



OXFORD ANALYTICA

BRAZIL

FISCAL TRANSPARENCY

Country Report 2006

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5 Alfred Street
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BRAZIL



COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2006	2005	2004	2003
Clarity of roles	●●●●	●●●●	●●●●	●●●●
Availability of information	●●●●	●●●●	●●●●	●●●●
Budget preparation	●●●●	●●●●	●●●●	●●●●
Accountability	●●●●	●●●●	●●●●	●●●●
Score	4.00	4.00	4.00	4.00

OUTLOOK & COMMENTARY

Strengthening the fiscal policy transparency framework in Brazil further will depend on the government's ability to build a stable and reliable majority in Congress – despite President Lula's recent re-election. The incipient proposal to modify the Fiscal Responsibility Law (LRF) should be closely followed, as the revision could compromise key principles of the country's fiscal legal framework.

The publication this year of consolidated historical series of fiscal information represents a significant step forward. The releasing of this information within a more analytical framework is expected in 2007. The initiation of a three year rolling plan framework within the annual budget proposals also should be welcomed. Given the successful implementation of the Investment Pilot Scheme (PPI) in the past year -- aimed at improving the quality and efficiency of public investment -- it is likely to be extended during Lula's second term in office. Pending issues include strengthening the fiscal management and using the significant amount of information available to address budget shortcomings.

EXECUTIVE SUMMARY

4.00 Compliance in progress

Brazil is a decentralised federal country, in which states and municipalities retain substantial autonomy in taxation and fiscal policy-making. There is a clear administrative framework for fiscal management, provided by the 1988 Constitution and by the Fiscal Responsibility Law (LRF). In the past year, a series of corruption scandals have almost paralysed legislative business. Moreover, the campaigning for the October presidential elections -- when state governors and legislatures, the lower house of Congress and a third of the Senate were elected -- started early in the year, preventing policy progress in many areas. Despite this situation, fiscal transparency has not been affected and there have been some improvements over the last year.

At the federal level, the constitution requires the preparation of three budgetary instruments: the Multi-Year Plans (PPAs), Budget Directives Laws (LDOs), and Annual Budgets Laws (LOAs). Efforts are under way to strengthen the content of the PPAs in order to transform them into real strategic tools and to increase consistency between the different budget instruments in order to overcome the current ambiguities in the PPAs, LDOs, and LOAs. The country's budgetary framework includes classifications at a functional, programme and economic level. However, actual budgetary appropriations are frequently lower than those specified in the budget programme.

Data on central government, states and municipalities are compiled on a cash basis for revenues and an accrual basis for spending. Starting this year, Brazil's annual budget documents provide aggregate comparative information about expenditures and revenues in previous budgets, allowing new budget proposals to be put into context. The monthly *Budget Execution Report* provides reliable information at a functional, ministerial and programme level and includes both current and capital expenditures. Additionally, the new annual *Monitoring in Numbers* report presents detailed budget execution information. A management and planning system (SIGPlan), aimed at improving budget execution, has been completed and is now fully operational.

Progress has been made on the public availability of fiscal information at a sub-national level. However, the lack of technical capacity and information among municipalities remains one of the most important obstacles to a successful and comprehensive strategy for fiscal transparency. Reporting consolidated fiscal accounts at a sub-national level is gradually increasing. Information on state-owned enterprises -- including budgetary allocation and execution -- is publicly available.

Congress' technical capacity to assess fiscal information has improved, and it is increasingly playing its constitutional role of evaluating public spending. The National Audit Court's (TCU) technical capacity and internal methodologies allow it to undertake efficiency and impact assessments on fiscal spending. However, the TCU's recent practices -- such as broadening its legal operational framework -- have raised concerns. Supplementary regulation to the public-private partnerships legal framework has been approved in the past year, clarifying the accounting structure and the consolidation of public accounts within the system.

Brazil's overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES

●●●● Compliance in progress

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Structure, functions, and responsibilities of government

The structure and responsibilities of the government are well set out, both in legislation and in the production of fiscal data. General government data are divided into three groups: central government (including the National Treasury and Social Security), 27 state governments, and a representative sample of 250 (out of the 5,560) municipal governments.

Brazil is a highly decentralised federation, with sub-national entities accounting for over one-third of total government spending and revenue collection. The responsibilities of each level of government are defined in the 1988 Constitution of Brazil. All regional authorities have their own elected legislative and executive branches, and an independent judiciary. The federal government has limited control over sub-national tax administration, budget formulation, execution and oversight, and has limited influence over wage and investment policies.

The constitution also defines the roles and responsibilities of the executive, judicial, and legislative branches of all levels of government in the budgetary process. At the federal level, the constitution requires the preparation of three budgetary instruments: the Multi-Year Plans (PPAs), Budget Directives Laws (LDOs), and Annual Budgets Laws (LOAs).¹ Drafts of these documents are prepared by the executive branch and submitted to the legislature. Congress reviews and discusses the drafts and makes amendments if necessary.

Coordination and management of budgetary activities

The coordination of budgetary activities, particularly the distribution of tax and expenditure powers, is addressed under Article VI of the constitution. However, there is a lack of clarity in some areas, as some expenditure responsibilities have been devolved unsystematically. Indeed, there remains significant overlapping and duplication in various areas of public spending such as education, transport, water and sanitation. A non-mandatory coordination pact (*'Pacto de Concertação'*) was approved along with the 2004-2007 Multi-Year Plan in order to eliminate gradually this duplication in spending powers but, due to the lack of a clear prohibition of these practices and the current constitutional framework, little progress has occurred. The states of Santa Catarina and Ceará have entered a pilot programme to strengthen their management procedures and to reduce overlapping in public spending. Additionally, the state of Minas Gerais improved its management and budgetary process, almost eliminating the budget deficit and applying a 'results agreement' bonus payment to civil servants in exchange for hitting targets. Some progress has also been noticed in the state of Rio Grande do Sul.

Discussions to increase budget flexibility are in progress, including the reduction of current expenditure ceilings in sensitive areas such as healthcare services. According to some analysts, greater budget flexibility could provide more resources for priorities such as infrastructure and social spending and allow for better quality fiscal adjustment.

Relations between government and public sector agencies

The relationship between government and public sector agencies is set out in the constitution. A Committee for the Management of Federal Public Financial Institutions, which is subordinate to the Ministry of Finance (MoF), is in charge of state-owned financial institutions.² State-owned enterprises (SOEs), including Petrobras (one of the last major federally owned companies and the national oil producer), are under the supervision of the Department of Coordination and Management of State-Owned Enterprises, which is part of the Ministry of Planning, Budget, and Management (MoP). This department is in charge of supervising and regulating the SOEs as well as disclosing financial information about their investments.³ Information is publicly available, is updated regularly, and includes federal companies privatised since 1990, together with information on state and federal enterprises classified by sector and activity.

Relations between the government and the central bank -- Banco Central do Brasil (BCB) -- are governed by Law 4,595 of 1964 and its subsequent amendments. Brazil's central bank is not legally independent, but in practice enjoys ample operational autonomy. The ultimate policy objective is to ensure the separation of monetary and fiscal policies.

The Regulatory Agencies Consolidation Bill (PL 3,337/2004) -- prepared by the government and submitted to Congress -- includes non-simultaneous, fixed four-year terms for directors (with the possibility of a second term), with the term of presidents of agencies expiring in the second year of the term of the country's president. An ombudsman's office will also be created in every agency, as will performance agreements ('*Contratos de Gestão*') establishing the agencies' operating targets.

In order to improve the quality and efficiency of public investment, an Investment Pilot Scheme (PPI) was launched in 2005. The programme was originally developed with the technical assistance of the IMF, the WB and the IADB but now entirely managed by the government. It aims at providing additional financial resources, equivalent to about one billion US dollars a year over three years (2005-2007) -- around 0.15 of the country's GDP per year -- for infrastructure and other public investment projects that have potentially strong macroeconomic and fiscal payoffs over the medium term, consistent with a sustainable fiscal stance. Budgetary funding of the projects is linked to implementation of the improved procedures, increasing the likelihood that the investments will be completed on schedule. Some problems surfaced in the selection and implementation of investment projects under this programme, owing to the lack of human resources in key selected areas like transportation and the criteria used to develop sectoral strategies, but significant progress has been made in the past year, increasing the quality and efficiency in public investment. Ongoing pilot infrastructure projects are scheduled to conclude by December 2007.

A detailed 2005 report for activities undertaken under the PPI, including information on the selection process, execution of the projects, and prospects for 2006 is publicly available.⁴ The National Audit Court controls projects undertaken under the PPI initiative.

Government involvement in the private sector

The Brazilian government retains significant equity holdings in some sectors, particularly in oil, electricity generation, water and sanitation, and airport administration, as well as in the financial sector (such as *Banco do Brasil*, *Caixa Econômica Federal*, and *Banco Nacional de Desenvolvimento Econômico*). Government equity ownership is reported in the annual reports of these companies. Starting this year, a single comprehensive list of all government equity holdings is made available through the MoF website. A detailed account of the National Treasury's equity holdings is available on its website.⁵

The Brazilian Institute of National Statistics and Geography (IBGE) publishes information on the structure of receipts, expenditure, and investments of public enterprises by nature and economic activity at the federal, regional,

state and municipal level of government. It presents analysis of the main results, focusing on some indicators of the financial situation of these entities and the role of subsidies in the performance of business activities.

In 2004, Congress enacted Law 11,079 on public-private partnerships (PPPs) -- ventures in which state and central governments will take on financial risk to encourage private sector investment. The government's focus on modernising Brazil's infrastructure and implementing a prudent mechanism for PPPs -- preserving debt sustainability and following Fiscal Responsibility Law principles -- is likely to improve the country's involvement in areas of public interest in conjunction with the private sector. In addition, the law contains important provisions to align subsidies and safeguard the fiscal accounts.

The law establishes the framework for the bidding and contracting of PPPs at the federal, state and municipal levels, and promotes the principles of efficiency, transparency, and fiscal responsibility. The PPP regime has to comply with pre-established budget principles. Since the timeframe for most of the projects is quite long, no project may be considered if not previously included in the Brazilian PPAs or in the LOAs. In addition, a provision must be made for expenses budgeted for the following year, as specified in the Budget Law. A PPP project may be considered only after the presentation of an estimate of the financial impact during the fiscal years in which the contract will be in effect.⁶

Consistency between long- and short-term budgetary objectives should be preserved, given the long-term duration of PPP contracts. Yet the different audit courts within and across levels of government use different reporting standards, which can hamper clear assessment of risks and transparency. Therefore, the Treasury has an important role to play in standardising accounting and reporting requirements. State legislation also calls for PPP contracts to be in line with budget legislation, requiring the assessment of the budgetary impact of projects prior to contracting.⁷

The PPPs law establishes that projects must be preceded by public consultation giving the affected community an opportunity to express its concerns and preferences. Supplementary regulation to the PPPs legal framework has been approved this year, clarifying the accounting structure and the consolidation of public accounts within the system.⁸ A managing council with representatives from the MoP, MoF and *Casa Civil* (a governmental body with broad powers which assists the president) has been established in order to monitor projects, control funds, and oversee the payment of contracts. Assessments on PPPs viability and fiscal impact prepared by the MoP are submitted to this council. Moreover, the *Planning and Strategic Investments Secretariat* (SPI) of the MoP is preparing a report to assess PPP viability. A PPPs guarantee fund -- administered by the *Banco do Brasil* -- is now in place.

The National Treasury has started selecting and assessing high-impact projects which could be undertaken under the PPPs system. The first project has been selected and will start during 2007. The project -- road building in the state of Bahia -- was chosen following a public consultation process and a detailed feasibility study.⁹ The National Audit Court has also been involved in the process, assessing the expenditure execution framework. There has been some criticism of the excessive time taken to select the first project -- due to the government's efforts to have adequate analysis on the fiscal impact of the project -- yet this circumstance could also be seen as a way to preserve fiscal sustainability. At the time of writing this report, a PPP project to develop a technical data platform between *Banco do Brasil* and the *Caixa Econômica Federal* was at the public consultation process stage.

There should be a clear legal and administrative framework for fiscal management

Legal framework for budgetary activities

There is a clear administrative framework for fiscal management in Brazil, provided by the 1988 Constitution and by the Fiscal Responsibility Law (LRF). The LRF regulates inter-governmental fiscal relations, contains guidelines on

the management of state revenues, imposes limitations on sub-national government spending, and prohibits certain fiscal activities, such as the issue of central bank debt securities and credit or rescheduling operations among the various levels of government.

Approved by Congress in May 2000, the LRF aims to control sub-national debt, impose fiscal discipline and improve fiscal transparency and reporting. Sub-national finances have shown a marked trend towards fiscal restraint over the past 20 years. The LRF is part of the institutional framework that has emerged since the 1990s to bring about this shift and improve fiscal management around the country. However, despite efforts to address long-standing problems, the LRF still has important shortcomings. The penalty structure is fragmented, dispersed, and has no clear definition of accountability.¹⁰ Some commentators have said the Senate, with ultimate oversight functions, remains particularly susceptible to politicisation. However, some progress has occurred in the enforcement of the LRF's principles, mainly because of the imposition of both individual and institutional sanctions.

Legal framework for taxation

Article 153 of the constitution defines the federal government's power of taxation, while Article 154 allows for additional taxes to be instituted. The constitution is explicit about the division of tax revenues, assigning specific tax bases to each level of government and creating a system of tax sharing that redistributes revenue among the different levels of governments and regions. Under the National Tax Code, each tax must have an explicit legal basis. Also, all contributions, fees, and duties require an explicit legal basis.¹¹

In 2003, the government's proposed tax reform was approved in the Senate. The bill, which suffered substantial modifications during the negotiating process, was originally expected to reduce bureaucracy, tax evasion, and the inefficient tax competition among states. However, few commentators disagree about its limited impact on Brazil's notoriously complex tax system, and on reducing cumulative indirect taxes.¹² The reform maintains the financial transactions tax (CPMF) and compensates states for revenues lost owing to exemptions on export products.

The tax law provides for the consolidation of a value-added tax on goods and services (ICMS) imposed by each state under its own law into five, uniform tax rates. However, unification of the ICMS -- scheduled for 2005 -- has been postponed to 2007 owing to state governors' resistance. Given the delays in the ICMS unification, the implementation of a broad-based national value-added tax -- contemplated in the 2003 reform -- will not occur in the near future. Consequently, the complex system of 27 state legislations, each with their own ICMS rates for each category of products, persists. In February 2004, representatives from all states signed the non-binding 'Brazilian Charter', aimed at simplifying the tax systems among the country's states and providing a more homogeneous legal framework. Discussions on how to simplify further -- and eventually unify -- the state-level value-added tax continue, but until a broader consensus can be reached, no real progress will be achieved.

Brazil is currently taking measures to simplify the tax regime for small businesses, thereby reducing incentives to operate in the informal sector. An initiative is currently being discussed at Congress in order to expand the definition of small businesses. The move is envisaged at simplifying taxation management and activities of smaller companies. In 2004, the Investment Account was created, in order to exempt the transfer of funds across financial investments from the tax on financial transactions. Consequently, investment funds and other investments are given similar treatment, enhancing competition in the investment funds industry. The conversion of a social security contribution ('*Contribuição para o Financiamento da Seguridade Social* - COFINS) into a non-cumulative tax is one of the main achievements of the 2003 reform. New COFINS legislation allows taxpayers to use credits from previous transactions in the supply chain, thus transforming the actual tax base from turnover to value-added.

The Federal Revenue Service (SRF) is responsible for all taxes assigned to the Union as well as some social security contributions, with the exception of those self-employed. The National Social Security Institute -- INSS, an autarchy body under the jurisdiction of the Ministry of Welfare and Social Assistance -- is in charge of administering social

contributions levied on payroll and on self-employment. The other levels of government -- the Federal District, the States and the Municipalities -- have their own Tax Administrations for taxes of their competence.

The SRF is directly subordinated to the Ministry of Finance. It undertakes the basic functions of tax control, regulation, collection and auditing -- including domestic taxes, customs taxes and federal contributions. It also acts as an advisor on the country's tax policy and is responsible for first stage judgment decisions on contentious matters within the fiscal administration. The tax administration agency has a high-quality website with information on tax legislation, tax identification, tax declarations, and a taxpayer's guide.¹³ Online information also includes a monthly tax schedule, while enhancing the transparency of tax operations and disbursements at the national level. Information on state and municipal tax revenues is available on an annual basis.

In 2005, the SRF was renamed as the Federal Revenue and Customs Administration, through presidential provisional measure 258. This regulation aimed at reorganising and improving the federal tax administration by centralising the management of tax collection from the INSS and the SRF into one agency. The move was conceived to increase oversight and overall efficiency of the system. However, the measure was not ratified by Congress and was consequently reversed. During 2006, the government submitted a proposal to implement these changes, which is currently being debated at Congress. Even though the legal distinction persists, there is an increasing *de facto* centralisation of tax collection. The end result will provide better management, reduce operational costs, simplify procedures for the users and improve tax collection.

Ethical standards for public servants

Ethical standards for public servants are outlined in various pieces of legislation. The 1994 Code of Professional Ethics for Federal Public Servants is publicly available and regulates professional behavioural standards for all civil servants. In addition, the 1990 Statute for Civil Servants, applicable to all public employees, sets out individual rights and responsibilities and establishes disciplinary procedures. Sanctions and penalties for officials are further detailed in the Fiscal Crimes Law of 2000. This law applies to officials from all branches of government and, among other measures, details penalties for individuals who engage in credit operations without due legislative authorisation, who extend loan guarantees without adequate collateral, or who increase personal expenditures in the last 180 days of their period in office.

The Code of Conduct for Senior Federal Government Officials (CCAAF) is applicable to about 700 government officials who conduct public debt management. The code clarifies ethical rules for this category of officials, establishes rules regarding conflicts of interest, and places limitations on professional activities undertaken after leaving office. A Public Ethics Commission (CEP) was set up to implement the CCAAF, but it has limited powers. Upon entry into service, all public officials must also supply a declaration of assets as required by the CCAAF.

In 2005, a ministerial act created the Code of Conduct for the National Treasury. The aim of this code is to strengthen staff internal operations, including meetings with investors, rules concerning the purchase of public debt bonds, and disclosure of information.¹⁴

In the past years, corruption allegations against government officials and congressmen dominated the political scene.¹⁵ However, the fact that such affairs are being tackled within the institutional framework is a positive sign for the consolidation of Brazil's democracy. The congressional committees (CPIs) investigating corruption cases recommended prosecution of over 100 people. In connection with these investigations, in April this year, the prosecutor-general indicted 40 people -- including several members of Congress. Antonio Palocci -- who resigned as finance minister in March -- was charged with fraud, money laundering, racketeering and embezzlement by the São Paulo state police in April this year. The charges relate to Palocci's period as mayor of the city of Ribeirão Preto.

In September this year, a federal judge indicted six aides involved in President Lula's campaign in connection with attempts to pay for information, implicating opposition presidential candidate Geraldo Alckmin in bribe-taking. The political impact of the so-called 'dossier scandal' was magnified after the president of the PT, Ricardo Berzoini, admitted on 21 September 2006 that he knew about part of the plan. Berzoini was immediately removed as head of Lula's re-election campaign, following the resignation of a number of Lula's campaign officials and political aides, who now are being investigated by the Federal Police. The dossier was intended to implicate the Social Democrat (PSDB) gubernatorial candidate for the state of São Paulo and former health minister, José Serra, in the sale of ambulances at inflated prices. The investigation of the so-called 'bloodsucker' scheme has implicated over 70 members of Congress and various high-ranking officials at the Ministry of Health.¹⁶

2. PUBLIC AVAILABILITY OF INFORMATION

●●●● Compliance in progress

The public should be provided with full information on the past, current and projected fiscal activity of government.

Central government operations

The passage of the Fiscal Responsibility Law (LRF) in 2000 greatly increased the quality and quantity of fiscal data that all levels of government are required to report. Fiscal data are disseminated for revenues, expenditures, financing (divided into external financing and domestic financing), and also for various other aggregates generated by the activity of public administrations in each region of the federation. Since 2001, a *Fiscal Management Report* has been published three times a year, with consolidated information on debt, credit operations, human resources allocations and social security figures. In addition, an annual *Consolidated Fiscal Accounts Report* is available during the first semester of the following year. The reliability of figures included in these reports has improved recently.

Reporting of previously unrecorded liabilities, popularly known as ‘skeletons’, has progressed considerably, but a comprehensive report is still unavailable. The most important liabilities recognised include those accumulated by the Housing Mortgage/Insurance Subsidy Fund (FCVS) and those related to the recapitalisation of federal banks on account of past losses resulting from quasi-fiscal activities. The recognition of these liabilities has added about 2.3% of GDP to the national debt. Additional unrecorded liabilities have recently been incorporated into official debt figures. The PPPs law establishes adequate institutional mechanisms to avoid generating further liabilities.

Contingent liabilities have been reported by all levels of government in the *Fiscal Risks Annex* (FRA) of the annual Budget Directives Law since 2001. The LRF requires governments to assess the likelihood that those liabilities will turn into actual ones. The bulk of contingent liabilities relate to pending court cases on issues such as losses incurred by several sectors due to government-imposed price freezes under past stabilisation plans and interest penalties paid on tax arrears since 1996.¹⁷ Following the National Audit Court’s recommendations, efforts have been made to improve the FRA, including a user-friendly reporting of ‘skeletons’. Outstanding unrecorded liabilities come from small state enterprises and social security.

Despite its limitations, the 2003 social security reform represented an important step towards modernising the state. The reform cut public spending, reduced the inequality between public and private sector pensions, and provided for the development of new savings instruments. However, some commentators maintain that the modifications made to guarantee the bill’s passage have reduced its impact on the pension system deficit. Information on contingent liabilities coming from the pension system is included in the budget documentation. Although there is a growing consensus on the need to implement further changes to Brazil’s pension system, including the INSS, the issue is highly controversial and will require broad consensus. The World Bank has recently approved a loan to help strengthen the country’s pension system.¹⁸

Different government institutions have engaged in a programme of developing information systems in order to improve infrastructure and the skills of their technical staff. The programme has the support of the Fiscal and Financial Management Strengthening Project (PROGER), which is partly financed by World Bank resources. The

objective of this project is to modernise government activities in the fiscal and financial sectors, while improving the quality of public services.

Public sector operations

There are no extra-budgetary funds or expenditures in Brazil, since budgets include the operations of all non-financial public sector institutions. Quasi-fiscal operations of state-owned enterprises are reported by the entities concerned, and these have declined substantially in recent years. Quasi-fiscal activities (QFAs) have been largely eliminated, and in those that remain the subsidy component is now captured in the budget through explicit transfers.¹⁹ Transparency is lower at the sub-national level, but QFAs that remain at this level of government are also very limited.

Despite efforts to assess and report the government's liabilities, little has been done to improve the valuation and reporting of national assets. All levels of government possess a variety of real assets, including real estate, construction, and even works of art, which have not been accurately valued and are not yet reflected in the national accounts.²⁰

Sub-national governments

The state of sub-national accounts is of special importance in a highly decentralised federation such as Brazil. One of the key elements of public service spending is the rise in municipal governments, whose number has increased by over 1,500 -- to about 5,560 -- since 1998. During the 1990s, sub-national fiscal behaviour contributed to the deterioration of public sector accounts. In 1997, a programme was launched to rescue the states' bonded debt. After consolidating the liabilities of 25 (out of 26) state governments and the Federal District, the federal government assumed these liabilities through the issuance of federal securities. Rigorous fiscal discipline and increased transparency were then imposed on the states through the LRF and through debt restructuring agreements between the central government and each individual state.²¹ The LRF limits personnel expenses as a percentage of current net revenue, to 50% at the federal and 60% at the state and municipal levels. At the same time, this law prohibits the federal government from lending to sub-national governments, and sharply limits its ability to renegotiate debt. The LRF also prohibits governors and mayors from contracting payment obligations within the last six months of their administrations. The increase in availability of fiscal information analysis at a sub-national level -- not only from government agencies, but also from independent research institutions -- is perceived as a positive step to better understand their positions.²²

Although not yet an official project, there are indications that during Lula's second term in office, efforts could be directed at modifying the LRF. Changes could include not only addressing current financial problems in some states, but also lifting the prohibition to lend to sub-national government in the future, ending one of the key pillars of the law since its approval.²³

Progress has been made in the past year regarding public availability of fiscal information at a sub-national level. More noticeably, states have improved their websites and increased the reliability of information available. However, the lack of technical capacity and information at the sub-national level (particularly among municipalities) remains one of the most important obstacles to a successful and comprehensive strategy for fiscal transparency. The Deputy Secretariat for States and Municipalities within the MoF continues to work with states and municipalities in order to provide technical support to apply the LRF and to improve the frequency and quality of fiscal reporting. However, given the number of sub-national fiscal units, the central government's efforts to provide adequate human and technical resources nationwide could take several years.²⁴ Commentators highlight that smaller states and municipalities have been able to comply better with fiscal transparency standards, improving the timely disclosure of information and its reliability.

Since 2001, the National Treasury has been publishing consolidated public sector accounts based on the submissions of states and municipalities. Together, these records provide for an official account of the public sector's overall consolidated revenues and expenditures. The 2005 version of the *Consolidated Fiscal Accounts Report* includes consolidated data for all 26 state governments, the Federal District and 67.6% of municipal governments (up from 65.2% in 2004).²⁵ In addition, the Data Accounting Collection System (SISTN -- a computerised system developed by the *Caixa Econômica Federal*) provides the Treasury with necessary accounting information at a sub-national level in order to implement the controls established under the LRF. Accounting information under the SISTN for 2005 has been provided for all 26 states and 5,364 municipalities out of 5,560 (showing an increase of 12.7% from 2004).

The National Treasury monitors the public finances of state governments in order to verify the annual accomplishments of the specific multi-annual state fiscal adjustment programmes, which are periodically revised as mandated by the Law 9,496/97. Revisions include the verification of the achievement of targets and the definition of new targets and actions that the state should take over the next three years. Additional information on sub-national fiscal activities is provided on the Treasury's website in a special section for the states and municipalities. Data in this section include annual adjustment programmes, fiscal debt indicators, and voluntary and compulsory transfers -- on an aggregate basis -- made by the central government to states and municipalities.²⁶ In addition, the National Treasury publishes guidelines and recommendations for municipal fiscal management ('Gestão de Finanças Municipais') in order to help improve fiscal management operations at a sub-national level.²⁷

Following the LRF, a Fiscal Management Council (*Conselho de Gestão Fiscal*) should have developed a set of uniform standards for the elaboration of the sub-national budgetary guidelines. However, operational problems and the lack of a representation mechanism for the different municipalities have delayed the creation of the council, and the prospects of establishing it in the near future are limited. Until a comprehensive agreement is made, the National Treasury is responsible for the definition of accounting rules. After the October elections, the government's support base at the state level has increased. In turn, this situation could facilitate the negotiation and implementation of reforms that directly involve sub-national interests, such as tax reform. In Brazil's decentralised federation, state governors are key political brokers and their leadership could reach state delegations in the Congress.

A commitment should be made to the timely publication of fiscal information.

Brazil subscribes to the IMF Special Data Dissemination Standard (SDDS).²⁸ Data are disseminated in reais (R\$) on the general government operations.²⁹ Official Brazilian statistics exclude privatisation revenues from total revenues. The primary fiscal balance is consolidated and calculated for each level of government. Data are prepared by the National Treasury and are disseminated online in Portuguese. Aggregate central government data are published in a monthly press release and in the *Central Bank Bulletin*. Data on central government, state and municipalities are compiled on a cash basis for revenues and an accrual basis for spending. However, for the purpose of the IMF's Government Finance Statistics Manual 1986, fiscal data is also published on a cash basis for both revenues and spending.

Brazil's LRF requires the government to "widely disclose, even in electronic public media" a series of key documents containing fiscal information.³⁰ These include: plans, budgets, and Budgetary Directives Laws; rendering of accounts and respective prior statements of opinion; Summary Budget Execution Reports and Fiscal Management Reports; and the simplified versions of these documents. Almost all the information contained on the BCB website is available in both English and Portuguese, while information on the websites of the ministries of planning and finance is available mainly in Portuguese.

The MoF publishes fiscal information for the last five years. Starting this year, consolidated historical series of fiscal information are publicly available (including Central Government Fiscal Balance 1997-2006; National Treasury

Financial Execution 1997-2006; Treasury/Central Bank Relationship 1997-2006; and Economic Subsidies and Grants 1997-2006).³¹ In addition, efforts are under way to start releasing this information within a more analytical framework. The MoP is currently working towards the improvement of the fiscal management framework in order to implement indicative budgets. If adopted, this measure would improve the budget execution oversight of long-term projects.³²

The annual *Union Balance* (BGU) provides information on budget assessments, financial data, and annual modifications to the country's assets. The *Monthly Treasury Report* -- widely acknowledged as a relevant analytical tool -- provides timely and up to date information on central government accounts and budget execution, debt information, and transfers made to sub-national levels of government.³³ Information on SOEs -- including budgetary allocation and execution -- is publicly available at the MoP website. A report on its budget execution operations is released on an annual basis.³⁴ Additionally, consolidated budgetary information on SOEs for the past three years -- together with projections for the year ahead -- is available with the annual LOAs.

Debt Reporting

Under the LRF, the MoF is required to maintain a centralised and updated electronic record of internal and external public debt and must guarantee public access to the information. This information must include charges and contracting conditions as well as updated balances and limits for consolidated and securities debt, credit operations, and guarantees. In addition, the MoF must disclose on a monthly basis the list of states and municipalities that have exceeded the established limits of consolidated and securities debt.³⁵

In 2005, the management of external debt was transferred from the BCB to the National Treasury. All management stages of both domestic and external debt, including the establishment of guidelines and strategies, risk management, market decisions and budgetary controls are now centralised at the Treasury. The process has increased efficiency in debt management -- including medium and long-term planning -- and information disclosure. At the same time, debt management operations have eliminated exchange rate-linked domestic debt and almost doubled the maturity of new domestic issues of floating-rate and fixed-rate debt. The administration of the federal external public debt is now bound by the Senate resolution 20/2004, which has granted greater flexibility to the Treasury. In order to cope with the new responsibilities, human resources capabilities at the Debt Management Team within the MoF have been strengthened.³⁶ An operational desk at the Front Office was created in order to strengthen external debt operational responsibilities. In the past year, the National Treasury has improved its infrastructure for debt management, particularly regarding data and dealers systems. Moreover, an *External Debt Management Strategy* report has started to be released, with medium and short-term information and analysis on debt management.³⁷

The *Annual Borrowing Plan* (PAF), published by the National Treasury at the beginning of the fiscal year, acts as a strategic planning tool and comprehensive assessment of public debt management. The increasing amount of information publicly available through this report -- published both in Portuguese and in English -- has enhanced transparency and predictability. The PAF provides a detailed analysis of the Treasury's goals and guidelines, sets out the annual borrowing -- including quantitative targets -- and discusses risk management for the public debt. Additionally, analyses on qualitative goals -- achievements or underperformance -- are discussed in this report.

Since 2004, the MoF has published an *Annual Public Debt Report* (PDAR). This report is praised by market participants and independent experts as a suitable complement to information published in the PAF. Comparisons between year-end targets and outcomes, risk implications, and domestic and external macroeconomic scenarios are available. Following debt centralisation at the National Treasury, the 2006 version of the PDAR has broadened its scope, increasing its efficiency as a relevant tool for market participants. Publication of the PAF and the PDAR is not a legal requirement, although the government has renewed its commitment towards transparency with the strengthening of these information tools.

The National Treasury and the BCB publishes, on a monthly basis, detailed information on the level and composition of the gross debt of the federal government, as well as indicators of average maturity and duration of the securitised debt stock issued by the National Treasury. Timely information is available in Portuguese, and an English version is available a few months later.³⁸ Following the early repayment to the IMF and the early redemption programme of Brady bonds, information on the country's debt has been updated, and an assessment on the impact of the reduction of federal government external debt has been made publicly available.

Every month the central bank publishes statistics covering the uses and sources of financing of government operations, for all levels of government and the consolidated public sector. In order to have reliable information, the BCB request data on the amount of debt at a state and municipal level directly from the creditors, which in turn is made publicly available. Debt management and reporting at a sub-national level has been increasing in recent years. Following the approval of the LRF, the Treasury improved its human and technical resources to control sub-national debt. However, the Senate's role in this area remains at a lower level.³⁹ Oversight of all multilateral borrowing is being consolidated into the Treasury and out of the hands of the individual ministries.

A document on the country's federal public debt -- available on line and updated every week -- discloses information on public debt management (including recent events that affect both the domestic and external public debt), fiscal targets, social security, inflation targets, market expectations, and results and projections of the annual borrowing plan. A report released in September 2006 -- assessing investor relations practices in 32 emerging market countries and providing detailed analysis of their investor relations and data transparency systems -- has praised the country's position in this area.⁴⁰ The assessment includes information on the availability, timeliness, and periodicity of data in key areas related to central government operations, central government debt, and external debt, where Brazil ranks at the top of the list.

In June this year, an Online System of Federal Public Bonds Quotation (or COMPARE) was launched. Developed by the Brazilian National Association of Financial Market Institutions, the system allows investors to check online information of transactions with bonds registered in the clearing and settlement public debt bonds house. Real time information regarding prices and volumes of federal public bonds negotiated in the secondary market is available to investors, increasing transparency and stimulating liquidity in this market.

Advance release calendars

In accordance with its commitment to the IMF SDDS, the BCB and the MoF disseminate advance release calendars for fiscal information. These provide approximate publication dates one year ahead, and precise release dates one quarter in advance.

3. OPEN BUDGET PREPARATION, EXECUTION AND REPORTING

●●●● Compliance in progress

Fiscal policy objectives, macroeconomic framework and risks

Fiscal policy objectives

Information on fiscal policy objectives is publicly available through the MoF and in various official documents. Brazil has increasingly moved towards multi-year, output-oriented budgeting. The government's Multi-Year Plan (PPA) is designed to integrate the government's long-term development goals with short- and medium-term objectives. The PPA has a four-year outlook, and it is revised yearly to reflect any changes in macroeconomic projections.⁴¹ Its framework is gradually inducing changes in federal public administration leading towards a performance-based management structure. A recent World Bank document has indicated that outcomes consistent with the country's PPA are being achieved, although slower than planned.⁴² However, given the amount of annual corrections and updating made to the PPAs, their use as a medium-term planning tool is limited.⁴³ The limitations of PPAs were supposed to be addressed through Decree 5,233 -- establishing a monitoring system for PPAs -- but shortcomings in this area are still noticeable.⁴⁴ Efforts are under way within the government's departments in order to strengthen the content of the PPA, transforming the forthcoming 2008-2011 PPA into a real strategic tool.⁴⁵ Additionally, the SPI is currently working on a territorial approach for the next PPA in order to increase its efficiency and reduce overlapping spending between the central government and the states and municipalities.⁴⁶

The spending requirements and objectives of the PPAs are supposed to be reflected in the yearly Budget Directives Laws (LDO), which provide guidelines and direction for the final yearly budget and are presented to the Congress six months before the government's draft budget. The LDOs contain important fiscal information, including annexes on fiscal risks and on fiscal revenue and expenditure targets for the current and subsequent two years. The LDOs are used as medium-term planning instruments to communicate government priorities, and in recent years they have included the authorities' commitment to have a primary surplus target.

The Annual Budget Law (LOA) contains the details of the budget programme for the year. While legislation requires that the LOA be consistent with the objectives of the PPA and the LDOs, some commentators believe that, in practice, there are several shortcomings. Also, the IMF and other analysts have observed that actual budgetary appropriations have frequently been lower than those specified in the budget programme, thus weakening the correspondence between approved budgets and actual disbursements. Additionally, the reallocation of resources within budget programmes is a cause of concern.⁴⁷ The LOA only authorises expenditures, but does not make them compulsory, and the government can legally decide to spend less and increase its savings.

In 2005, the government started a complete revision of the LDO -- which have gradually broadened in scope, beyond legally established parameters -- in order to improve their efficiency and avoid current ambiguities and confusions with the PPA and the LOA. A task force has been working at the MoP in order to increase consistency between the different budget instruments. Even though big changes to the budgetary legal framework cannot be expected, commentators suggest that changes could improve coherence and management.⁴⁸

A priority for the government is increasing the levels of public participation in the setting of budget objectives and priorities. The government is trying to build three networks -- a deliberative network inside the government, an action network that will include public managers, and a civil society network, that includes representatives from

academia and the media. Following the publication of *Public Management towards a Socially Inclusive Brazil*, the design of this initiative has become clearer. In 2006, different NGOs released the *Contas Abertas Project* to offer information about public expenditures. In addition, the *Fórum Brasil do Orçamento*, (the Brazil Budget Forum) – an NGO joined by more than 30 institutions, aims to lobby for greater transparency and participation on the budget process. The lower chamber of Congress has recently started a national campaign -- called *Budget for the Citizens* -- in order to increase information on the budget process, its execution and monitoring instruments to the general public. A special designed website complements the initiative, with information on the budget process and transfers made to states and municipalities.⁴⁹ In addition, starting in November this year, the municipality of Belo Horizonte has launched a Participatory Digital Budget Programme, allowing its citizens to choose -- from within a pre-establish list -- the priorities for the territory. Participation in the programme is made electronically.

Macroeconomic framework

The broad macroeconomic framework is partially described in the presentations section of the MoF's website and on the macroeconomic section of the MoP website. New budget programmes are clearly identified on these websites, with that of the MoP providing comprehensive and detailed information. The annual budget proposals submitted to Congress also include a section on the country's macroeconomic position and projections. The macroeconomic framework is revised on a bi-monthly basis, with the updated assumptions sent to Congress. Explanatory reports on the achievement of fiscal goals are also prepared jointly by the MoF and the MoP and submitted to Congress three times a year. In 2005, the government's commitment to public debt sustainability and compliance with the fiscal objective in the LDO was reinforced by the creation of four-month targets for the primarily surplus.

Fiscal Risks

The LRF requires that all levels of government evaluate contingent liabilities and other risks that may affect public accounts. They must also detail the measures to be taken should these risks materialise. The risks assessments are contained in the *Fiscal Risk Annex* of the annual LDOs. In order to harmonise procedures to report fiscal risks at the different government levels and departments, the *Fiscal Risks and Fiscal Management Report Guidelines* ('*Manual de Elaboração do Anexo de Riscos Fiscais e Relatório de Gestão Fiscal*') is prepared and updated on a regular basis.⁵⁰ The use of these guidelines has consolidated and is reflected in the high-quality methodology used to prepare the *Fiscal Risk Annex*.

Macroeconomic projections included in the LDOs are considered reliable. The LDOs -- following a requirement of the LRF -- now include separate annexes describing the actuarial projections of the Social Security System for public servants and projections of the benefits under the Social Assistance Organic Law (LOAS). The reports also include a detailed description of fiscal benefits conceded by the government and the financial standing of the Worker Support Fund (FAT).

Concerns about insufficient coordination and integration between the *Fiscal Risks Annex* of the LDOs and the final budget law are in the process of being considered in an ongoing discussion to improve the different budget instruments. While the inclusion of the fiscal risks assessment is a positive step, a comprehensive assessment with the implications of the fiscal risks identified, and an accompanying strategy to address them, is not yet reflected in the budget document itself.

Fiscal Sustainability

Assessments of fiscal sustainability are not provided with the annual budget. However, both the National Treasury and the BCB prepare studies on fiscal sustainability, which are publicly available. Commentators have remarked that the quality of these assessments has improved in the past year.⁵¹

Brazil had consistently over-performed on the core objectives of its past IMF-supported programmes, particularly those related to the primary surplus.⁵² On 22 July 2005, the Brazilian authorities repaid the outstanding Supplemental Reserve Facility (SRF) obligations to the IMF early -- sums which amounted to 4.91 billion US dollars. Additionally, in December 2005, Brazil paid -- earlier than expected -- its entire outstanding obligations to the IMF, amounting to 15.46 billion US dollars. Brazil contracted its obligations with the Fund under 2002 and 2003 programmes. Under original expectations, Brazil's final repayment would have taken place in 2007.⁵³

On 18 April, the National Treasury exercised its call option at par involving the remaining stock of Brady Bonds on the market. This measure aims at eliminating all securities issued in the Brady Plan context. These bonds resulted from the external debt's renegotiation that began in the 1980's and finished in 1994. The early redemption of the Brady Bonds amounted to 6.6 billion US dollars through acquisitions of international reserves in operations with the monetary authority. The BCB's reserves are currently higher than the country's debt.

Budget Presentation

Data reporting

The country's budgetary framework is clearly explained in the MoP website, including budget classifications at a functional, programme and economic category level. Additionally, the *Federal Budget Secretariat* (SOF) has recently launched a dedicated website with all publicly available budget information, including a schedule of budgetary-related projects being discussed in Congress.⁵⁴ Ministers that want to include a project in the budget have to send a detailed analysis of their proposals to the SPI. The budget and accounts classification distinguishes between revenue, expenditure, and financing. Budget documentation provides detailed information of budgetary programmes and progress continues regarding the presentation and detail of the information publicly available. Starting this year, Brazil's annual budget documents also provide aggregate comparative information about expenditures and revenues in previous budgets, putting current budget proposals into context. Efforts are under way to submit priority projects within the annual budget proposals with a three year rolling plan framework.⁵⁵

The latest edition of the *Fiscal Risks and Fiscal Management Report Guidelines* includes a detailed schedule to submit fiscal information for the executive, legislative and judicial branches of power. Additionally, a schedule for municipalities is included. A table providing information on fiscal and criminal penalties included in the LRF has also been included in the 2006 edition.

Budget Execution and monitoring

Procedures for the execution and monitoring of revenue and expenditure are clearly specified in the LRF (Section IV) and on the MoF website. Budgetary allocations that are not used during the fiscal year cannot be redistributed and are put in a separate account. The government's bi-monthly review of fiscal targets constitutes a useful government tool aimed at enhancing transparency. The review is used to communicate the achievement of targets, to explain why expenditure and revenue evolution followed a different trend than those projected, and to describe why some targets were not achieved. In addition, the government indicates revenue and expenditure changes that it will adopt in order to guarantee the accomplishment of the LDOs targets.

During this year, the sixth edition of the *Fiscal Management and Budget Execution Report Guidelines* ('*Manual de Elaboração do Anexo de Metas Fiscais e do Relatório Resumido da Execução Orçamentária*') has been released.⁵⁶ These guidelines -- including the establishment of fiscal goals and a schedule for submitting budget execution information -- are used by states and municipalities in conducting their fiscal operations and have increasingly

improved the homogeneity and amount of fiscal information available at a sub-national level. Guidelines are updated on an annual basis.⁵⁷

In-year reports provide no information on revenues and little information on borrowing. Annual budgetary execution information is available, although they do not include an analytical section.⁵⁸ Starting this year, members of the cabinet and Congress have access to detailed budget execution reports at a programme level. Additionally, central government's transfers to states and municipalities are available through Congress' intranet system -- likely to start being publicly available online next year. The monthly *Budget Execution Report* provides reliable information, including budget execution at a functional and ministerial level, and current and capital expenditures. Additionally, the new *Monitoring in Numbers* report presents budget execution information -- including figures, analysis and graphics -- on an annual basis.⁵⁹

Under the government's *Transparency Initiative*, federal public departments have to submit information on budget execution, procurement contracts, and relevant internal legislation. Information under this initiative is provided in less technical language in order to increase access to a broader audience.⁶⁰ A cost management framework, focusing on performance indicators has started to be discussed in the past year within an inter-ministerial committee.⁶¹

The establishment of a management and planning system ('*Sistema de Informações Gerenciais e de Planejamento -- SIGPlan*') in order to improve budget execution has been completed and is now fully operational. As a result, monitoring of budget execution and information at a programme level is available on a monthly basis, although it is still password protected and thus not publicly available.⁶² Some commentators have criticised the usefulness of SIGPlan, mentioning that it only works as an auto-evaluation instrument. In the past year, important advances have been made at the SIGPlan level, including the monitoring and disclosure of aggregate information for the 2005 component of the 2004-2007 PPA. The quality of financial budget execution has improved and efforts are currently underway to merge different SIGPlan phases developed in the past years. However, the allocation of public resources remains a cause of concern for some analysts. A proposal is currently being discussed in order to replace the current SIGPlan with a new version, in order to improve some technical features of the system.

Accounting basis

The Federal Accounting System is established under Law 4,320 of 1964 and Decree 3,589 of 2000.⁶³ Additionally, Law 10,180 of 2000 grants the National Treasury powers to manage the national accounting operations. The Treasury website provides a detailed description of Brazil's Integrated Financial Administration System (SIAFI) -- the accounting system of the federal government -- which gives online access to the government's accounts. The strengthening of SIAFI has allowed a more reliable monitoring of government transactions, although access is still password protected. Efforts are currently being made to improve the graphic interface of SIAFI and expenditure monitoring at a sub-national level. In 2004, work on an updated version of the current system -- identified as SIAFI 21st Century -- commenced, with the aim of allowing better monitoring of the multi-year programme-based budgetary process. However, due to a lack of funding, this has been temporarily suspended. Since the current system -- although outdated compared with today's technological standards -- is fully reliable in allowing timely and accurate expenditure control, the delay in the implementation of SIAFI 21st Century has not created major problems for the government's financial accountability framework.

Internal audit procedures are outlined on the website of the Federal Internal Supervision Secretariat, the agency responsible for auditing and programme evaluation. Central government, states and municipalities accounts are compiled on a cash basis for revenues and on an accrual basis for expenditures. Despite Treasury efforts to unify the system of accounting at all levels of government, ambiguities remain. Personnel levels are measured mostly in similar ways, but there remain problems with the way in which the concepts of pensions are treated across states -- some of which have largely privatised their state pension funds, while others have not.

Procurement and employment

Goods and services are purchased by the government according to comprehensive procurement regulations outlined in Law 8,666 of 1993. Details of all relevant legislation, auction results, and procedures for electronic auctions are available online.⁶⁴ Tenders are updated every day for national government agencies. Information publicly available includes contact details of the relevant government department. Over 240 public departments -- at a municipal, state and national level -- are currently engaged in the electronic procurement system. Adherence has increased in the past year, mainly due to the approval of Decree 5,504, which tightened the obligation to register procurement procedures. However, some shortcomings in the selection process are still present.⁶⁵

The MoF website includes details of human resource management objectives and programmes. In addition the 2004-2007 PPA includes special programmes to train officials in public finance. The *Public Management Development Programme* -- coordinated by the National Public Administration Office (ENAP) -- focuses on building capacities in public management, although progress has been slower than expected.

Fiscal Reporting

The authorities regularly report to the legislature and the public on budgetary and extra-budgetary out-turns. Under Article 166 of the Brazilian Constitution and the LRF, the executive branch of government is required to present and evaluate the compliance with fiscal targets every four months in a public hearing before the legislature. The hearings are held in May, September, and February of each year and quarterly reports are made available. State and municipal governments must also appear before their legislative bodies and present similar reports.⁶⁶ The MoF website includes details of these presentations, as do the online budgets presented on the website of the MoP. Results of major budgetary programmes are also submitted to Congress. Final budgetary accounts are presented to the legislature in the annual 'Message to Congress'.

Congress' technical capacity to assess fiscal information has improved in recent years, and it is increasingly exercising its constitutional role of evaluating public spending. The permanent Budget Commission -- constitutionally established with members of both chambers of Congress -- has made progress regarding its role controlling fiscal accounts. A small group of highly trained consultants working for this Commission (*Consultoria de Orçamento*) supervise budget execution.⁶⁷ However, no institutionalised public spending review system is yet in place. A training department within Congress (Cefor) has been improving human resources capabilities regarding fiscal oversight. Efforts are under way at the Budget Execution Committee within the permanent Budget Commission in order to discuss with the general public annual budget proposals -- including the distribution of resources -- and to enhance budget supervision at a sub-national level.

Congressional activity has decreased significantly since 2005 owing to corruption allegations against government officials, congressmen and PT leaders. This situation has slowed down the country's reform agenda, and debates on pending reforms seem to be deadlocked.⁶⁸ However, the fact that national elections have been held in the past year (both at a national and sub-national level) with a new Congress elected, could help to overcome this situation in the near future.

An initiative for a constitutional amendment to ban secret voting in Congress represents an effort by the Chamber of Deputies to restore confidence in Brazilian political institutions and remove one of the structural elements that has allowed a series of corruption scandals in the national legislature. While the immediate aim is to seem to be doing something concrete about punishing corruption, the initiative to end secret voting in Congress could cause a major transformation in the relationship between legislators and their electorate, enhancing transparency overall.

4. ACCOUNTABILITY AND ASSURANCE OF INTEGRITY

●●●● Compliance in progress

Data quality standards

Brazil's continuous progress in improving the quality of fiscal accounts information has been possible thanks to LRF enforcement. The period of lag in dissemination has been reduced. The country continues upgrading its fiscal reporting system for government agencies. Information publicly available -- both at the national and sub-national level -- is considered reliable by its users. In addition, commentators agree on the ongoing improvement of fiscal data at a state level. At a municipal level, previously unrecorded liabilities have emerged following an improvement in the systematisation of information. The National Treasury internally crosschecks fiscal data disseminated by the BCB under Brazil's SDDS commitment.

Independent scrutiny of fiscal information

Independent Audit

The National Audit Court (TCU), which undertakes external auditing of fiscal activity at the federal level, enjoys a reputation for probity. The president appoints three of its nine members and Congress appoints the remainder. The TCU has constitutional power to judge and to impose penalties on budget organisations for irregularities, errors, abuses, mismanagement, and waste of public resources. Audit reports are sent to Congress, as well as to the Attorney General's Office for prosecution, if appropriate, and are published in the Official Gazette and on the TCU website.⁶⁹ TCU's technical capacity and internal methodologies allow it to undertake efficiency and impact assessments on fiscal spending, although some commentators have suggested that its recent practices are broadening the legal framework of operations, thus changing the TCU's role.⁷⁰ At the regional level, the state and municipal audit courts (TCEs) review fiscal reports, although with less operational capacity and technical resources available. TCE reports are not always publicly available. However, an ongoing programme to strengthen external control at a sub-national level (Promoex) has started to improve TCEs roles and functions.⁷¹ The General Corrector's Office (CGU) conducts investigations into public officials' infractions against federal funds or assets. Twenty municipalities selected at random are audited by the CGU every year. The work conducted by the CGU is less analytical than that undertaken by the TCU.

Independent analysis of fiscal forecasts is encouraged, and the BCB publishes and rates third-party projections by investment banks and analysts. The government took the initiative to call representatives of the private sector, think tanks, and civil society to meet in an informal gathering known as the Economic Development Council. Occasionally, some issues regarding fiscal policy have been brought for discussion to this council, but owing to the high number of participants and lack of statute for its function, no concrete progress has been achieved.

National Statistics Agency

The Brazilian Institute of National Statistics and Geography (IBGE) compiles a wide variety of statistical information, including fiscal and macroeconomic data.⁷² It reports to the MoP, but enjoys effective operational autonomy and a solid reputation for its impartiality and reliability. Its legal framework establishes that the IBGE should make all its statistical information available free of charge. The IBGE compiles and produces the basic data

on general government statistics, taking into consideration the System of National Accounts methodology. Consolidated information on national accounts is available with some delay.

An advance release calendar for statistical information is made available to the public on the IBGE website. IBGE helps in the compilation and systematisation of fiscal data at the sub-national level, which can be obtained in electronic format. Additionally, it prepares a *Survey of Basic Municipal Information-Public Administration* (MUNIC) that analyses the administrative organisation, finance and environmental management of municipalities.⁷³ IBGE's latest MUNIC -- released in December 2005 -- compiled information about the public administration of the 5,560 municipalities existing in Brazil in 2004.⁷⁴ For the first time, the report investigated whether or not city governments had computer and public-serving facilities, finding that in the smaller municipalities the internet service is less regular.

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Brazil between 6 and 8 November 2006:

Ministry of Planning, Budget and Management

6 November 2006

Geraldo Julião Júnior	Manager	Secretariat of Federal Budget (SOF)
Martin Fortis	Advisor	Secretariat of Federal Budget (SOF)

7 November 2006

Antonio Henrique Silveira	Deputy-Chief	Economic Department
Thiago Neto	Analyst	Secretariat of Planning (SPI)
Raquel Porto Mendes Fonseca	Analyst	Secretariat of Planning (SPI)

National Treasury, Ministry of Finance

8 November 2006

Cléber Ubiratan de Oliveira	Head of Department	Fiscal Studies Department
Fabiana Almeida Rodopoulos	Deputy-Head of Department	Fiscal Studies Department
Otávio Ladeira de Medeiros	Head of Department	Public Debt Management Unit
Jeferson Luis Bittencourt	Manager-Investor Relations Group	Public Debt Management Unit

Banco Central do Brasil

6 November 2006

Renato Jansson Rosek	Executive Manager	Investor Relations Department
César Viana Antunes de Oliveira	Advisor	Investor Relations Department
Luciana Valle Rosa Roppa	Analyst	Investor Relations Department

ADDITIONAL INTERVIEWS

6 November 2006

César Mattos	Legislative Consultant	Brazilian Congress
Vander Gontijo	Legislative Budget Consultant	Brazilian Congress
Aécio S. Cunha	Legislative Consultant	Brazilian Congress

8 November 2006

Fernando A. Blanco Cossio	Economist	World Bank Brasilia Office
Mauricio Mota Saboya Pinheiro	Senior Analyst	Institute for Applied Economic Research
José Oswaldo Cândido Júnior	Senior Economist	Institute for Applied Economic Research
Paulo Du Pin Calmon	Professor	University of Brasilia

NOTES

¹ Federal Constitution of 1988, Article 165.

² Public sector financial agencies include the *Caixa Econômica Federal*, *Casa da Moeda do Brasil*, *Serviço Federal de Processamento de Dados*, *Banco do Brasil S/A*, and the *IRB - Brasil Resseguros S/A*.

³ See www.planejamento.gov.br/controle_estatais/conteudo/competencia/dest.htm

⁴ 2005 PPI Report, available at: www.planejamento.gov.br/arquivos_down/spi/ppi/Rel_PPI_anual_completo.pdf

Additional information on the PPI initiative is available at: www.tesouro.fazenda.gov.br/ppp/ppi.asp

⁵ National Treasury website, available at: www.tesouro.fazenda.gov.br

⁶ The PPPs legal framework requires that relevant contracts may not exceed 20 million reais (approximately 9.2 million US dollars) with a minimum term of five years but a maximum length of 35 years. The long term established for the contracts is an advantage over the traditional Brazilian systems of public-private endeavors that usually demand an immediate cash disbursement by the government. Moreover, the law requires that in any type of PPP contract the public administration share be limited to 70% of the total project and the private share may not be less than 30% except if there is the participation of pension plan funds, public entities or state-controlled companies, in which case this ratio may be 80/20.

⁷ 'Fiscal Responsibility Legislation and Fiscal Adjustment: The Case of Brazilian Local Government', Luis de Mello, World Bank Policy Research Working Paper 3812, January 2006, available at: www.worldbank.org

⁸ The IMF perceives the lack of internationally accepted accounting and reporting standards for PPPs as a possible obstacle to the development of efficient partnerships. The IMF recognises that in developing these standards, careful consideration should be given to appropriate ways of reflecting the fiscal risks posed by PPPs in the government's accounts. Some commentators have suggested that Brazil still needs to overcome the operational difficulties resulting from the current rules governing the relationship between government agencies and private entities.

⁹ Extensive information on the first PPPs project, including its feasibility study is available at:

www.pppbr116.org/docs.html. Additional information on the PPPs system is available at:

www.planejamento.gov.br/ppp/index.htm

¹⁰ No sanction has been applied so far regarding the breaching of the indebtedness limit established in the LRF.

¹¹ Following the enactment of Law 11,101 on bankruptcy procedures in February 2005, marginal changes to the National Tax Code have been introduced through Supplementary Law 118/05. This law only incorporates corresponding changes to harmonize procedures with the new bankruptcy legislation.

¹² Interviews in Brazil, 6-8 November 2006.

¹³ Federal Revenue Service website, available at: www.receita.fazenda.gov.br

¹⁴ 'Code of Conduct for the National Treasury', available at: www.stn.fazenda.gov.br/hp/codigo_etica.asp

¹⁵ Corruption has cost the government at least 10.8 billion reais (approximately 5.0 billion dollars) in lost revenues over the past four years, according to a report published in the newspaper *O Globo* in August this year. The report is based on 50 special investigations carried out by the attorney general, the federal police and the tax authorities over the past four years, which led to the arrest of over 1,000 people. According to the Federal Comptroller, corruption affects 70% of local governments. Corruption allegations affect representatives from a range of political parties.

¹⁶ 'Bid to Ban Secret Votes may Boost Transparency', *Oxford Analytica Daily Brief*, 15 September 2006.

¹⁷ The listing of pending court cases as potential liabilities in the *Fiscal Risks Annex* does not affect the outcome of the cases. The federal government is committed to defend the legality of its actions and has improved the strategy before the courts, reducing the amount of loss cases. The listing is aimed at providing a better understanding of potential fiscal pressures. The resolution of these cases could eventually lead to an increase in the public debt.

¹⁸ The State Pension Reform II loan (PARSEP II) development objective is to support Brazilian states' fiscal stability and sustainable economic growth by addressing one of states' most pressing macroeconomic issues -- pension reform. PARSEP II is expected to contribute importantly to state macroeconomic stability and sustained growth by strengthening pension management. As a result, state governments will be able to (i) comply with Federal legislation governing pension management, (ii) create fiscal space by reducing unwarranted benefits payments through cadastre upgrades and cross-referencing with other data bases, (iii) evaluate individual state pension burdens and possible solutions through actuarial and financial analyses, (iv) strengthen Federal and state pension management through systems upgrade and training, and (v) build stakeholder reform constituencies to ensure sustainability. PARSEP II targets are to reach at least 20 of the participating 27 entities in organizational strengthening activities. PARSEP II will be centrally managed and funded through the Ministry of Social Security. The *Secretariat of Social Security* (SPS) will implement the project and provide technical assistance to states.

¹⁹ 'Brazil: Report on Observance of Standards and Codes (ROSC) – Fiscal Transparency Module', International Monetary Fund, December 2001, and Interviews in Brazil, 6-8 November 2006.

²⁰ Interviews in Brazil, 6-8 November 2006.

²¹ States regularly pay their debt service obligations to the National Treasury as established in the debt renegotiation contracts of 1997. Failure to pay is punished by the Treasury. When the State of Rio de Janeiro stopped servicing its debt, federal transfers were suspended and not resumed until the State restarted its debt service payments. However, despite the relative success of sub-national adjustment, questions remain over the long-term sustainability of current fiscal results. A recent study by the Institute for Applied Economics Research (IPEA) has demonstrated that the decrease in the net debt of states and municipalities (down from 19.8% of GDP in 2003 to 18.0% in 2005) has been obtained mostly due to an increase of total revenues and not as a consequence of budget cuts. Tax revenues have grown in part because of GDP growth, but also because of a substantial rise in the tax burden at the state and local levels of governments. Considering that the total tax burden has risen steadily in the last few years and is already very high for medium-income country standards -- nearly 38% of GDP in 2005 -- it is almost certain that the potential for reducing the debt on the taxation side of the equation will be much smaller in the near future.

²² For a recent in-depth analysis of municipal fiscal operations, see: '*Panorama das Finanças Municipais 2005*', Instituto Brasileiro de Administração Municipal, Série Estudos Especiais No.184, October 2006.

²³ Several efforts have been made in the past to introduce changes to the LRF. However, due to the importance of key principles established in the law, proposals were repealed to avoid the risk of transforming an efficient legal framework into a tailored made regulation for specific circumstances.

²⁴ Interviews in Brazil, 6-8 November 2006.

²⁵ *Consolidated Fiscal Accounts Reports*, available at:

www.tesouro.fazenda.gov.br/hp/lei_responsabilidade_fiscal.asp

²⁶ Available at: www.tesouro.fazenda.gov.br/estados_municipios/transferencias_constitucionais.asp

²⁷ Municipal Fiscal Management operations and guidelines available at: www.stn.fazenda.gov.br/gfm/

²⁸ IMF Special Dissemination Standard (SDDS) – Brazil, at:

<http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=BRA>

²⁹ The data on the centralised and decentralised administrations are added after exclusion of intra-governmental transfers (paid and received), in order to eliminate double accounting.

³⁰ Fiscal Responsibility Law (Supplementary Law 101 of May 4, 2000), Article 48.

³¹ Historical series, available at: www.stn.fazenda.gov.br/estatistica/est_resultado.asp

³² Interviews in Brazil, 6-8 November 2006.

³³ *Monthly Treasury Reports (Resultado do Tesouro Nacional)*, available at:

www.tesouro.fazenda.gov.br/hp/resultado.asp

³⁴ Annual reports, together with detailed information on the profile of SOEs, available at:

www.planejamento.gov.br/controle_estatais/conteudo/publicacoes/index.htm

³⁵ Fiscal Responsibility Law (Supplementary Law 101 of May 4, 2000), Articles 31 and 32.

³⁶ The Debt Management Team has attracted highly qualified staff using incentive systems such as financing post-graduate studies and providing training opportunities through seminars and workshops.

³⁷ Available at: www.tesouro.fazenda.gov.br/english/public_debt/downloads/External_Debt_Strategy.pdf

³⁸ *Domestic Federal Public Debt and Open Market Operations Monthly Press Release*, available at:

www.tesouro.fazenda.gov.br/hp/relatorios_divida_publica.asp and www.bcb.gov.br/?DOMESTIC

³⁹ Interviews in Brazil, 6-8 November 2006.

⁴⁰ The report -- prepared by the Institute of International Finance (IIF) -- noted that due to continuing improvements by their investor relations offices, Brazil is the only country that satisfies all of the IIF's investor relations' best practices criteria, scoring 38 out of 38 in prioritized terms. 'Investor Relations: An Approach to Effective Communication and Enhanced Transparency', The Institute of International Finance, September 2006, available at: www.iif.com

⁴¹ The 2004-2007 PPA provides more comprehensive and detailed information than previous editions and has been elaborated to strengthen planning at the programme level. Revenues and expenditures projected for the period are analysed, including an estimation of where the resources to finance the programmes will come from. Starting this year, annual corrections on PPAs include a four year rolling plan. Multi-Year Plans an annual corrections, available at: www.planobrasil.gov.br/

⁴² 'Country Assistance Strategy Progress Report for Brazil 2004-2007', Report No. 36116-BR, May 2006, available at: www.worldbank.org

⁴³ Interviews in Brazil, 6-8 November 2006.

⁴⁴ Decree 5,233, article 8, available at:

www.planejamento.gov.br/legislacao/conteudo/decretos/ppa_novo_modelo.pdf

⁴⁵ Somme commentators have pointed out that PPAs needs to reduce the number of projects included, focusing on the real strategic ones, within a medium-term scenario.

⁴⁶ A 'Study of the Territorial Dimension of the Multi-Year Plan' is currently being prepared and likely to be used as an input for the 2008-2011 PPA.

⁴⁷ 'Brazil: Report on Observance of Standards and Codes (ROSC) – Fiscal Transparency Module', International Monetary Fund, December 2001, and Interviews in Brazil, 6-8 November 2006.

⁴⁸ Interviews in Brazil, 6-8 November 2006.

⁴⁹ Portal Orçamento Brasil, available at: www2.camara.gov.br/orcamentobrasil

⁵⁰ The 6th edition of the Guidelines for 2006 is available at:

www.tesouro.fazenda.gov.br/legislacao/download/contabilidade/ManualRGF6.pdf

⁵¹ Interviews in Brazil, 6-8 November 2006.

⁵² The primary surplus reached 4.84% of GDP in 2005, the highest level since 1994, and above the 4.25% agreed with the IMF in 2003. This was despite the fact that the IMF's monitoring role had ended after Brazil decided not to renew its stand-by accord, and subsequently paid off all its debt to the Fund. The government has promised to reduce the primary surplus this year to the 4.25% originally agreed, allowing for some increase in public spending. However, some commentators have raised concerns with respect to the quality of fiscal adjustment, pointing out that improved efficiency has become increasingly important in the reform agenda.

⁵³ The government's prepayment to the IMF is part of a broader strategy to reduce the country's external debt, but it is not a move to interrupt relations with the Fund, which are likely to evolve given the new scenario.

⁵⁴ *Federal Budgetary Secretariat* (Secretaria de Orçamento Federal-SOF) website, available at: www.portalsof.planejamento.gov.br/. In late 2005, the SOF adhered to the *National Public Management Programme*, aimed at improving public services access within an overall results-oriented strategy.

⁵⁵ Interviews in Brazil, 6-8 November 2006.

⁵⁶ Available at: www.tesouro.fazenda.gov.br/legislacao/download/contabilidade/ManualRREO6.pdf

⁵⁷ Until the integration of the Fiscal Management Council, the National Treasury will continue to rely on these guidelines as a tool to bring more coherence to sub-national fiscal information. States and municipalities are not legally bound by the guidelines -- which in theory should be approved by the Council -- but sub-national governments have increasingly been using them.

⁵⁸ Budget execution information has been improved in the past year and annual reports now include information on a functional, programme and regional level, available at: www.stn.fazenda.gov.br/estatistica/est_contabil.asp

⁵⁹ *Monitoring in Numbers* report for 2005, available at:

www.planejamento.gov.br/arquivos_down/spi/monitoramento/Monitoramento_numeros_2005.pdf

⁶⁰ Information on the *Transparency Initiative*, available at: www.portaltransparencia.gov.br/

⁶¹ The final report of this committee is available at:

www.planejamento.gov.br/arquivos_down/sof/relatorio_final_da_comissao_de_custos.pdf

⁶² SIGPlan website, available at: www.sigplan.gov.br/v4/appHome/

⁶³ Information on the country's legal framework is available at: www.presidencia.gov.br/legislacao/

⁶⁴ Federal Government Procurement website, available at: www.comprasnet.gov.br

⁶⁵ Interviews in Brazil, 6-8 November 2006.

⁶⁶ Fiscal Responsibility Law (Supplementary Law 101 of May 4, 2000), Article 9.

⁶⁷ Staff do not work for individual deputies or senators but for the Congress itself.

⁶⁸ The latest political crises -- mainly involving the PT and hence the government -- exposed the fragile nature of the Brazilian legislature. Although formally a key independent institution of the Brazilian state, in practice it fails to operate effectively in the absence of executive initiative.

⁶⁹ Official Gazette, available at: www.in.gov.br; National Audit Court (TCU), available at: www.tcu.gov.br

⁷⁰ Interviews in Brazil, 6-8 November 2006.

⁷¹ The Promoex project is partially financed by the Inter-American Development Bank. Detailed information on the project, including a progress report is available at: www.planejamento.gov.br/pnpage/conteudo/promoex/promoex.htm

⁷² Brazilian Institute of National Statistics and Geography, available at: www.ibge.gov.br/

⁷³ The Survey received the 2005 Habitat Scroll of Honour Award from the United Nations Human Settlements Programme.

⁷⁴ The complete report is publicly available at:

www.ibge.gov.br/home/estatistica/economia/perfilmunic/2004/default.shtm