private registration systems, including financial systems. Electronic data tools are used for organizing and to consolidate cross-cutting tax payer information[50].

Formal penalties for failing to register or to pay taxes in a timely fashion are sufficiently high to act as a deterrent and are administrated in a consistent manner. Penalties vary by the type of tax, but typically the market rate of interest is applied to all outstanding taxpayer debt and a proportional fine (initially around 20 percent) is applied, that is designed to be greater than the opportunity cost of borrowing. Fines can increase up to 75 percent with penalties if resolution requires an inspection. However, one of the main problems with this system is the introduction, by Congress, of schemes to enable the refinancing and/or forgiveness of some tax debts, interest, fees and other charges (e.g. *Programa de Recuperação Fiscal*). These schemes generally weaken the incentives for compliance, particularly as some companies may be able to migrate between schemes[51].

A well-designed mechanism is in place for planning and monitoring of tax audit and fraud investigation programs based on risk-assessment studies. Planning and monitoring of tax audit and fraud investigations are managed and reported by the SRF according to comprehensive and documented audit plans, with clear risk assessment criteria for all major taxes that apply self-assessment. At the end of 2008 the SRF had 14,978 tax audits in progress, with 9,885 involving corporate taxpayers and 5,093 with individuals. In 2007 the SRF introduced new software to better manage audit selection and monitor risks monitoring and in December 2008 issued new regulations, which established criteria for improving the tax monitoring of large taxpayers (by enabling better cross referencing by similar areas).

Indicator PI 14 (Scoring Method M2)	Brief explanation	**Score B+**
(i) Controls in the taxpayer registration system.	The taxpayers are registered in a complete database system with linkages to other relevant government registration systems and financial sector regulations	A
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	Penalties for non-compliance exist, but are undermined by legislative measures that weaken incentives for compliance	C
(iii) Planning and monitoring of tax audit programs.	Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment	A

[50] The new tax system is expected to be fully operational in 2010. *Sistema Integrado de Informações Econômico-Fiscais* (SIEF): http://www.receita.fazenda.gov.br/

[51] The provision to refinance tax and social security liabilities, in order to promote recovery (*Programa de Recuperação Fiscal*), was established by Law No. 9964 of 10/4/2000. Subsequent legislation has introduced a number of different methods for refinancing and restructuring tax and social security liabilities, some of which incorporate elements of forgiveness particularly in relation to penalty fees, interest and other charges, for example, see http://www8.receita.fazenda.gov.br/SimplesNacional/ for details of Law 11.941/2009, which established new limits for spreading-out/refinancing tax debt payments (*parcelamento*) that includes forgiveness of fines, legal fees and the reduction of interest and other charges.

Indicator 15. Effectiveness in collection of tax payments

The Fiscal Responsibility Law (Article 58) requires that the annual public accounts highlight the measures taken by the Government regarding revenue inspections, to combat tax fraud and evasion, credit recovery actions in the administrative and judicial spheres, as well as other measures aimed at increasing the revenues from taxes and contributions. These measures are set out in the annual reports of the TCU and include an analysis of the different types of relevant accounts receivable as follows[52]:

- *Divida Ativa* is related to taxes, social contributions, fines and penalties that are outstanding (i.e. overdue). While there are a few other items included in this category, nearly all of the *Divida Ativa* is attributed to social security and taxation under the SFR, with around 70 percent attributed to the SRF in 2006. In practice only a small portion of this debt is ever recovered, less than one percent of the stock in recent years, although the Government cannot write off uncollectible amounts for legal reasons.
- Debt under review (*Exigibilidades*) refers to items that may be under judicial or administrative review process.
- Restructured debt (*Parcelamentos*), includes obligations that have been refinanced or rescheduled under the various schemes (as noted in the previous indicator).

Table 13 shows the selected tax and social security obligations outstanding in 2005-07. Neither the tax obligations under review, nor the restructured debt constitute tax and social security arrears, unlike the majority of the *Divida Ativa*, which are significant in relation to current revenue collection. The rapid growth in *Divida Ativa* suggests problems with tax compliance and indicates a high level of tax and social security arrears.

Table 13: Selected tax and social security obligations outstanding
(In R$ billions unless otherwise stated)

	2005	**2006**	**2007**
Total stocks			
Debt (*Divida Ativa*)	380.6	548.9	638.4
Tax obligations under review (*Exigibilidades*)	n.a.	n.a.	423.2
Restructured tax obligations (*Parcelamentos*)	n.a.	n.a.	72.2
Total	n.a.	n.a.	**1,134**
Net change in Debt (*Divida Ativa*)	n.a.	168.3	89.5
Current revenue	527.3	584.1	658.9
Net change in *Divida Ativa* (percent of current revenue)	n.a.	**29%**	**14%**

Source: TCU annual report for 2007 and MoF.

The clearing and reconciliation procedures for tax and social security payments are timely and robust. All revenue and social security payments are made in to the treasury single account, which is administered by the Treasury (STN). The usual clearing time for payments made through the commercial banking sector is one day. The SRF undertakes a complete reconciliation of tax assessments, collections, arrears and transfers to Treasury at least monthly, within one month of end of month, and published statements are available.

[52] http://portal2.tcu.gov.br/portal/page/portal/TCU/english

Indicator PI 15 (scoring Method M1)	**Brief explanation**	**Score** B+
i) Collection ratio of gross tax arrears	The high level *Divida Ativa* indicates that the tax collection ratio is probably below 90 percent and that tax and social security arrears are significant.	B
(ii) Effectiveness of transfer of tax collection to the Treasury by the revenues Administrations	Once the tax collections are transferred from the commercial banking systems to the RA's accounts, the Treasury has full access and control to these accounts.	A
(iii) Frequency of account reconciliation between tax assessments, collections, arrear records and receipts by the Treasury.	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly, and within one month of the end of the period	A

Indicator 16. Predictability in the availability of funds for commitment of expenditures

There is a well-defined process for managing funds during the year that emphasizes expenditure control and compliance with the annual fiscal targets. The FRL (Article IV) sets out the basic requirements and processes for managing budget execution, primarily in order to comply with the fiscal targets and procedures that are set out annually in the Budget Guidelines Law (LDO) and Budget Law (LOA).

The National Treasury Secretariat (STN) develops the annual financial program and controls disbursements. The STN works closely with the SOF, the revenue administration, the Ministries (or equivalent sector bodies), who coordinate with their related budget executing units, and the recipients of mandatory transfers. The SOF is primarily concerned with monitoring what the funds are spent on, while the STN controls the overall financial envelope. Ministries communicate their cash requirements to the STN on a quarterly basis and, based on the implementation of plans, programs and budget execution the STN allocates funds to the line ministries, taking into account the fiscal targets and the Treasury's cash availability. The process can be considered in the following phases:

- Within thirty days of the annual budget being approved by Congress and sanctioned by the President, the STN is required to produce a financial plan comprising an annual and monthly disbursement schedule for each ministry[53]. These are based on revised economic and revenue projections. Given the incentives for the Congress to increase the revenue estimates, and the imperative for the STN to achieve or exceed the primary balance targets throughout the year the revenue projections for the financial program are usually more conservative than the estimates used in the LOA;

[53] Given the timing for the LOA to be approved and endorsed, the initial financial program decrees are issued after the start of the financial year. In the interim, the STN generally sets conservative bi-monthly commitment and payment limits for ministries based on its revenue projections. The decrees, showing the monthly payment limits, were issued on February 22 for the 2007 budget, April 22 for the 2008 budget and January 28 for the 2009 budget: http://www.tesouro.fazenda.gov.br/legislacao/leg_programacao.asp

- Based on these revised revenue projections, the STN prepares the annual and monthly cash flow forecasts for transfers and mandatory spending, including social security, fixed shares for health and education, personnel expenditures, debt service etc.;
- The STN also prepares an annual and monthly cash flow forecast for discretionary spending, including investments under the PPI. A *Budget Execution Decree* is published on the STN website setting out the annual commitment (*empenho*) limits for each ministry and monthly limits for payments[54]. Payment limits include the carry-over of previous year's obligations (*Restos a Pagar*), with separate limits for firm commitments (*Processados*), for the next four months, and monthly limits for without (*Não Processados*) for the rest of the year; and
- The STN monitors revenue performance and releases from the single treasury account on a daily basis. There is a predefined schedule for transferring mandatory spending within the month, while the STN can make any necessary adjustments to discretionary transfers to ensure the fiscal target is met. Transfers for discretionary spending are typically made around the 10th, 20th, and 30th day of each month, and ministries are free to allocate funds between discretionary programs.

Significant adjustments are made to the cash plan throughout the year. In principle, transfers from the Treasury to spending units should be made on the basis of budgeted amounts and the ministries' priorities, which are identified on a quarterly basis. In practice, due to the need to maintain the fiscal targets, more frequent adjustments are typically made to incorporate: (i) changes in the revenue forecasts; and (ii) changes to the LOA, through the reallocation of funds or supplementary appropriations. These may come from the following:

- The requirement to formally review the revenue assumptions throughout the year. The Government must report on compliance with the fiscal targets for the preceding four months, at the end of May, September, and February (FRL Article 9.4) and review revenue performance against the budget targets at least bi-monthly. This tends to focus the predictability of the financial program toward a bi-monthly basis;
- The Executive frequently uses the "*contingenciamento*" procedure to partially freeze discretionary spending authorizations. This is often used to reduce Congressional amendments made during budget approval and can have material variations (in some observed cases by as much as 20 percent in one quarter). In 2007 and 2008 the initial commitment and cash plan limit was around 15 percent below the LOA ceilings—though no changes were made to the limits in the 2009 decree. Reductions were also spread disproportionately between ministries, e.g. the initial 2008 financial program reduced spending for the Ministry of Urban Development by around 45 percent, Education by around 12 percent, Transport by 10 percent and Health by six percent. If revenue performs as well of better than planned, the spending restrictions tend to be eased during the year;
- The initial distribution of monthly payment limits also suggests a rather centrally driven process of cash planning that matches revenue flows—for example, the Budget Decree for 2008 projects a very even monthly spending profile for many ministries (i.e. with little monthly variation), while for 2009 there is more backloading of spending with most ministries allocated a similar monthly share of spending, compared to their total allocation; and
- There are many supplementary appropriations during the year, which may only be initiated by the Executive. Supplementary credits (*créditos orçamentários suplementares*) can increase an appropriation up to a level specified in the LOA (for 2009 the limits are 10% for each budget

[54] See the STN website: http://www.tesouro.fazenda.gov.br/legislacao/leg_programacao.asp

headcode, or 20 percent for investments). Special credits (*créditos orçamentários especiais*) relate to new policies, and must be approved by Congress during the year, while extraordinary credits (*créditos orçamentários extraordinários*) may be used for urgent unforeseen purposes, with subsequent Congressional approval. For the first two categories, any increase in spending must identify a corresponding additional financing source (including from higher revenue, the contingency and cancelled spending). Table 14 indicates how credits have increased the budgets for selected ministries in recent years.

Table 14: Budget credits as a proportion of the approved *LOA* for selected ministries
(in percent)

	2006	2007	2008
Ministry of Education	15.3%	9.9%	9.4%
Ministry of Health	4.2%	7.1%	7.9%
Ministry of Transport	19.5%	36.2%	20.8%
Ministry of Labor and Employment	21.2%	14.5%	9.7%
Ministry of Defense	7.0%	5.0%	13.1%
Ministry of Social Development and Fight Against Hunger	6.2%	2.3%	1.8%

Source: SOF.

Despite their widespread use, the mechanisms for adjusting budget allocations during the year are systematic and transparent. The budget laws clearly set out the process for managing budget execution and all adjustments are published on the websites of the STN and SOF[55]. The budget laws also set out the priorities for allocating additional revenue and for protecting priority spending. However, due to the primacy of the deficit target the “level and timing of disbursements depend on tax revenue, interest rates and fiscal targets that are volatile variables. This unpredictability causes uncertainty on managers that exacerbates coordination problems” (World Bank 2009). As the Report on investment management efficiency also highlights, this has led to a “second best solution in order to guarantee minimum levels of investment” (World Bank 2009) under the PPI, which is not restricted by the financial program (see Box 4). Nonetheless, despite the robust system for revenue forecasting and clear guidelines for amending the cash plan, adjustments are frequent and significant with the primary focus being compliance on the fiscal targets. As a result, the flow of resources to spending units is less predictable and uneven, which can hamper budget execution and reduce the efficiency of delivery.

[55] See: https://www.portalsof.planejamento.gov.br/sof/orcam_anter/orcamento2008.html and http://www.tesouro.fazenda.gov.br/programacao_financeira/index.asp

Box 4: Cash Management in Brazil

Government cash management is about ensuring that sufficient funds are available to meet the Government's daily cash needs, or to manage daily cash surpluses, in the most cost-efficient manner. While there is no single approach, in most OECD countries cash management is largely separated from the budget appropriation and financial control functions (and increasingly managed to have as neutral an impact on the operation of monetary policy as possible). This separation seeks to promote efficient expenditure management by giving spending agencies greater flexibility in the timing of expenditures that are no longer linked to match the timing of cash receipts.

Cash management in Brazil is sophisticated, with a strong link to budget appropriation and financial control functions. There is consequently a strong incentive for the STN to match revenues and expenditures to meet the fiscal targets throughout the year. This is mainly due to the widespread revenue earmarking and mandatory spending, the need to manage a significant amount of in-year budget amendments and the overriding requirement to meet annual primary deficit and debt targets, which are monitored closely during the year. This approach has ensured strict adherence, even outperformance, in relation to the fiscal targets.

The main trade-off is that it can reduce the ability of budget agencies to plan and manage the timing of payments, within their overall budget appropriation, to maximize the efficiency of spending. In order to promote greater predictability and efficiency, the cash controls for the PPI have been relaxed to enable managers to commit and spend more freely throughout the year (it should also be noted that up to 0.5 percent of GDP of PPI spending can be excluded from the calculation of the annual primary deficit target). The SOF also liaises closely with the STN and spending ministries to improve the prioritization and predictability of cash flows. In addition to closely monitoring the effectiveness of these initiatives, gradually reducing the frequency of revisions to the budget and financial program could help to improve the predictability of funding for program managers, while maintaining overall fiscal discipline. For example, the consolidation of credits, *contingenciamento* adjustments and the revision of the financial program into a mid-year review process might help to enhance the predictability of funds and ease oversight of the process.

Sources: Williams (2004), *Government cash management: good and bad practices*, World Bank.

Indicator **PI 16 (Scoring method M1)**	**Brief explanation**	**Score** **C+**
(i) Extent to which cash flows are forecast and monitored	Annual commitment ceilings and a monthly cash plan is prepared after the start of the year and updated on a regular basis (at least bi-monthly). Cash-flows are monitored by STN daily.	A
(ii) Reliability and horizon of periodic in-year information to Ministries, Departments and Agencies (MDAs) on ceilings for expenditure commitment	The annual cash plan is generally reviewed every two months, though transfers may be amended during the month and by ad hoc Decrees and regulations during the year.	C
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	Budget adjustments are frequent and significant, with credits and in response to changes in revenue forecasts, although these are undertaken in a transparent manner.	C

Indicator 17. Recording and management of cash balances, debt and guarantees

The scope of Federal debt management is comprehensive and transparent. The legal framework encompasses the main financial obligations of the Central Government, including domestic and foreign debts and contingent liabilities. The 1998 Constitution (Article 52) gives the Federal Senate, based on a proposal by the President, the right to establish limits and conditions for the consolidated debt, credits and guarantees of the union, the states, the Federal district and the municipalities, including the credit transactions (loans) of autonomous government entities and other entities controlled by the Federal Government. All foreign debt must be approved by the Federal Senate and Central Bank financing is prohibited. The FRL regulates these limits, reporting requirements and sets out a process to redress noncompliance. The Fiscal annex of the annual LDO sets annual targets for consolidated and Federal level public debt, credit and guarantees for the current and for the subsequent two years, while contingent liabilities (mainly involving legal cases) are included in the annex on fiscal risks. The annual LOA subsequently authorizes the contracting of liabilities. Under the auspices of FRL, the Ministry of Finance verifies compliance with the limits and conditions for the contracting of debt, credit operations and guarantees.

Domestic and foreign debt records are complete, updated and reconciled on a monthly basis, with data considered to be of high integrity. The STN is charged with managing the domestic and external Federal public debt (Decree No. 4643, March 2003). The STN produces a number of reports on Federal debt including: the annual borrowing plan; an annual debt management report; foreign investor guides; and the Federal Public Debt Monthly Report, which includes data on issuances, redemptions, stocks, maturity profile, average cost and other risk metrics and statistics for both domestic and external debt[56]. A report on consolidated debt, including subnational government and public corporations, is produced quarterly in conjunction with the Central Bank.

The Federal Government's bank accounts are controlled in a Treasury Single Account (CUT). The CUT is maintained at the Central Bank, and controlled using the financial management information system (*Sistema Integrado de Administracão Financiera*, SIAFI). SIAFI is maintained by the STN and provides reliable, timely information that includes a daily consolidated cash balance and reconciled monthly statements are published. SIAFI is used to register, monitor and control the budgets of all ministries and agencies of the Executive, Legislative and Judiciary branches and other entities financed by the Federal budget. All Federal revenue collections must be transferred to the CUT and clearance of payments from authorized banks is usually within two business days. The CUT and SIAFI do not cover subnational government, some extrabudgetary funds (e.g. the sovereign fund), or private-public corporations.

[56] http://www.tesouro.fazenda.gov.br/english/public_debt/index.asp

Indicator PI 17 (Scoring method M2)	**Brief explanation**	**Score A**
(i) Quality of debt data, recording and reporting.	Domestic and foreign debt records are complete, updated and reconciled on a regular (monthly) basis with regularly published data considered of high quality.	A
(ii) Extent of consolidation of the Government's cash balances	Central Government cash balances are kept at the Central Bank, and the total balances are calculated daily and reconciled monthly balances published. Some extrabudgetary funds remain outside this arrangement.	B
(iii) Systems for contracting loans and issuance of guarantees	The legal framework for general government borrowing and the issuance of guarantees is comprehensive and transparent with a clear strategy and criteria consistent with the multi-annual fiscal targets. Borrowings and guarantees are always approved by the Treasury Minister.	A

Indicator 18. Effectiveness of payroll controls

The Secretariat for Human Resources in the Ministry of Planning is responsible for managing the consolidated personnel records of Federal Government employees. For this purpose, it uses the Integrated Human Resources Management System (*Sistema Integrado de Administração de Recursos Humanos*–SIAPE). The system holds records for about 1,300,000 civil servants, retirees and pension holders of the Executive Branch. These records are the basis used to generate a payroll approximately R$ 52 billion a year. However, while the personnel records are maintained using SIAPE, the payroll is generated using SIAFI. There is minimal integration between the systems, and data has to be interchanged manually. Furthermore, there are instances where autonomous agencies such as Universities have developed their own systems.

Updating the personnel records is decentralized to the various units of the Federal Government. The authority and basis for changes to be made to personnel records and the payroll are clearly laid out in a well-defined body of laws and regulations. The timeliness with which these units update the records varies, with some agencies undertaking this in a reasonable period of time. In general however, the records are updated on a monthly basis.

The Secretariat for Human Resources carries out regular payroll audits to ensure the integrity of the personnel records. A number of methods are also used to ensure the identification of irregular claims. The use of a unique taxpayer identifier helps in facilitating the conduct of database crossing exercises and reduces the possibility of the existence of ghost payroll claimants. In addition, the Government is planning the re-registration of all public employees to ensure the accuracy of personnel records. This exercise is required on an annual basis by existing legislation.

It is important to note additional efforts to audit the Government payroll. In particular, the CGU carries out a review aimed at verifying the legality of payroll payments made to Federal Government employees. The CGU reviews the SIAPE database and carries out comparisons of databases to ensure consistency of personnel records.

Indicator PI 18 (Scoring method M1)	Brief explanation	Score B+
(i) Degree of integration and reconciliation between personnel records and payroll data.	Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.	B
(ii) Timeliness of changes to personnel records and the payroll	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).	A
(iii) Internal controls of changes to personnel records and the payroll	Authority and basis for changes to personnel records and the payroll are clear.	B
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.	A

Indicator 19. Competition, value for money and controls in procurement

The procurement system is transparent and comprehensive, but subject to long delays. The Brazilian Procurement Law (Law 8666/93) requires that contract awards have to be published in the Official Diary (*Diário Oficial da União*). Recent technological advancements have enabled around 75 percent of all procurement contracts (by value) to be let via electronic bidding through the internet, with the remainder let through traditional tendering systems (data is published on individual awards only, which makes aggregate compilation more difficult). While the law provides for many departures from truly competitive procedures (24 reasons), the new electronic systems and a strong emphasis on compliance with detailed formal rules has significantly reduced the recourse to non competitive procedures[57]. The independent Global Integrity organization rates the performance of the procurement process in Brazil as "very strong"[58].

The dispute system is well known, but cumbersome. Article 113 of Law 8.666/93 allows any citizen to refer a procurement process for review by the Supreme Auditors, TCU (parties may also sue in court). The clause is very generic and there is no cost (or financial penalty) for presenting a complaint, which leads to a large number of cases being put forward for review. There are also no legal time limits or standards for a review done by the TCU and consequently the decision time can vary significantly and

[57] A World Bank study in 2001 found that 50% or more of Federal public procurement is carried out through non-competitive methods, mainly in order to avoid the time-consuming bidding process. This has been significantly reduced and in practice nearly all purchases are subject to competitive bidding, excepting those involving fairly small amounts (less than about US$4,000).

[58] See www.globalintegity.org

delays are commonly reported. The procurement process has also been described as highly competitive and litigious in nature, providing incentives for contractors to block/delay rival operations. Consequently, bottlenecks for large civil works contracts are seen as a major reason for the delays in flagship programs of the Federal administration, such as infrastructure works of the PAC[59].

Indicator PI 19 (Scoring method M2)	**Brief explanation**	**Score B+**
(i) Use of open competition for award of contracts that exceed nationally established thresholds	The great majority of contract awards are published, while 75 percent (by value) are awarded via electronic bidding with a large portion of the remainder subject to traditional tendering systems	A
(ii) Justification for use of less competitive procurement methods	There are clear, if broad, legal conditions for justifying less competitive methods. However, recourse to these is declining as e-procurement expands	A
(iii) Existence and operation of a procurement complaints mechanisms	The public can refer complaints to the TCU, although due to the broad mandate the caseload is large and the resolution process can be protracted	C

Indicator 20. Effectiveness of internal controls for non-salary expenditure

Brazil has a well developed body of rules and regulations that determine the procedures for budget execution. Law 4.320 of 1964 contains the most important legal provisions relating to public financial management in Brazil. The 2000 FRL contains significant requirements that are aimed at ensuring a high degree of transparency and discipline in the management of public resources in Brazil. In addition, there is a rich depository of guidelines and manuals that help to provide orientation to staff in the applications of the rules and regulations.

Brazil employs a hybrid accounting system where expenditures are recognized on an accruals basis whereas revenues are accounted for on a cash basis. There are primarily three stages within the expenditure cycle:

- Commitment stage (*Empenho*): Where a potential obligation to undertake an expenditure is established
- Verification stage (*Liquidação*): Where the Government's obligation and the supplier's right materialize as the delivery of goods or services is confirmed
- Payment stage (*Pagamento*): Where a payment for the goods or services is rendered to the supplier.

There are a number of controls within this cycle. *At the commitment stage*, it is verified that the spending proposal has been approved by an authorized person, that funds have been appropriated in the budget, that sufficient funds remain available in the proper category of expenditure, and that the expenditure is proposed under the correct category. *When goods and services are delivered*, the documentary evidence that the goods have been received or that the service is actually performed is verified. *Before a payment is made,* confirmation is needed that a valid obligation exists, that a

[59] An additional source of delay for large infrastructure projects also comes from the differing environmental requirements issued by different tiers of government.

competent person has signed that the goods or services have been received as expected, that the invoice and other documents requesting payment are correct and suitable for payment, and that the vendor/supplier is correctly identified.

All accounting transactions are recorded in SIAFI. With its inbuilt controls that are difficult to circumnavigate, the system plays an important role in ensuring that expenditure commitments are only undertaken within the limits established by the budget and financial programming decrees. According to TCU reports, there is a high degree of compliance with rules for processing and recording transactions. A key contributing factor to this is the existence of a robust legal and institutional framework.

Indicator PI 20 (Scoring method M1)	**Brief explanation**	**Score A**
(i) Effectiveness of expenditure commitment controls	Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations	A
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	Other internal control rules and procedures are relevant, and incorporate a comprehensive and generally cost-effective set of controls, which are widely understood	A
(iii) Degree of compliance with rules for processing and recording transactions	Compliance with rules is high and any misuse of simplified and emergency procedures is insignificant	A

Indicator 21. Effectiveness of internal audit

At the Federal level, the internal audit function is primarily undertaken by the Federal Secretariat for Internal Control (*Secretaria Federal de Controle Interno*–SFC). The SFC is placed within the *Controladoria Geral da União* (CGU) which reports to the President of the Republic and enjoys a substantial degree of operational independence. The SFC's mandate emanates from the Constitution, in which the Internal Control System is defined as encompassing:

- Assessment of compliance with goals set out in the PPA, in the execution of government programs and the budgets of the Federal Government
- Verifying the legality and assessing efficiency and effectiveness in the Federal Government's management of public resources
- Exercising control over debt, guarantees and the financial assets of the Government
- Supporting the external control function exercised by the TCU.

The SFC undertakes internal audit reviews of government agencies. It is a member of the Institute of Internal Auditors and applies international auditing standards in its work. Its mandate extends to the use of Federal funds by subnational governments. It performs substantive and compliance testing to determine the level of control (financial, verification and accounting) during budget execution. It also assesses the continuing adequacy of the internal control system and the reliability of financial statements to determine whether the usage by government agencies of financial resources promotes efficiency, economy and effectiveness. In addition, most spending agencies have provisions in their organizational structures for internal audit functions.

The CGU prepares a number of reports. In addition, the TCU has access to these reports, which it uses to plan the scope and coverage of its own reviews. The SFC also plays an important role in following up on the implementation of the recommendations of the TCU. It also works with government agencies with a view to enhancing their operational efficiency and performance.

Indicator PI 21 **(Scoring method M1)**	**Brief explanation**	**Score** **A**
(i) Coverage and quality of the internal audit function	Internal audit is operational for all Federal Government entities, and generally meet professional standards. It is focused on systemic issues (at least 50% of staff time)	A
(ii) Frequency and distribution of reports	Reports adhere to a fixed schedule and are distributed to the audited entity, Ministry of Finance and the SAI	A
(iii) Extent of management response to internal audit findings	Action by management on internal audit findings is prompt and comprehensive across Federal Government entities	A

3.5. Accounting, recording and reporting

Indicator 22. Timeliness and regularity of account reconciliation

Timely, understandable, relevant, accurate and reliable information allows the Government to properly plan and implement its programs. Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants–this is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is an essential accounting control and enhances the accuracy of that information.

The use of SIAFI greatly facilitates the performance of account reconciliations. The Government employs a Single Treasury Account system of bank accounts. Accounting transactions are updated in real time, enabling the reconciliation of government accounting records with its accounts on a daily basis. Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward. Travel advances are also accounted for upon completion of travel, thus permitting their reconciliation in a timely manner.

Indicator PI 22 **(Scoring method M2)**	**Brief explanation**	**Score** **A**
(i) Regularity of bank reconciliations	Bank reconciliation for all Central Government Bank accounts take place at least monthly at aggregate and detailed levels, usually within four weeks of end of period	A
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.	A

Indicator 23. Availability of information on resources received by service delivery units

Many of the Government's programs are implemented by the line ministries and by their regional offices. In addition, there are activities that are implemented under specific programs within the Ministry of Education and that of Health.

Existing laws require the effective monitoring of the implementation of government programs. In order to do these, line ministries rely on information systems to provide this information. In the health sector for instance, each service delivery unit produces a *Relatorio de Gestao Fiscal*. The requirement to produce this report was introduced by Federal Law 8.080/90 with the objective of monitoring the provision of services and the use of funds provided by the Federal Government principally those through the National Health Fund (*Fundo Nacional de Saúde*) to states and municipalities. Article 33 of the law requires that the entities open a separate account into which the funds are deposited. Article 4 requires the Ministry of Health to monitor the use of these funds through its audit system.

To help meet these requirements, the Government has undertaken the development of information systems that support the collection of data on service delivery and enable monitoring by central agencies. Sector agencies have created management information systems that enable them to monitor the delivery of services. These systems are known as Sistemas de Informações Gerenciais dos Órgãos Setoriais–InfraSIGs. An example of such systems includes the SIMEC within the Ministry of Education.

However, it is important to note two issues that may diminish the usefulness of the information resources received by service units. First of all, the development of ad hoc systems used to monitor these by line ministries has promoted a lack of systems integration that weakens the central monitoring of the delivery of these services. This may contribute to fragmenting government capabilities to monitor program goals and outcomes in a comprehensive and systematic manner, within agencies and across sectors. In addition, Brazil is only currently developing a cost accounting system that will enable it to allocate costs accurately to services provided and thus enable the accurate determination of government programs. Before the full implementation of the system however, it is not possible to determine fully and with accuracy the cost of government programs.

Indicator PI 23 **(Scoring method M1)**	**Brief explanation**	**Score** **A**
(i) Availability of information on resources received by service delivery units	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually	A

Quality and timeliness of in-year budget reports–PI-24

As required by the Fiscal Responsibility Law, in-year budget execution reports are prepared every two months and made available to the public through the internet. These reports evaluate expenditures by functional, economic and administrative classification and revenue collection by source. These in-year budget execution reports allow comparison with the original budget, the actual in-year budget (original budget plus in-year modifications), commitments and payments by function and sub-function. Moreover, since budget execution is done through SIAFI, the Government's computerized accounting system, the Ministry of Finance may, at any moment, generate budget execution reports with the desired level of detail, for instance, according to administrative or program classification. It is part of the Ministry of Finance and Ministry of Planning, Budget and Management responsibilities to analyze budget execution and revenue collection every two months and determine commitment and cash ceilings for each entity. These ceilings are set through Financial Programming Decrees that are made public through the National Treasury's website.

Indicator PI 24 (Scoring method M1)	**Brief explanation**	**Score A**
(i) Scope of reports in terms of coverage and compatibility with budget estimates	In-year fiscal reporting is extensive and available from a number of different electronic sources in a format that is compatible with the budget classification	A
(ii) Timeliness of the issue of reports	There are clear schedules for fiscal reporting that is well adhered to	A
(iii) Quality of information	The financial statements, produced by SIAFI, are considered to be of a high standard	A

Indicator 25. Quality and timeliness of annual financial statements

Law 4320 of 1964 establishes the norms and procedures which govern the preparation of the budget, as well as accounting and financial reports. It prescribes the financial statements that are to be prepared, and their content. Accordingly, the financial statements contain the following reports:

- A statement of the financial position (*balanço patrimonial*) showing the stock of financial assets and liabilities
- A statement of movements in cash and cash equivalents (*balanço financeiro*) illustrating the movement between the opening and closing cash positions during the year
- A statement of income and expenditure
- A statement of changes in assets and liabilities.

The Treasury Secretariat (*Secretaria de Tesouro Nacional*–STN) is responsible for the preparation of financial statements. It operates the SIAFI system, from which the information is generated. In addition to the financial statements indicated above, the STN also prepares a statement of changes in net assets for government-owned autonomous entities. The Government's financial statements thus cover the entirety of the operations of the Federal Government. However, the TCU's report for 2008 indicated some reservations with regard to government agencies that had not been included in the consolidated financial statements[60]. Nevertheless, these are not considered material enough to diminish substantially the scope and coverage of the consolidated financial statements.

[60] Agencies that were excluded include Funai (Patrimônio Indígena), Fundação Habitacional do Exército, Caixa de Construções de Casa para o pessoal da Marinha do Brasil, and Electricity Sector Funds under the management of Eletrobras.

The principles and regulations governing accounting in the public sector in Brazil are applied consistently and uniformly. The Federal Accounting Council (*Conselho Federal de Contabilidade*– CFC) is responsible for issuing accounting norms in Brazil. However, Brazil is currently taking steps towards the adoption of International Accounting Standards with the objective of enhancing the transparency of accounting information. This work is currently led by a working group that was established to explore relevant options, and which is composed of officials from the STN and from the CFC. The Government is also planning to undertake an analysis that provides a comparison between international standards and accounting practices currently in use. The analysis is expected to result in a roadmap indicating clearly defined steps to be taken to achieve the adoption of international standards.

The LRF requires that the Federal Government's consolidated accounts must be prepared by June 30 each year. It is also a requirement for these to be published using publicly accessible electronic media. In order to meet these deadlines, the LRF also establishes similar deadlines for municipalities and states to furnish financial accounts to the Federal Government. It establishes penalties for any failure to comply with the deadlines. In recent years, the Federal Government, states and municipalities have been able to comply with these requirements and within the stipulated deadlines. A key factor is the use of information systems and the availability of guidelines and manuals. This has in turn enabled the Federal Government to prepare its consolidated financial statements on time.

The CGU also prepares an analytical report that accompanies the consolidated financial statements. The information in the analytical report includes: an analysis of the economic, financial, administrative and social background; an analysis of the Government's activities; economic performance; analysis of the execution of the budget; and other financial data.

Central Government operations are recorded in the SIAFI in accordance with the National Accounting Principles (*Princípios Fundamentais de Contabilidade*) using a harmonized chart of accounts (COA). While Brazil's public accounts contain full information on revenue, expenditure, and financial assets and liabilities they are not fully in line with international public sector accounting standards (IPSAS)[61]. The Federal Government has announced plans to fully implement IPSAS by 2012 and has developed a transition program to do this. Nonfinancial public sector corporations also compile their accounts in accordance with corporate accounting standards and not all produce information consistent with public sector cash accounts, hampering consolidation.

Indicator PI 25 (Scoring method M1)	**Brief explanation**	**Score C+**
(i) Completeness of the financial statements	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities	A
(ii) Timeliness of submission of the financial statements	The statement is submitted for external audit within six months of the end of the fiscal year	A
(iii) Accounting standards used	IPSAS or corresponding national standards are being introduced, but are yet to be applied consistently for all financial statements	C

[61] In addition, reports on the overall primary balance of the Central Government are on a cash basis and are not recorded in accordance with the national accounting principles.

3.6. External scrutiny and audit

Indicator 26: Scope, nature and follow-up of external audit

The Tribunal de Contas da União (TCU) is the supreme audit institution in Brazil. It reports to the Legislative branch of the Government. It has a constitutional mandate to audit all Federal resources including income, expenditures, assets and liabilities. It also has the responsibility to audit Federal Government grants to subnational governments. Its broad scope of responsibilities includes institutional performance, legality of revenues and expenditures, privatizations, effectiveness of government programs, public works and procurement.

The TCU prepares a detailed report to accompany the financial statements of Government together with a summary of its main findings and conclusions. However, at present, the TCU does not issue an *audit opinion* on the consolidated financial statements of the Government to say whether the financial statements present a true and fair view of financial events in the period under review. To render such an opinion, the TCU would need to go beyond the current practice of a legalistic examination of the statements and reports (and a summary of documents that support those statements), and shift to a focus on the reliability of the systems and management controls underlying the statements and reports.

The TCU's Reports are submitted to the Legislature for their consideration. The TCU uses SISAC (*Sistema de Apreciação de Atos de Admissão e Concessões*) as their information system in auditing the accounts of administrators and other persons responsible for Federal public funds, assets, and other valuables.

The summary report contains a conclusion which, for 2007, states that the Federal Government complied with fundamental accounting principles applicable to the public sector, that the financial statements adequately reflect the Government's position with respect to the execution of its budget, and its financial and physical assets and liabilities. The conclusion also mentions that the Government was in compliance with the parameters and limits established by the FRL. However, the report also contains a total of 22 reservations. The reservations cover a wide range of subjects, including:

- Incidences of non-compliance with established laws and guidelines: an example is the existence in SIAFI of amounts in respect of *Restos a Pagar* relating to financial years earlier than 2005 (reservation number III)
- Inaccuracies identified in the financial statements e.g. the understatement of assets as a result of the exclusion from the financial statements of electricity sector funds managed by Eletrobras (reservation no. XIX)
- Issues which weaken government performance in various areas e.g. the absence of a cost accounting system (reservation no. VI)

The report also includes a number of recommendations to various government ministries and agencies. However, most of these are addressed to the STN.

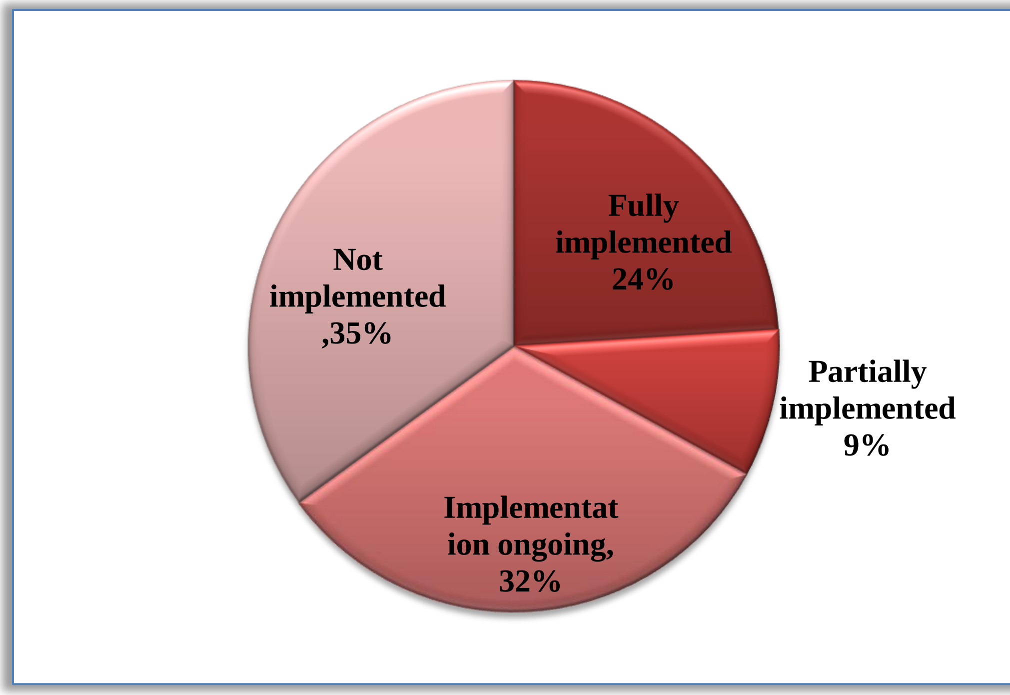
In recent years, the TCU has also increased its focus on performance audits and has created specialized functions and increased its capacity to perform such audits. From 1998 to 2006 the UK Department for International Development (DFID) funded two technical assistance projects to support the TCU. Since 2001, the Secretariat of Control and Evaluation of Governmental Programs has developed and disseminated methodologies, techniques and standards of performance audits. It also undertakes the dissemination of good practices and lessons learnt, in that way promotes the overall improvement of government processes and performance. In addition, it produces reports and summaries targeted at a range of audiences, and uses events such as seminars and conferences to disseminate key messages. Some of the key findings of recent TCU performance audits included: flaws in program design; deficiencies in organizational structure; absence of appropriate data and performance indicators; incomplete definition and monitoring of physical and financial goals. Through an intensified follow-up mechanism, corrective actions are taken on a timely basis.

The TCU's organic law[62] requires that the TCU issues its preliminary opinion (*parecer prévio*) on the Government financial statements[63] within 60 days after they have been submitted to it. The accounts are in turn required to be submitted to by the President 60 days after the start of the parliamentary session. This usually happens in the first week of February. The accounts are thus submitted to the TCU around mid April, with the TCU issuing their preliminary opinion in June. The release date of the 2007 report was 24 June 2008.

Government agencies that are issued with recommendations in the TCU reports are expected to implement these recommendations through correction of errors and of system weaknesses. The TCU requires that government agencies submit to it a Financial Management Report (*Relatório de Gestão Fiscal–RGF)* whose format and contents are prescribed by the TCU. As evidence of the follow up of the audit recommendations, the RGF contains an annex that indicates actions taken to address the recommendations of both the TCU and of the internal control organs, with justification where action has not been taken. This is thus one of the mechanisms through which the TCU ensures that its recommendations are addressed by the government agencies. The CGU also plays an important role in the follow-up of these recommendations. Once it carries out a review of an agency, it includes an analysis in its reports of the degree to which TCU recommendations have been implemented. Finally, the reports of the TCU themselves contain evidence of implementation of the recommendations. This evidence is documented in a specific section in the TCU report that is dedicated to the analysis of the extent to which previous recommendations have been implemented. The following figure illustrates the performance of various agencies in implementing the recommendations contained in the audit report for the year ended 31 December 2006.

[62] Lei 8.443

[63] These financial statements include the Government's Accounts (*Balanço Geral da União)* and Budget Execution Report.



Source: TCU Report 2007

The recommendations that were not implemented form the basis of issues identified, reservations etc.

Status	2007	2006	2005
	%	%	%
Fully implemented	24	13	15
Partially implemented	32	23	11
Implementation ongoing	9	27	37
Not implemented	35	34	33
Not applicable	-	3	4

Indicator PI 26 (Scoring method M1)	**Brief explanation**	**Score C+**
(i) Scope/nature of audit performed (incl. adherence to auditing standards)	Central Government entities representing at least 50% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues	C
(ii) Timeliness of submission of audit reports to legislature	Audit reports are submitted to the Legislature within four months of the end of the period covered and in the case of financial statements from their receipt by the audit office	A
(iii) Evidence of follow up on audit recommendations	A formal response is made in a timely manner, but there is mixed evidence of systematic follow up	B

Indicator 27. Legislative scrutiny of the annual budget law

Brazil's Legislature plays a highly active role in the oversight of fiscal management and the budget. The constitution (Article 166) attributes a key role to both chambers of the Legislature (the House of Representatives and the Senate) in the scrutiny of the budget documents, including the PPA, the LDO, the LOA and additional credits and the public accounts. The responsibility for close review of the documents falls upon a standing parliamentary committee known as the Joint Committee on Planning, Public Budgets and Auditing (*Comissão Mista de Planos, Orçamentos Públicos e Fiscalização–CMPOF*), comprised of 30 House members and 10 Senators. The structure, composition, direction and procedures of the *CMPOF*, and its four permanent subcommittees, have been regulated by several National Congress resolutions equivalent to law. The examination process is comprehensive, covering all aspects of fiscal policy, medium-term planning and forecasting, and annual revenue and expenditure with definite deadlines and special rules and restrictions regarding amendments and approval procedures[64]. The CMPOF also arranges public hearings and with various government bodies. Resolutions also cover the scope and nature of amendments that may be made by individuals, regional and state groupings and the various specialized committees[65].

The budget calendar is also detailed in law and generally well respected. Box 1 (above) details the timing schedule of the various budget-related documents. These provide for sufficient time for the Legislative to consider each aspect of the budget cycle.

In-year amendments to the budget are numerous though strictly regulated in law and adhered to in practice. The Constitution (Article 167) provides for strict limitations on amendments to the budget—the Government may not begin a program or project not included in the LOA or incur expenses or assume direct obligations that exceed the LOA or additional credits—supplementary or special credits (supplementary appropriations) to the budget are limited in amount (by the LOA), may only be initiated by the Executive and require prior legislative approval. Any reallocations between programs and/or agencies also require prior legislative approval. Only extraordinary credits may be authorized without prior legislative approval, although the Constitution (Article 167) specifies the nature of such expenditure—for unforeseeable and urgent expenses, such as those resulting from war, internal commotion or natural disasters—and the ex post legislative endorsement. The Government also uses the contingency, as specified in the LOA, to make reallocations when needed. With regard to restricting spending below the levels in the LOA, the budget is authoritative, and the Government frequently uses the "*contingenciamento*" procedure to partially freeze discretionary spending authorizations.

[64] See Tollini (2009) for a complete description of the process. For example, Resolution No. 1/06-CN (2007), requires that the CMPOF votes on a revenue report, prepared by the Revenue Evaluation Subcommittee, before examining the budget expenditures.
[65] Opsit.

Indicator PI 27 **(Scoring method M1)**	**Brief explanation**	**Score** **A**
(i) Scope of the Legislature's scrutiny	The Legislature's review covers fiscal policies, macroeconomic assumptions and macro-fiscal aggregates for the coming year, and subsequent two years, as well as detailed estimates of expenditure and revenue.	A
(ii) Extent to which the Legislature's procedures are well-established and respected	The Legislature's procedures for budget review and amendment are firmly established and respected, although they are very detailed and complex with a very high number of amendments. Procedures include internal organizational arrangements, such as specialized review committees, amendment and negotiation procedures.	A
(iii) Adequacy of time for the Legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle	The legal framework clearly sets out the legislative timetable and procedures for the preparation and approval of the budget. The Legislature has about two months to separately approve the LDO and then the LOA.	A
(iv) *Rules for in-year amendments to the budget without ex ante approval by the Legislature*	Rules governing the scope and nature of in-year budget amendments are established in law and are well respected, although the number of amendments is considerable.	A

Indicator 28. Legislative scrutiny of external audit reports

The Constitution establishes that one of the responsibilities of the Legislature is to consider for approval the Government's annual financial statements. It is supported in this role by the TCU, whose preliminary opinion and report on the financial statements is prepared to guide the process of legislative scrutiny. The Constitution also attributes the specific responsibility of examining the Government's financial statements and the TCU report thereon to the Joint Budget and Finance Committee (*Comissão Mista de Planos, Orçamentos Públicos e Fiscalização*–CMPOF). The Constitution requires the CMPOF to examine and issue an opinion on the Government's financial statements[66]. In addition, it requires the CMPOF to issue an opinion on the national plans and programs and to monitor their implementation and execution. The Committee is headed by a President and deputized by three members of Parliament. Other members of the commission include representatives from the Senate and from the Chamber of Deputies.

The TCU has sixty days from the receipt of the report to provide its report and preliminary opinion to the Congress. Congress then appoints an individual deputy or senator to review the statements and the TCU recommendation, and to recommend that Congress either approve or disapprove the statements. In the case of disapproval, Congress can request TCU to conduct a further review of the statements. In the last

[66] Article 166 da Constituição Federal

three years, the TCU has submitted its report to the CMPOF within the stipulated deadline. Furthermore, according to information that is available from the Committee's website[67], the Committee has reviewed the financial statements for the years 2000 to 2004, and for the year 2006. Those for 2005, 2007 and 2008 are still awaiting review. However, the financial statements for the years 2004 to 2008 have not yet been approved. With respect to the year 2003, a draft decree of approval[68] was prepared by the Committee in April 2007 and submitted to the Congress for enactment. However, the latest status indicates that the bill of approval is still pending

It is evident from the above that although the requirements for legislative scrutiny of the financial statements are clearly laid out by the Constitution and that the institutional arrangements to undertake the process exist, there is no effective legislative scrutiny of the audit report. This situation is in clear contrast to the full involvement of the Legislature in the consideration of the upstream budget approval processes. It is thus possible to conclude that the contrasting lack of effective review of the budget information on budget execution may be due to a lack of clear incentives for the Legislature to undertake such scrutiny. It is also necessary to consider the effect of this shortcoming. In many countries, scrutiny by the Legislature is necessary to give effective weight to the recommendations and findings of the Supreme Audit Institution (SAI). In Brazil however, the TCU has ample methods to follow up their recommendations. These include legislative powers to enforce actions, and close collaboration with the internal control agencies, which ensures focus is maintained on the recommendations and their implementation.

Indicator PI 28 (Scoring method M1)	**Brief explanation**	**Score D**
(i) Timeliness of examination of audit reports by the Legislature (for reports received within the last three years)	Examination of audit reports by the Legislature does not take place or usually takes more than 12 months to complete	D
(ii) Extent of hearings on key findings undertaken by the Legislature	No in-depth hearings are conducted by the Legislature	D
(iii) Issuance of recommended actions by the Legislature and implementation by the executive	No recommendations, based on the annual audit report, are routinely issued by the Legislature although the TCU has separate mechanisms to encourage and monitor compliance with its recommendations	D

[67] http://www.camara.gov.br/internet/comissao/index/mista/orca/CONTAS/CONTAS.ASP (Accessed June 16, 2009)
[68] Draft Legislative Decree (*Projeto De Decreto Legislativo*) No 77 de 2006

Rapid Assessment of PFM Information Systems in Brazil

A rapid assessment of the Public Financial Management (PFM) Information Systems was conducted as an additional component to this PEFA assessment to present options and recommendations to the Federal Government for improvement of the efficiency and coverage of PFM systems in Brazil.

Based on the information provided by key MoP and MoF units, the PFM functional capabilities, technology architecture, current issues and future development plans were identified. Following the software demonstrations and presentations conducted by the authorities, a summary of PFM information systems was prepared (**Annex 3**) and critical system components were analyzed to highlight the strengths and possible improvements in ICT capabilities.

Strengths	Possible Improvements
▶ Innovative thinking to improve quality	▶ Develop common vision and objectives
▶ Established institutional framework and institutional capacity	▶ Clarify roles and responsibilities of related entities in ICT development
▶ High technical capacity in PFM domain	▶ Increase number of skilled specialists
▶ Existence of a reliable countrywide network infrastructure for public sector[69]	▶ Avoid fragmented establishment and management of ICT infrastructure
▶ Experience in software development	▶ Benefit from the latest technology
▶ Good capacity to implement ICT solutions	▶ Reduce cost and duration of implementation
▶ Experience in large scale ICT system design and implementation over the last 30 years	▶ Develop integrated solutions on common web-based ICT platforms
▶ Well established e-Gov framework (interoperability and resource sharing)[70]	▶ Ensure compliance and encourage participation in e-Gov program
▶ Focus on using open software and open standards in public sector	▶ Demonstrate the benefits of open source in public sector
▶ Opportunities for career development	▶ Incentives to attract qualified staff
▶ Proper requirements for Information Mgmt, Security and Digital Signature	▶ Improve coordination and control in performance monitoring and compliance
▶ Adequate project management and monitoring and evaluation (M&E) skills	▶ Develop measurable indicators and an effective M&E mechanism

The interagency working group (IWG) established in 2008 for the development of a "global data model" to integrate existing and new PFM systems has produced a useful framework to address some of these issues.

[69] A reliable countrywide ICT infrastructure has been established to provide web access to central resources through a secure virtual private network (VPN) for public sector needs. Most of the ICT services are provided by SERPRO, a state owned enterprise, established under the MoF structure in 1964.

[70] A comprehensive e-Government framework (e-Ping: interoperability & resource sharing) has been developed by SLTI/MoP. The Government is promoting the use of free/libre open source software (FLOSS) and open standards in public sector.

While recognizing above achievements of the MoP and MoF units, the following issues were identified:

- **PFM Information Systems are fragmented and not effectively used.** Budget planning/preparation and execution processes and related information systems are not properly linked. Existing application software supports relatively old business processes, which are not efficient enough. ICT services provided by SERPRO do not fully satisfy the needs of key MoP and MoF units.
- **Importance of developing a new integrated system architecture and global data model is not fully understood by all parties.** SIAFI is originally designed as an accounting system, mainly focusing on the management of payments, as well as recording and reporting of revenues and expenditures. The SIAFI data model does not fully support the needs of other budget users for planning, preparation, execution, and evaluation. There is a need to develop a new data model for an integrated financial management information system.
- **There seems to be room for improvements in the existing legislative and institutional framework, as well as business processes**, to increase operational efficiency and provide better support (reliable, timely information) for decision making. A detailed functional review of existing PFM operational environment and comparison of current practices with other countries may help in identifying possible improvements.
- **Strategic ICT plan and common objectives are missing.** IT governance model can be improved. A new model can be developed to clarify the roles and responsibilities for policy/strategy, coordination, implementation, support, data protection, and audit (e.g. roles of central agencies for policy and coordination; IT departments in line ministries; service providers/SOEs like SERPRO; suppliers and other stakeholders).

Based on the initial findings, next steps to improve the performance of existing PFM information systems were identified as follows:

- Development of a new data model for an integrated PFM system, after a proper assessment of functional needs (e.g. PEFA).
- Defining a comprehensive IT governance model to clarify roles and responsibilities for strategy, coordination, implementation, support, security and audit.
- Identifying possible simplifications in legislation and processes, to increase operational efficiency and provide better management support.
- Developing an action plan to implement an integrated PFM platform for MoP and MoF needs, preferably within three years, benefiting from the existing capacity and latest technology.
- Introduction of unified chart of accounts and digital signature in public expenditure management.

Annex 1: Performance Indicators Summary

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
A. PFM-OUTTURNS: Credibility of the budget							
PI-1	Aggregate expenditure outturn compared to original approved budget	M1	B				**B**
PI-2	Composition of expenditure outturn compared to original approved budget	M1	A				**A**
PI-3	Aggregate revenue outturn compared to original approved budget	M1	A				**A**
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	A			**A**
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	A				**A**
PI-6	Comprehensiveness of information included in budget documentation	M1	A				**A**
PI-7	Extent of unreported government operations	M1	A	A			**A**
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B	A		**A**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	A	C			**C+**
PI-10	Public access to key fiscal information	M1	A				**A**
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	B		**A**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	A	C	C	**C+**
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	A	B		**A**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	A	C	A		**B+**
PI-15	Effectiveness in collection of tax payments	M1	B	A	A		**B+**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	C	C		**C+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	B	A		**A**
PI-18	Effectiveness of payroll controls	M1	B	A	B	A	**B+**
PI-19	Competition, value for money and controls in procurement	M2	A	A	C		**B+**
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	A	A		**A**
PI-21	Effectiveness of internal audit	M1	A	A	A		**A**
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	A			**A**
PI-23	Availability of information on resources received by service delivery units	M1	A				**A**
PI-24	Quality and timeliness of in-year budget reports	M1	A	A	A		**A**
PI-25	Quality and timeliness of annual financial statements	M1	A	A	C		**C+**
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	C	A	B		**C+**
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	A	A	**A**
PI-28	Legislative scrutiny of external audit reports	M1	D	D	D		**D**

Annex 2: Sources of information

Ferreira, Z. (2008). Programa de Aceleração do Crescimento: a execução orçamentária e financeira. XIII Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administración Pública. Buenos Aires.

Giambiagi, F. (2006) Os Recursos do Projeto Piloto de Investimentos (PPI) e as Contas Públicas em 2007. IPEA, Boletim de Conjuntura, 75, dez.

IMF (2008), *Understanding Revenue Dynamics in Brazil: Are the Recent Gains Permanent?*, Article IV Brazil—Selected Issues, Unpublished.

Kraan D., 2009. Programme Budgeting in OECD Countries, OECD. p.21

Matsuda, Y.; Wenceslau, J.; Shepherd, G.; (2006) *Management and Evaluation within the Plano Plurianual: Institutionalization without Impact?* World Bank, mimeo.

OECD, (2009), *Economic Survey Brazil*, vol. 2009/14, July 2009, OECD: http://www.oecd.org/document/0/0,3343,en_2649_33733_43162304_1_1_1_1,00.html

Rajaram, A; Le Minh, T; Biletska, N. and Brumby (2009) *Framework for Reviewing Public Investment Efficiency.* World Bank.

Tollini, Helio (2009), *Reforming the Budget Formulation Process in the Brazilian Congress*, OECD Journal on Budgeting, Volume 2009/1

Tribunal de Contas da União (2008), *Relatório e Parecer Prévio sobre as Contas do Governo da República*, Exercício de 2007, Ministro Benjamin Zymler, Relator, Brasília, 2008.

World Bank (2002), *Brazil Planning for Performance in the Federal Government: Review of the Plurianual Planning*, Report N 22870-BR.

World Bank (2007), *Improving Fiscal Circunstances for Growth.* Washington, DC: World Bank (BR-36595).

World Bank (2008), *BRAZIL: Toward a Countercyclical Fiscal Policy Framework,* Unpublished Preliminary Draft

World Bank (2009), *Assessment of the Efficiency of Public Investment Management*, Unpublished Preliminary Draft

World Bank, IFC and PriceWaterhouseCoopers (2009b), *Paying Taxes 2009, The Global Picture*, World Bank, Washington DC http://www.doingbusiness.org/

Annex 3: Brazil, Public Financial Management Information Systems

April 2009

Brazil Public Financial Management (PFM) information systems provide support for all key functions of budget management cycle through locally developed software mainly developed by SERPRO, a state-owned enterprise under the MoF structure, since 1987. This section presents an overview of 16 key information systems used to support daily operations and decision making.

Budget Domain

- **Federal** Federal Government
- **State** 27 Federative Units, including the Federal District
- **Municipal** 5,566 Municipal Governments

Federal Government–PFM Roles and Responsibilities

MoP	Ministério de Planejamento, Orçamento e Gestão	www.planejamento.gov.br
MoF	Ministério de Fazenda	www.fazenda.gov.br

	PFM Functionality	*Information Systems*	*Unit/Organization*
1-	Planning of investments and budget	**SIGPLAN** + **SISPAC**	SPI/MoP
2-	Budget preparation	**SIDOR** + **SIEST**	SOF + DEST/MoP
3-	Core Treasury System	**SIAFI**	STN/MoF
	• Management of Payments	Interface w/ BACEN (TSA) + BdB	
	• Management of Receipts	Interfaces w/ 40 Banks + Tax & Customs	
	• Commitment Management		STN/MoF
	• Cash Forecasting & Management		COFIN/MoF
	• General Ledger/Accounting		STN/MoF
	• Financial Reports	**SIAFI** (Fed) + **SISTN** (State & Municip)	
4-	Integrated Debt Management	**SID**	STN/MoF
5-	Personnel Database and Payroll	**SIAPE**	SRH/MoP
6-	Public Procurement	**SIASG + COMPRASnet**	SLTI/MoP
7-	Transfers/Contract Mgmt	**SICONV**	SEGES/MoP
8-	Asset/Inventory Management	**SIAPA + SPIU**	SPU/MoP
9-	Support for Auditing	**SISAC + SIAFI**	TCU + STN/MoF
10-	Web Portal/Publishing	**SIAFI + SIORG**	MoP + MoF

Budget Planning/Preparation

SIGPLAN http://www.sigplan.gov.br

System: Sistema de Informações Gerenciais e de Planejamento

Budget Planning and Management Information System

Responsible: SPI/MoP http://www.planejamento.gov.br

Secretaria de Planejamento e Investimentos Estratégicos

Secretariat of Planning and Strategic Investments

Developer: SERPRO

Functionality:

- Preparation and management of Multi-year Plan/Plano Plurianual (PPA)
- Qualitative analysis of the planning
- Defining limits of expenditure
- Examination of physical and financial execution and management of the flow of resources for priority programs of government

SISPAC https://www.pac.gov.br

System: Sistema de Monitoramento do PAC

PAC Monitoring System

Responsible: SPI/MoP http://www.planejamento.gov.br

Secretaria de Planejamento e Investimentos Estratégicos

Secretariat of Planning & Strategic Investments

Developer: SERPRO

Functionality:

- Management of the Program of Accelerated Growth/Programa de Aceleração do Crescimento (PAC)
- Preparation and management of investment plans

SIDOR https://sidornet.planejamento.gov.br

System: Sistema Integrado de Dados Orçamentários

Integrated System of Budgetary Data

Responsible: SOF/MoP http://www.planejamento.gov.br

Secretaria de Orçamento Federal

Secretariat of Federal Budget

Developer: SERPRO

Functionality:

- Preparation of Annual Budget Proposal/Proposta de Lei Orçamentária (PLO)
- Formalization of the PLO and PPA in line with the MoP (SOF, SPI, DEST) strategies
- Preparation of the Budget Guidelines Law/Lei de Diretrizes Orçamentárias (LDO)

SIEST https://sidornet.planejamento.gov.br

System: Sistema de Informações das Estatais

State Enterprise Information System

Responsible: DEST/MoP http://www.planejamento.gov.br

Departamento de Coordenação e Controle das Empresas Estatais

Department of Coordination and Control of State Enterprises

Developer: SERPRO

Functionality:

- Preparation of the Comprehensive Plan of Expenditures/Programa de Dispêndios Globais (PDG) for state enterprises
- Monitor the implementation of PDG
- Maintenance of cadastral information (Profile of the State Enterprises/Perfil das Empresas Estatais), accounting (debt, chart of accounts, balance sheet) and economic-financial (political applications) of Federal undertakings

Budget Execution

SIAFI http://www.stn.fazenda.gov.br/siafi

System: Sistema Integrado de Administração Financeira do Governo Federal

Integrated System of Financial Administration of the Federal Government

Responsible: STN/MoF http://www.stn.fazenda.gov.br

Secretaria do Tesouro Nacional

Secretariat of National Treasury

Developer: SERPRO (est. 1964) http://www.serpro.gov.br

Functionality:

- Recording, monitoring and control of budget execution
- Management of receipts and payments through Treasury Single Account (TSA)
- Financial control and accounting of Federal budget
- Preparation of financial statements

Milestones:

- The National Treasury Secretariat (**STN**) was established on March 10, 1986, as the central entity of the Federal Financial Management and Accounting System.
- Integrated System of Federal Government Financial Administration (**SIAFI**) was introduced in January 1987 (currently interconnecting five thousand management units with approximately 60,000 users for budget execution).
- The Government Operating Account at Banco do Brasil was substituted by the **Treasury Operating Account** at the Central Bank in 1988, to create a direct link between the management and control of federal finance and the budget operations of the various management units (more than 5,000 government bank accounts were eliminated).

Debt Management

SID http://www.tesouro.fazenda.gov.br/divida_publica

System: Sistema Integrado da Dívida Pública

Integrated Public Debt Management System

Responsible: STN/MoF http://www.tesouro.fazenda.gov.br

CODIP: Coordenação-Geral de Operações da Dívida Pública (Operations)

COGEP: Coordenação-Geral de Planejamento Estratégico (Strategic Planning)

CODIV: Coordenação-Geral de Controle da Dívida Pública (Control)

Developer: Bearing Point + DBA

Functionality:

- Integrated management of Public Debt (Phase I completed in April 2009; Phase II is expected to be completed in Dec 2011)
- Front office (CODIP): Domestic Auctions; Market Relations; Int'l Capital Market Operations
- Middle office (COGEP): Strategic Planning; Research; Investor Relations; New Products
- Back office (CODIV): Accounting & Budgeting; Cash Flow; Information Systems
- Services for Treasury Direct/Tesouro Direto (TD), allowing individuals to purchase public bonds directly through the Internet.

Procurement

SIASG — http://www.comprasnet.gov.br

System: Sistema de Administração de Serviços Gerais

Administration System of General Services

Responsible: SLTI/MoP — http://www.planejamento.gov.br

Secretaria de Logistica e Tecnologia da Informação

Secretariat of Logistics and Information Technology

Developer: SERPRO

Functionality:

- Monitoring of contracts, tenders, and suppliers (from announcement of bidding, drafting the contracts, management of commitments, publishing the results in the Official Gazette, monitoring the contracts, interfacing with SIAFI)
- Management of general services (materials management, public buildings, official vehicles, communications)

SICONV — http://www.unb.br/convenios/siconv.htm http://www.convenios.gov.br

System: Sistema de Gestão de Convênio, Contrato de Repasses e Termo de Parceria

Mgmt System of Agreements, Contract Transfers and Terms of Partnership

Responsible: SEGES + SLTI/MoP — http://www.planejamento.gov.br

Secretaria de Gestão + Secretaria de Logistica e Tecnologia da Informação

Secretariat of Management + Secretariat of Logistics and Information Technology

Developer: Fed Univ of Rio de Janeiro/Universidade Federal do Rio de Janeiro (UFRJ)

Functionality:

- Provide information on the award, disbursement of funds, monitoring of implementation and accountability of related resources (Decree No. 6170 of July 25, 2007), to ensure greater transparency of the agreements signed with the unions, in voluntary transfers and all entities municipal, state and nongovernmental organizations.
- Distance Education module and SICONV Operation Manual (developed in partnership with the National School of Public Administration (ENAP) and SERPRO).
- Development of guidelines and standards, to be followed by public agencies and users.
- Web-based application software (developed on Open Source platform) running over a countrywide ICT infrastructure for PFM organizations managed by the SERPRO.

COMPRASnet

http://www.comprasnet.gov.br

System: Portal de Compras do Governo Federal

Procurement Portal of the Federal Government

Responsible: SLTI/MoP http://www.planejamento.gov.br

Secretaria de Logistica e Tecnologia da Informação

Secretariat of Logistics and Information Technology

Developer: SERPRO

Functionality:

- Provide information on the award of bids, disbursement of funds, monitoring of implementation and accountability of related resources (Decree No. 6170, Jul 25, 2007).
- “Reverse auction” (provider offering the lowest price for a product or service wins)
- Registration of all participating vendors in the Unified Registration System Suppliers (SICAF), currently including about 250,000 entities.
- Online access to legal and tax status of bidders for the Administration of Units General Services (UASGs) and the Bidding Committees. Integration with SIAFI.
- For suppliers, all services are free of charge through COMPRASnet to increase the competition, reduce prices and allow free access to all bid details.
- Services offered to bidders include sending out notices of bidding for its line of supply, the notice of expiration of certificates, downloading public bidding and catalog of materials and services, and access to supplier registry.

Personnel Management and Payroll

SIAPE

http://www.siapenet.gov.br

System: Sistema Integrado de Administração de Recursos Humanos

Integrated Human Resources Management System

Responsible: SRH/MoP http://www.planejamento.gov.br

Secretaria de Recursos Humanos

Secretariat of Human Resources

Developer: SERPRO

Functionality:

- The SIAPE system (introduced in 1990) processes and manages a payroll of R$ 65 billion annually, on nearly 1.348 million registered personnel, distributed in 248 bodies (1,097 paying units) countrywide, as follows:

Federal Gov Personnel (July 2008)	Number
Retired	367,000
Active	542,000
Dependants	331,000
"Celetista"	45,000
Temporary Contracts	25,000
Resident Physicians	7,000
Military	31,000
Total	**1,348,000**

- Control of personnel records, functional and financial data, processing of payroll
- SIAPEnet for publication, update and download of information through internet
- SIAPEDW for extraction and processing of information from the data warehouse
- SIAPE is used for integration of records of the Civilian Personnel System of Federal Public Administration (SIPEC), and for the transmission of information related to the payment of salaries to the banks responsible for their payment.
- 16,000 users defined; Up to 1,650 concurrent users
- 24 million transactions/month; 22 billion bytes traffic/month
- SIAPEnet : 687,000 visits/month; 11 million web pages viewed (May 2008)
- SIAPEDW : 1025 visits/month; 374,000 queries/reports generated (May 2008)

Asset Management

SIAPA http://www.planejamento.gov.br/secretaria.asp?sec=9

System: Sistema Integrado de Administração Patrimonial

Integrated Asset Management System

Responsible: SPU/MoP http://www.planejamento.gov.br

Secretaria do Patrimônio da União

Secretariat of State Assets/Public Property

Developer: SERPRO

Functionality:

- The SIAPA system supports the administration of state property, real estate and buildings and occupants, controls the collection of revenues, and standardizes the operating procedures of the regional management of assets.
- Control System Functional Properties/Sistema de Controle de Imóveis Funcionais (**CIF**) is a specific tool to support the administration of the functional properties of the union with the aim of maintaining and operating the updated register of buildings and their users, allowing management of the collection of revenue by use of the property and payment of the functional and the condominium fees.
- Decision Support System/Sistema de Suporte à Decisão (**SSD**) is a specific tool for consultations with management of data and SIAPE/SPIUnet for decision support with the objective to support the process of the SPU.

SPIU https://spiunet.spu.planejamento.gov.br

System: Sistema de Patrimônio Imobiliário de União

System of Union Real Estates

Responsible: SPU/MoP http://www.planejamento.gov.br

Developer: SERPRO

Functionality:

- SPIU supports the administration of the state property, its buildings of special use and aims to identify the use of special properties of the union, owned or third-party.
- Establish a standard in operations performed by Management of Union Regional (GRPU) integrating the procedures of the SPU and GRPU and minimizing the efforts for integration with SIAFI, and updating the balance sheet properties automatically.

Registry of Public Entities

SIORG

http://www.siorg.redegoverno.gov.br

System: Sistema de Informações Organizacionais do Governo Federal

Organizational Information System of the Federal Government

Responsible: SEGES/MoP http://www.planejamento.gov.br

Secretaria de Gestão

Secretariat of Management

Developer: SERPRO

Functionality:

- Registry of Federal Government organizations
- Publishing the full organizational structure on the web; online access to registry
- Over 53,000 registered organizations, located in more than 1,400 cities
- Detailed description of the purposes and skills of more than 25,500 bodies

ICT Platform:

- Operating System: Windows NT
- Database: MS SQL Server
- Client-Server: Visual Basic and Windows stations
- Internet: Active Server Pages (ASP) with VB-Script

Statistics:

Number of SIORG access from Internet since 19 January 2001:

- Home Page: 651,030
- Hierarchical structure: 3,056,317
- Attributes of body: 442,787
- Holders of body: 155,608
- Location of body: 128,226
- Purpose/Jurisdiction: 17,542

Audit and Reporting

SISAC https://contas.tcu.gov.br/sisac/Inicio

System: Sistema de Apreciação de Atos de Admissão e Concessões

System of External Audit

Responsible: TCU http://www.tcu.gov.br

Tribunal de Contas da União/*The Brazilian Court of Audit*

Developer: ?

Functionality:

- Support for auditing the accounts of administrators and other persons responsible for Federal public funds, assets, and other valuables

SISTN https://sistn.caixa.gov.br

System: Sistema de Coleta de Dados Contábeis de Estados e Municípios

System of Collection of Accounting Data from States and Municipalities

Responsible: CEF http://www.caixa.gov.br

Caixa Econômica Federal/*Federal Savings Bank*

Developer: ?

Functionality:

- Data collection and reporting system of accounting for states, Federal district and municipalities, based on the legislative framework issued by the STN/MoF.

Budget Classification

Revenue Codes

https://www.portalsof.planejamento.gov.br/bib/publicacoes/Manual_Receita_Nacional.pdf

Revenue classification: X.Y.Z.W.TT.KK

X	Economic Category
	1: Current, 2: Capital, 7: Current extra-budget, 8: Capital extra-budget
Y	Origin
Z	Type
W	Line
TT	Item
KK	Sub-item

Nature of Revenues: XXXX.XX.XX

XXXX	Economic Category + Origin + Type + Line
XX	Item
XX	Sub-item

Expenditure Codes

https://www.portalsof.planejamento.gov.br/bib/publicacoes/Manual_Despesa_Nacional.pdf

Expenditure classification: 99.99.999.99.999.9999.9999.9999.9999.9.999.9999.9

99	Budget Type (10: Fiscal, 20: Social Sec, 30: Investment Budget)
99	Organization
999	Budget Unit
99	Function
999	Sub-function
9999	Program
9999	Activity
9999	Location of expenditure (Subtitle)
9999	IDOC (Identification of Grants and Credit Operations)
9	IDUSO (Identifier of Use)
999	Source
9999	Nature (econ category/exp group/method of payment)
9	Identifier for primary outcome

Nature of Expenditures: X.X.XX.XX.XX

X	Economic category
X	Group of expenditure
XX	Method of payment
XX	Element of expenditure
XX	Detail of expenditure

Chart of Accounts

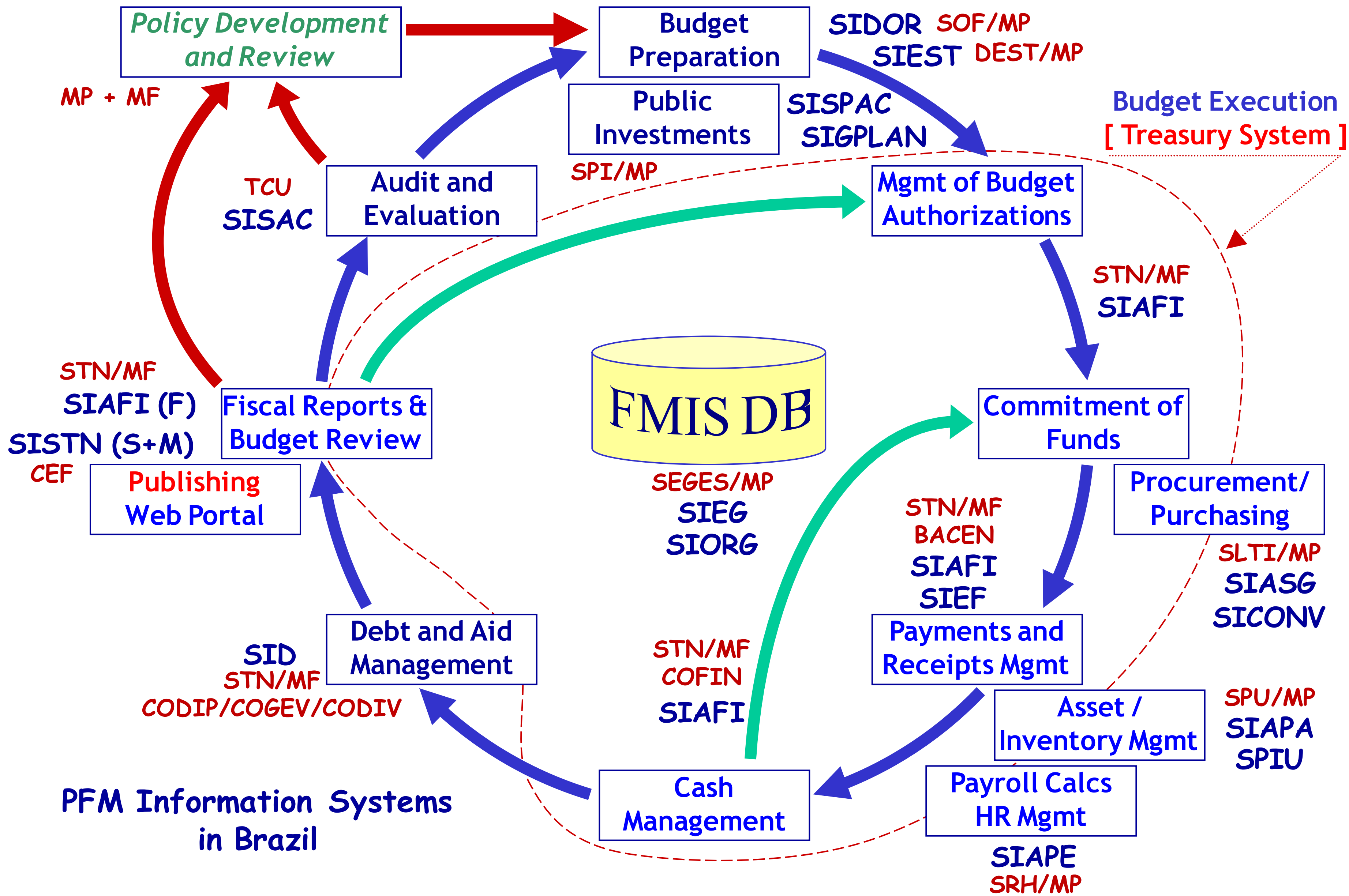
http://www.tesouro.fazenda.gov.br/siafi/plano_de_contas.asp

http://bvsms.saude.gov.br/bvs/publicacoes/manual_siafi2.pdf

Chart of Accounts: X.X.X.X.X.XX.XX

X	Class of accounts
	1: Active, 2: Passive, 3: Budget Expenditures, 4: Budget Revenues,
	5: Variations in Passive Assets, 6: Variations in Active Assets,
	(Future Extensions… 7: Budgetary Controls, 8: Other Controls, 9: Costs)
X	Group
X	Subgroup
X	Element
X	Sub-element
XX	Item
XX	Sub-item

Brazil – Public Financial Management Information Systems
April 2009



#	Name	PFM Information Systems in Brazil	Function	Unit/Org	Name of Unit/Org	Web Link	Developer	Start	Avail	Appl Software/Technology
1	SIORG	Sistema de Informações Organizacionais do Governo Federal	Reg of Fed Gov Org	SEGES / MP	Secretaria de Gestão	http://www.siorg.redegoverno.gov.br	SERPRO	2000	2001	MS SQL; Java; web access
2	SIGPLAN	Sistema de Informações Gerenciais e de Planejamento	PPA, Investments	SPI / MP	Secretaria de Planejamento e Investimentos Estratégicos	http://www.sigplan.gov.br/v4/appHome	SERPRO	1991	2000	MS SQL; Java; web access
3	SISPAC	Sistema de Monitoramento do PAC	PAC Monitoring	SPI / MP	Secretaria de Planejamento e Investimentos Estratégicos	https://www.pac.gov.br	SERPRO	2007	2008	MS SQL; JavaScript; web access
4	SIDOR	Sistema Integrado de Dados Orçamentários	Budget Preparation	SOF / MP	Secretaria de Orçamento Federal	https://sidornet.planejamento.gov.br	SERPRO	1986	1987	DB2; Java; web access
5	SIEST	Sistema de Informações das Estatais	Exp Plans for SOEs	DEST / MP	Departamento de Coordenação e Controle das Empresas Estatais	https://sidornet.planejamento.gov.br	SERPRO	2004	2005	DB2; Java; web access
6	SIAFI	Sistema Integrado de Administração Financeira do Governo Federal	Budget Execution	STN / MF	Secretaria do Tesouro Nacional	http://www.stn.fazenda.gov.br/siafi	SERPRO	1986	1987	Natural/Adabas; Java; web access
7	SIEF	Sistema Integrado de Informações Econômico-Fiscais	Tax System	RFB / MF	Receita Federal do Brasil	http://www.receita.fazenda.gov.br/	SERPRO	1998	2010	Oracle; Java; web based
8	SID	Sistema Integrado da Dívida Pública	Debt Mgmt	STN / MF	Secretaria do Tesouro Nacional	http://www.tesouro.fazenda.gov.br/divida_p	BP + DAP	2006	2009	Web-based; Java
9	SIAPE	Sistema Integrado de Administração de Recursos Humanos	HRMIS + Payroll	SRH / MP	Secretaria de Recursos Humanos	http://www.siapenet.gov.br	SERPRO	1989	1990	Natural/Adabas; Java; web access
10	SICONV	Sistema de Gestão de Convênio, Contrato de Repasses e Termo de Parceria	Mgmt of Contracts	SLTI / MP	Secretaria de Logistica e Tecnologia da Informação	http://www.unb.br/convenios/siconv.htm	UFRJ + SLTI	2006	2008	Web-based; OSS
11	COMPRASnet	Portal de Compras do Governo Federal	Public Procurement	SLTI / MP	Secretaria de Logistica e Tecnologia da Informação	http://www.comprasnet.gov.br	SERPRO	1996	1997	Web-based; OSS
12	SIASG	Sistema de Administração de Serviços Gerais	Mgmt of Services	SLTI / MP	Secretaria de Logistica e Tecnologia da Informação	http://www.comprasnet.gov.br	SERPRO	1996	1997	Natural/Adabas; Java; web access
13	SIAPA	Sistema Integrado de Administração Patrimonial	Asset Mgmt	SPU / MP	Secretaria do Patrimônio da União	http://www.planejamento.gov.br/secretaria.	SERPRO	1996	1997	Natural/Adabas; Java; web access
14	SPIU	Sistema de Patrimônio Imobiliário de União	Mgmt of Property	SPU / MP	Secretaria do Patrimônio da União	https://spiunet.spu.planejamento.gov.br	SERPRO	2000	2001	MS SQL; Java; web access
15	SISTN	Sistema de Coleta de Dados Contábeis de Estados e Municípios	Local Budg Reporting	CEF	Caixa Econômica Federal	https://sistn.caixa.gov.br/	?	?	?	?
16	SISAC	Sistema de Apreciação de Atos de Admissão e Concessões	External Audit	TCU	Tribunal de Contas da União	https://contas.tcu.gov.br/sisac/Inicio	?	?	?	?
	SIEG	Sistema de Integração e Gestão de Governo	MIS	STN / MF	Secretaria do Tesouro Nacional					

Start: Design/development of Information System starts
Avail: Development completed/operationally available

#	PFM System	Function	Unit/Org	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	SIORG	Reg of Fed Gov Org	SEGES / MP																											
2	SIGPLAN	PPA, Investments	SPI / MP																											
3	SISPAC	PAC Monitoring	SPI / MP																											
4	SIDOR	Budget Preparation	SOF / MP																											
5	SIEST	Exp Plans for SOEs	DEST / MP																											
6	SIAFI	Budget Execution	STN / MF																											
7	SIEF	Tax System	RFB / MF																											
8	SID	Debt Mgmt	STN / MF																											
9	SIAPE	HRMIS + Payroll	SRH / MP																											
10	SICONV	Mgmt of Contracts	SLTI / MP																											
11	COMPRASnet	Public Procurement	SLTI / MP																											
12	SIASG	Mgmt of Gen Services	SLTI / MP																											
13	SIAPA	Asset Mgmt	SPU / MP																											
14	SPIU	Mgmt of Property	SPU / MP																											
15	SISTN	Local Bud Reporting	CEF																											
16	SISAC	External Audit	TCU																											

STN TSA WWWJava Open Source Web TV Google eGov BR Wireless Skype YouTube

Legend:

- Information System (IS) Design, Implementation, Testing
- Availability of client-server solution (web-enabled)
- New technology/platform upgrade (web-based)
- Fully functional IS in use to support PFM operations