

THE FISCAL ACCOUNTABILITY ACT

BRAZIL'S EXPERIENCE

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INTRODUCTION

The aim of this paper is to analyze the context in which Brazil's Fiscal Accountability Act (Enablement Act n. 101 of 4th May 2000), henceforth FAA, was conceived, to describe its main features and, above all, to recount the major positive consequences of its introduction. To illustrate the way it has been implemented, we shall examine the performance of the Pernambuco State Auditing Office as a case study. This office has made a name for itself for the specific training it has carried out and by the way it has audited public sector activity in the light of the new legislation with initiatives that promote citizenship and social control — two points highlighted by the FAA. The actions designed to enhance citizenship have been made possible by the partnership established between the Auditing Office and the Ministry of Finance's Financial Administration School (ESAF).

It should be stressed that ESAF has pioneered training and qualification in Brazil on the FAA for public administrators. As soon as the Act became effective, ESAF held Fiscal Accountability Act One-Day-Seminars in Brasilia for the institutions directly involved with implementing the new legislation: Auditing Offices, the Judiciary, the Legislative Branch and the municipal administrations of Brazil's state capitals. From the outset it also established a partnership with the Ministry of Planning, organizing lectures and meetings to discuss the FAA.

For a long time Brazil had experienced severe fiscal imbalances that caused inter alia negative savings and continual public deficits. The result was the failure of the imports substitution model and, eventually, a dire crisis stemming from the ways and means of administering the State. Redefining the role of the State became

the constant buzzword of the nineties. In Brazil this was all the more decisive given the extent of state presence in the domestic economy. As a result, it soon became urgent to tackle the issue of reforming the State, which could no longer respond efficiently to the burgeoning demands it had to address, most evidently in the social sphere.

Brazil is currently undergoing multiple transformations in the fiscal arena. The most noteworthy recent change derives from the introduction of the FAA. Many points of the new legislation are still under debate but the success of the FAA is indisputable, especially with regard to raising public awareness of the importance of balancing revenue and expenditure. It is this experience the present paper seeks to describe.

Before proceeding any further, however, it should be stated that although the FAA has set a new fiscal standard as a structural change throughout the country, in the long run, the only way to ensure lasting fiscal balance is through stable economic growth and an improvement in Brazil's social indicators. In his opening lecture at the International Conference on Decentralization, Intergovernmental Fiscal Relations and Macroeconomic Governance held at ESAF's Brasilia headquarters in 1997, Finance Minister Pedro Malan observed:

Modernization of the State — combining increased operational efficiency in the use of scarce public resources with reduced consolidated public sector fiscal deficit — is therefore not an end in itself. Rather, it is an instrument for attaining other objectives, which are of equal or greater importance but cannot be attained with weak states that are inefficient from an operational point of view, poorly accountable, have deficient control mechanisms and, more seriously, are often appropriated by corporatist, private or even individual interests.

Fiscal balance is a necessary precondition. It is not, however, sufficient for obtaining socioeconomic development. We must, at all costs, avoid making this new

model of fiscal administration an end in itself. Instead, we must ensure it acts as a necessary premise for bringing about ineluctable change, above all in the realms of education and social welfare. The merits of the FAA, on the other hand, cannot be denied. It disciplines correct management of public accounts without which the objective conditions for overcoming present difficulties would not pertain.

SOURCES AND INFLUENCES

The influences on the FAA can be divided into two major blocks: external influences and domestic influences. On the external front, four main sources served to set the standards for Brazilian legislation: the statutes of the European Union, the IMF, the United States and New Zealand.

In the European Union, the 1992 Maastricht Treaty established the following guiding principles for signatory states: repudiation of excessive government debt; inflation targets; long-term interest rate levels; parameters for budget deficits; and (conceivably one of the most important aspects) a cap for public debt (60% of GDP).

The IMF made available to the Brazilian government all the theoretical underpinning and the experience accumulated accompanying fiscal reforms in various countries including New Zealand, Australia, Iceland, the United Kingdom, the United States, Sweden, Holland, Argentina and Mexico. It should also be recalled that the IMF Code of Good Practice for Fiscal Transparency greatly contributed to perfecting the bill for the FAA. The code's basic premises express the Fund's endeavor to help develop and improve fiscal adjustment procedures in countries around the world. It should be made crystal clear, whatever criticism may be leveled at the FAA, that it is not a manual drafted by rich countries and imposed on the poor. On the contrary, it is a synthesis of successful experiences. In this respect, Brazil's Fiscal Accountability Act has incorporated the best rules for promoting correct fiscal management.

The *Code of Good Practice for Fiscal Transparency — Declaration of Principles* lists fundamental points that apply to any country desirous to introduce into

its legislation salutary norms for public administration, of which the following deserve special mention:

- 1 - the management of public finances should proceed within a clear legal and administrative framework;
- 2 - the general public should be fully informed of the Government's past, present and prospective fiscal actions;
- 3 - a public commitment should be made to ensure timely announcement of fiscal data;
- 4 - budgetary documentation should specify the objectives of fiscal policy, the macroeconomic structure and the policies on which the budget is based as well as the main identifiable fiscal risks;
- 5 - all commitment or spending of public funds must be based on legal authorization;
- 6 - the annual budget should provide sufficient information to guarantee presentation of a statement of the Government's general consolidated financial position.

In talking about the FAA we should underscore the fact that the Act is based on two key features: rules and transparency. The rules model derives from North American legislation and is a by-product of the influence exerted by the 1990 Budget Enforcement Act. From this legislation we have culled two extremely important mechanisms: limitation of commitment (or sequestration) and compensation. Sequestration is equivalent to contingency management of expenditure whenever actual collection of revenue fails to behave as forecast. Compensation (or "pay as you go"), meanwhile, is a mechanism that allows an increase in one type of expenditure to be offset by a reduction in other expenses or by a permanent increase in revenue. These rules are essential for grasping the basic mechanisms of the FAA.

The third influence has to do with the Act's second guiding principle: transparency. As a matter of fact, the innovations introduced by the FAA are particularly noteworthy in this respect. Transparency is much more than publicizing

data. It is providing society with clear, accessible information to enable it to control and hold its administrator accountable. As it has been inscribed into the Act, transparency is a powerful instrument for enhancing citizenship. Experience in this sphere has been obtained from New Zealand, which in the 1980s carried out broad-sweeping reform in its accounting systems and in its management of public assets, enshrined in the 1994 Fiscal Responsibility Act.

The importance of transparency is such that we shall return to it when describing the positive experience in the first year since the FAA came into force.

The example of New Zealand likewise merits attention on account of the establishment of a new accounting standard and the adoption of a series of management reports. The most important of these are: a) statement of income: displaying the impact of revenue and expenditure on an accrual basis; b) balance sheet: establishing bookkeeping for assets, liabilities and net worth; c) statement of cash flow: payment and collection derived from revenue and expenditure; d) statement of contingent liabilities: showing the risks ensuing from future and unscheduled commitments; e) statement of liabilities: providing a detailed break-down and description of public debt.

In the domestic context, the law supplements or establishes another chapter in the Federal Government's endeavor to reform the public sector. The drive to implement reform began in 1994 when the Emergency Social Fund (Constitutional Amendment Review n. 01; extended by Constitutional Amendment n. 10 and again by Constitutional Amendment n. 17) was instituted. Shortly afterwards, a series of measures were taken. These were followed by the Kandir Law (Supplementary Law n. 97/97), FUNDEF (Constitutional Amendment n. 14), the Constitutional Amendments on Administrative Reform (n. 19) and Welfare Reform (n. 20) and, first and foremost, the Fiscal Stability Program (PEF).

The fiscal mayhem that had beset Brazil over the previous thirty years had driven municipal administrations, classed as subnational federate bodies, to virtual insolvency. The culture of profligate spending combined with impunity for bad administrators destitute of the least commitment to make spending match revenue gave rise to critical situations. Throughout this period, such unchecked behavior led to an

excessive level of debt and failure on the part of the Brazilian State in all spheres to meet the population's demands.

The FAA has imbued Brazil's public administration with a philosophy of responsible spending, obliging administrators to invest public funds wisely. The new legislation has given public administration a sudden shot of rationality and morality that can be gauged by the popular support it has received in such a short space of time. The population has come to understand that fiscal adjustment and fiscal accountability are vital, nay indispensable if the State is to respond efficiently and effectively to society's demands.

INITIAL PROPOSAL AND LEGISLATIVE PROCESS

We must now turn our attention to the legislative process to which the bill of the FAA was submitted and the way lengthy public discussion served to improve the initial proposal. The original bill was made available on the Internet for suggestions. The Ministry of Planning's homepage was consulted more than 5,000 times during this phase. Moreover, various segments of society were involved in debating the bill, besides municipal administrations, town councils, local assemblies, administrators, civil service control departments and authorities in various spheres. It is interesting to note that throughout this phase there was a unanimous sense of the need to institute austere legislation capable of disciplining outlay on personnel, public debt and revenue.

It should likewise be recalled that the initial proposal for the FAA was praised and acknowledged by international technicians as modern legislation on a par with the most up-to-date forms of monitoring and control in public administration.

Once the bill had been submitted to the Chamber of Deputies, the initial proposal was perfected and debate on the issue became more public and open. The special committee for the Fiscal Accountability Act spent more than 400 hours in public hearings at which (and on a broader scale) all the interested sectors were heard, their diverse opinions and varied experiences being essential for perfecting the Act.

Substantial improvements were made to the bill which was passed with the inclusion of no less than 30 amendments, proceeding to the Federal Senate where a single amendment was added. The Act was sanctioned by the President on 4th May 2000 with 17 vetoes basically intended to make the text consistent with the Federal Constitution.

Our attention must now turn to the major points of the Act. Planning Minister Martus Tavares¹ lists four main points: impact on the federative arrangement; intertemporal deficiencies of the budget procedure; indebtedness; and, above all, limitation of spending on personnel.

With reference to the first point, the fundamental issue is the dilemma of establishing rules in a Federation the size of Brazil comprised by the Union, the 27 Member States and the 5,548 Municipal Districts, raised to the status of federate bodies by the 1988 Constitution. In this context, it is essential to adopt clear-cut rules for controlling public spending and to set management standards capable of ensuring macroeconomic stability.

There is, then, a rationale that explains the way such rules are imposed in a Federation. Given the multiple diversities of the Brazilian State, setting rules that do not flout the principle of federative autonomy is by no means an easy task. On this matter, the Minister of Planning, Martus Tavares, and BNDES technicians make the following comment on ECLAC's position:

(A) ECLAC (1998) stresses that since the fiscal pact stems from a historical process of consolidating political and social institutions, one should not expect it to be easy to obtain instant consensus or lasting coalitions on controversial issues such as the extent and intensity of state intervention in the economy and the

¹ TAVARES, Martus Antônio Rodrigues et alii. *Princípios e regras em finanças públicas: a proposta da Lei de Responsabilidade Fiscal*. [On line]. Available at: <http://www.federativo.bndes.gov.br>, [22 June 2000].

distribution among society of the financing of fiscal policy. On the contrary, these changes are slow and tough, requiring political treatment of pressures which are often not held in check by budget restrictions and so produce leaks precisely at the points where flexibilization is greatest.

Promoting change on this scale is, therefore, a complex task. Moreover, the political and administrative cost of a federation is quite considerable. Brazil's fiscal federalism has thus hampered effective control of the fiscal balances of States and Municipalities. The greater the degree of decentralization and the less prevalent standardized spending procedures are, the more difficult it is to achieve such control. Discussing this issue necessarily means coming to grips with so-called fiscal federalism. This is a polemical matter since it bears on fiscal decentralization. The fact is that established doctrine envisages difficulties in introducing macroeconomic control models and stabilization policies in decentralized federations like Brazil's.

Nonetheless, regional peculiarities have been respected in the FAA which sets differential deadlines for compliance with requirements and makes less rigorous demands on municipal districts with less than 50,000 inhabitants — this includes the vast majority of municipalities in Brazil. Thus, the federative pact has been respected vis-à-vis its most salient feature: subnational peculiarities. In this context, the FAA has ascribed to the Union the task of providing municipal administrations with technical assistance and financial cooperation with a view to modernizing their respective tax, financial, assets and social security administrations.

Likewise, from a federative standpoint the FAA has instituted a Fiscal Management Council as a permanent forum for debate and discussion of studies and positive experiences.

Another innovative feature is the establishment of rules for budget procedure as an instrument of planning. The history of budgets in Brazil over the past

thirty years is a catalogue of non-commitment to planning. As a result, budgets have been little more than *works of fiction*, overestimating revenue, reversing established priorities and deferring expenditure. The FAA complies fully with the Budget Guidelines Act (LDO), the most important budgetary instrument, determining that administrations must seek so-called *budgetary truth* ensuring that budgets remain within the *bounds of possibility*.

In addition, the FAA affords instruments for correcting deviations that could compromise fiscal targets. On this matter, Minister Martus Tavares² makes the following observation:

During the execution of the budget, if it is estimated that annual targets for debt and the balance of revenue and expenditure set by the Budget Guidelines Act will not be accomplished, for instance, an automatic linear cutback in expenditure will be made proportional to the needs for meeting the targets set. Solely expenditure associated with the constitutional or legal distribution of tax revenues, with the payroll for both active and retired civil servants and associated charges, with benefits and regular pecuniary installments of the general welfare system, social security, unemployment benefits and the unified health service, and with servicing the debt and redeeming floating debt shall be exempt from this automatic cutback.

Another important point established by the FAA was the need to set limits for public debt. The failure to control public indebtedness has seriously impaired the Brazilian State's ability to perform its essential functions, especially the provision of good quality public services for the population.

As regards indebtedness, the Act has enshrined the so-called golden rule according to which the sum of loan operations cannot exceed total capital expenditure in a given financial year. This is a moralizing rule designed to prevent loans being used to

² *Ibidem.*

pay for costing and especially payroll expenses. Moreover, the FAA requires that the President of the Republic must submit to Congress a proposal for capping debt in securities and consolidated debt, respectively.

The law also sets stricter rules for credit operations on advance revenue, a source of constant indebtedness among federate bodies. Such operations, among others, are prohibited in the last year of incumbents' mandates.

The capping of payroll expenses is a key item in the curbing of public spending. For some time now Brazil has suffered the effects of long-term failure to control payroll expenses in the public sector, compounded by excessive outlay on welfare benefits. These two items have placed a heavy burden on Brazil's public accounts, hampering the federate states' capacity to provide adequate public services. This problem is not recent, neither are the attempts to solve it.

In comparison with previous legislation, the FAA is ground-breaking because, besides setting maximum limits for spending on personnel among federate bodies, it does the same for the Branches of Power of the Republic thus ensuring that all shoulder their part of the burden to obtain satisfactory fiscal results.

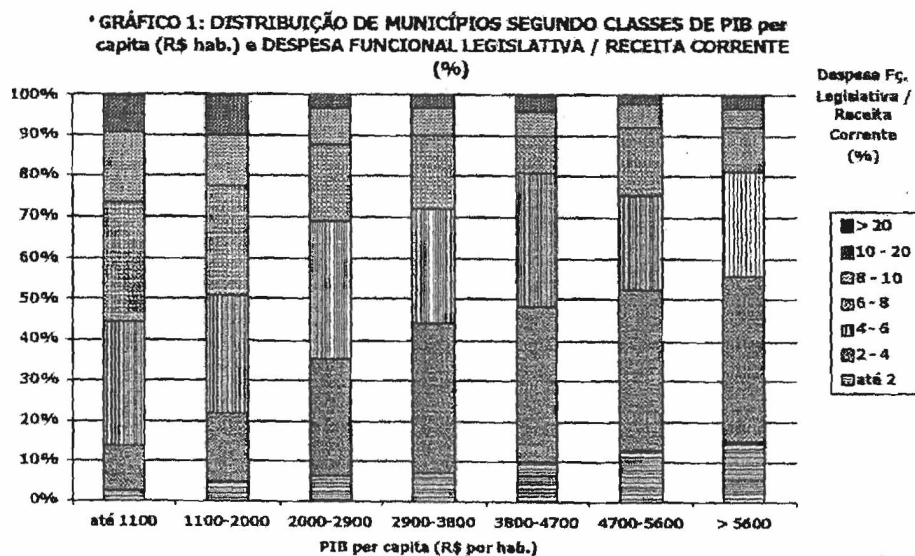
It became clear that the unwillingness of the Legislative and Judiciary powers to curb their own expenses made it very difficult for governments, particularly municipal administrations, to implement fiscal adjustments. The Executive branch was obliged to assume the onus for the adjustment. In addition to the FAA, Constitutional Amendment n. 25 (promulgated on 14th February 2000 and effective as from January 2001) establishes limits both for the total expenditure of municipal legislative assemblies and for their outlay on personnel.

The definition in the text of the Constitution itself of a maximum limit for expenditure in municipal legislative assemblies brings to an end a period marked by wrangling with the local Executive over the distribution of municipal revenue, which came to a head each year during discussion of the budget. It was not unusual for municipal administrations lacking political clout to see more than 18% of municipal revenue earmarked for costing expenses in the legislative branch. Since the introduction

of Constitutional Amendment n. 25 these expenses have been set between 5% and 8% of tax revenue, including transferred tax revenues, for the previous financial year. The maximum percentage limit varies according to the size of the population in each municipal district.

A study carried out by BNDES³, based on data for revenue and expenditure for each municipal district in Brazil and taking 1996 as the base year since this was the last year for which information about Gross Domestic Product (GDP) per municipality was available, has analyzed the data for legislative spending and reached the following conclusions:

1. *Analyzing by GDP per capita category, richer municipal districts spend less as a percentage of current revenue on legislative activities than poorer ones, as can be seen in the graph below:*



2. *Regional averages for the legislative spending/current revenue ratio reveal a greater commitment of funds in less developed regions of the country;*
3. *The relation between legislative spending and spending on health & sanitation increased as local per capita income diminished — i.e., the trend was that the poorer the municipality, the more it spent on legislative activities and the less it spent on healthcare;*
4. *Municipal districts that spend proportionally more on the Legislative Branch*

³ AFONSO, José Roberto *et alii*. "Municípios: Quanto custam as Câmaras de Vereadores?" Rio de Janeiro: BNDES, Oct. 2000.

tend to spend less on healthcare as a percentage of current revenue. This is further evidence of a trade-off between social spending and outlay on legislative activities. This trade-off implies that the ratio for spending on legislative activities/healthcare tends to increase as outlay on the Legislative Branch as a percentage of current revenue rises. See the table below, elaborated by the authors of the study.

Table 5: Cumulative distribution of expenditure on health and sanitation in municipal districts in relation to legislative spending – 1996

Legislative Spending / Current Revenue – %	EXPENDITURE ON HEALTH AND SANITATION/CURRENT REVENUE - %						
	up to 5	5 to 10	10 to 15	15 to 20	20 to 25	25 to 30	over 30
up to 2	3.2	17.3	41.7	64.0	79.9	87.8	100.0
2 to 4	2.6	15.5	41.3	65.7	84.3	92.7	100.0
4 to 6	3.5	17.6	41.2	64.6	81.5	91.0	100.0
6 to 8	4.0	18.9	42.7	64.4	81.4	90.8	100.0
8 to 10	4.4	25.9	50.6	73.2	84.5	95.4	100.0
10 to 20	10.1	25.3	53.6	77.2	87.8	92.8	100.0
over 20	0.0	12.5	37.5	62.5	75.0	87.5	100.0
TOTAL	3.8	18.6	43.3	66.5	82.7	91.7	100.0

Sources for table: Brazilian National Treasury (revenue & expenditure), IBGE — Brazilian Institute of Geography and Statistics (population) and Andrade & Serra (Projections for Brazilian Municipalities' GDP: 1975, 1980, 1985 and 1996. Essay available on the Internet at www.nemesis.org.br).

According to MENDES⁴, by raising the fiscal revenue of Brazil's municipalities and granting the local Legislative Branch autonomy to establish its own expenditure and salaries, the 1988 Constitution prepared the way for local legislative assemblies to appropriate part of the increase in revenue.

GOMES & MAC DOWELL⁵, conclude that the proliferation of municipalities (more than 1,300 have been created since promulgation of the 1988 Constitution) combined with the fact that small municipal districts spend more per capita on their Legislative Branches than large municipalities has meant that fewer resources are available for financing investments and providing public services.

The effects of Constitutional Amendment n.25 and the FAA in reducing spending on municipal legislative assemblies were evident in January 2001 though

⁴ MENDES, Marcos. "Reforma Constitucional, descentralização fiscal e rent seeking behavior: o caso dos municípios brasileiros". São Paulo: Instituto Fernand Braudel de Economia Mundial, Oct. 2000.

⁵ GOMES, G.M. & MAC DOWELL, M.C. "Descentralização política, federalismo fiscal e criação de Municípios: o que é mau para o econômico nem sempre é bom para o social". Brasília: IPEA, Feb. 2000.

consolidated data are not yet available to gauge the full extent of the reduction. In some cases, legislative assemblies were obliged to reduce their spending by 60%.

In addition to rules, the FAA establishes penalties for non-compliance with the limits set. This may well be the most important point because the penalties apply to the federate body, preventing it from receiving voluntary transfers, from granting or receiving guarantees and from undertaking credit transactions. In parallel, the Fiscal Crimes Act was passed in October 2000. This Act establishes punishments depriving administrators of their freedom should they fail to take the necessary measures to keep spending on personnel within the limits determined by the FAA. This is the first time such drastic measures have been adopted in Brazil.

Obviously — as was the case with the setting of limits on public debt — this Act also set very reasonable deadlines for the federate bodies to adapt to the new rules.

Legal restrictions are stricter still in last year of an executive mandate. The aim here is to counter an inveterate habit among administrators, especially in state and municipal governments, of assuming irresponsible financial commitments in the closing months of their administrations which must then be honored by their successors. This used to create a perverse fiscal inheritance capable of preventing the next administration from operating effectively. The truth of this diagnosis is such that the following adage about public administration in Brazil had become widespread: upon taking office administrators spend the first two years *putting the house in order*, in other words paying off debts, and the last two years *messing it up*, i.e., creating debts for their successors. The restrictions that apply to the closing months of executive mandates are as follows:

1. the administrator is forbidden to increase total outlay on personnel in the last six months of the mandate;
2. loans based on anticipation of revenue are forbidden in the last year of the mandate;
3. no liabilities may be contracted in the last eight months of the mandate without financial provision either to pay them in full before the end of the mandate or to leave funds available for costing the installments that fall due in subsequent financial years.

These prohibitions are entirely in consonance with the two main objectives of the Act: preventing immoderate deficits and reducing the stock of debt, often consisting not of loan operations but of money owed to suppliers of goods and services. Through lack of financial provisioning, they constitute outstanding dues which mount up in the last year of the mandate, producing a commitment that the unwitting successor is obliged to honor.

As defined in the FAA, fiscal responsibility presupposes planned, transparent action, averting risks and correcting deviations that may upset the balance between revenue and expenditure. Thus, reducing the transference of debt from one administration to the next will help achieve fiscal balance.

The Experience of the Pernambuco State Auditing Office

The FAA has assigned the Auditing Office a key role: the effective enforcement and monitoring of all rules established therein. As a matter of fact, the FAA has assigned this external control body new tasks.

The external control system determined by the Brazilian constitution, an influence of the French and Portuguese, follows a public account control model that is marked by an a posteriori analysis centered in legality, conformity and regularity.

The FAA translates the unequivocal desire of society concerning the concomitant and proactive action of the Auditing Offices as well as the enforcement of control over merit, analysis of results, fulfillment of goals, and gauging of administration effectiveness and efficiency.

This new external control framework is conspicuously clear vis-à-vis the Auditing Offices' new assignments, above all the task of *warning* the powers and government bodies bound by the FAA of the occurrence of the following situations:

1. should the collection of revenue not meet the targets set for the primary or nominal balance established in the Fiscal Targets Addendum, the powers and government bodies are to limit commitments and financial transactions;
2. total spending on personnel exceeds the 90% cap;
3. the amount of debt in securities and consolidated debt, credit operations and guarantee grants rise over their respective 90% caps;
4. outlays on retired and pensioners is over the limit established by law;
5. finally, any fact that jeopardizes the costs or results of programs, or evidence of misconduct in budgetary management.

The range of control to be exercised is easily seen. Due to its complexity, comprehensiveness and innovations, the FAA has proved difficult so far to interpret and enforce, mainly in smaller-sized municipal districts. Conversely, the effectiveness of the FAA greatly depends on the performance of the Auditing Offices in view of their constitutionally assigned role of monitoring the management of public funds.

In this context, the Pernambuco Auditing Office has come up with an action aiming at both the external public — those under its jurisdiction and society itself — and the internal public — government employees in charge of the public administration.

Among the internal actions, we should underscore the creation of a study group on the subject at hand before the passing of the Act with the purpose of pinpointing changes to be carried out in the State and Municipalities as well as in the Office itself. Discussions, debates and the participation at several events concerning fiscal accountability not only have contributed for the attainment of the group's early goals, but have also culminated in the publication on 12th December 2000 of the book "*comentários à lei de responsabilidade fiscal*" ("comments on the fiscal accountability law), cowritten by five

auditors from the Pernambuco Auditing Office and distributed nationwide. It took only 45 days for the first edition to be sold out.

As for the external public, the *Escola de Contas Públicas Professor Barreto Guimarães* (Professor Barreto Guimarães School of Public Accounts), an initiative of the Pernambuco Auditing Office aiming at assisting in the training and of government personnel and the improvement of public management, started an intensive program to divulge the FAA rules immediately after its publication, on 5th May 2000. This was made possible by means of courses, forums and seminars targeted at administrators from municipal districts as well as government employees and officials directly connected to public finances. This effort produced a total of thirty-one events in the state of Pernambuco alone, with 2,221 in attendance throughout the year 2000.

For fiscal 2001, due to the taking of office of the new batch of mayors and municipal representatives, eight large-scale, regional seminars have been scheduled for the capital and the countryside of Pernambuco State, covering all 184 municipal districts and a total of 1,320 attendees. The first seminar took place in Recife, the capital city on 25th January 2001. The estimated number of participants was 189, but 225 people showed up for the event, a 19% increase. If that trend continues, the number of participants may reach 1,570, totaling 3,791 attendees.

The performance of the Pernambuco Auditing Office has not been restricted to divulging the FAA to its employees and those under its jurisdiction, though. The population has also been a target. Such initiative draws on strong evidence that one of the main underpinnings of the FAA is administration transparency, which will allow society to exercise full control. Indeed, society will exercise the most effective form of control of the Public Administration.

However, in order to legally determined transparency become a reality, a lot more than simply divulging data and information will be necessary. Such information must be clear, easily understood by the public. In other words, it must be delivered in clear, straight, objective language.

Citizens in general know little about public finances and may even show no interest whatsoever in the subject. The preparation and execution of the public budgets clearly reflects that fact. In this sense, one notices that the FAA ensures the population participates in the budgetary process by means of *inter alia* public audiences. Many federate bodies already adopt the so-called participatory budget, although public participation is limited to the budget preparation phase. The FAA provides for, above all, the monitoring of the budget execution, analysis of results and fulfillment of goals.

Among the several reasons for the aforementioned *lack of interest*, we underscore the way the public accounts have been dealt with in recent Brazilian history. The situation can be compared to a *black box full of secrets* that can only be deciphered by the specialists in the economic field.

This lack of interest has produced distortions. The first and foremost is related to the idea or concept of what a truly efficient, effective public administrator is in the people's words. We can easily get to the conclusion that successful administering is gauged by the population by the number of public works completed, notwithstanding any financial or budgetary analysis. This attitude values the administrator that *delivers the goods, but creates debts*. The FAA aims is proof of the strong will to eliminate this stereotype.

By providing the average citizen with easily accessible, user-friendly public finance data, the *secrets inside the box* are no longer secret, allowing a full evaluation and revamping of the image of those administrators who may not deliver as many works, but are able to maintain the balance of the public accounts. This paves the way for sustained growth and leads up to the satisfaction of social demands, including for sure the completion of new public works without generating debts that will overburden society.

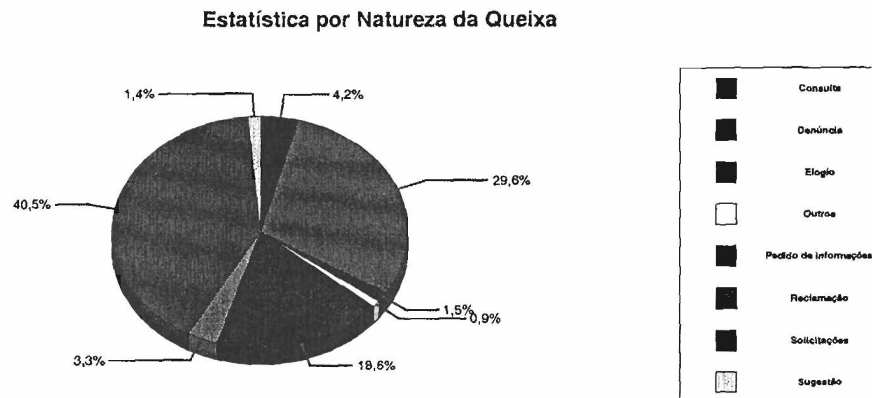
In this context, the educational comic book *Tudo Às Claras* ("Everything Clear") hit the streets to target the general public. The main objective is to divulge the ideas and rules behind the FAA in an easy-to-understand language for any citizen, making him or her aware of the instruments the law provides for the effective control of public funds management. This initiative was decisively supported by the Financial

Administration School (ESAF), which widened the distribution, formerly restricted to Pernambuco State, to the four corners of Brazil.

Concomitantly, the Pernambuco Auditing Office created Brazil's first office of the ombudsman in an Auditing Office. This ground-breaking initiative opens a direct communication channel with the people, who can send in their critics, suggestions, praises, questions and complaints. Access is made extremely easy through the following means:

1. fax;
2. regular mail with postage paid by the Pernambuco Auditing Office. A standard form is available at all post offices in the State;
3. toll free line;
4. e-mail.

People can also visit in person the Office of the Ombudsman. This initiative has proven successful, as can be seen in the chart below:



Question	52	4%
Critics	368	29%
Praise	19	1%
Others	11	0%
Information requests	231	18%
Complaints	41	3%
Requests	503	40%
Suggestions	18	1%
Grand Total	1,243	100%

In addition to this proactive, awareness-raising action, the Pernambuco Auditing Office has not failed to carry out its constitutional duty of effectively monitoring the management of public funds. Thus, notwithstanding the new requirements brought forth by the FAA, an intensive monitoring program was commenced in July 2000 at municipal level. Termed *Operação Eleições* (Election Operation), this ground-breaking program in the country conducted weekly, on-site inspections in every single municipal district in the Pernambuco State. The inspection was fundamentally centered in the analysis of the financial flow and compliance with the law, particularly the FAA. The program was cosponsored by the Pernambuco Office of the Prosecutors for the Public Interest. The program was formerly scheduled to run from July to October 2000, during the municipal elections period, but thanks to the fruitful results it was prorogated until December 2000. As of 29th December 2000, 182 proceedings from 114 Municipalities had been sent to the Office of the Prosecutors for the Public Interest out of a total 184 Municipalities. Officials have found many different irregularities, such as the donation of material, relinquishment of revenues and personnel hiring in disagreement with the FAA, amounting to US\$ 13,316,000.00 in government funds.

Upon an initiative by the Pernambuco Office of the Prosecutors for the Public Interest, *Operação Eleições* also resulted in a request to the Judiciary to remove 27 public administrators from office due to the gravity of their wrongdoing.

Notwithstanding these figures, the main byproduct of the operation was the inhibiting effect. By means of ongoing monitoring, we will be able to losses before they are taken. In some cases, total commitments went down if compared with the same period before the operation was introduced. (up to 50%). This is noteworthy particularly because electoral periods are usually marred by an increase in the amount of commitments.

Finally, with respect to monitoring, the Pernambuco Auditing Office has developed the so-called "*Sistema Integrado de Auditoria Informatizada - SIAP*" (Automated Auditing Integrated System), which allows one to accompany monthly the

compliance with all the limits established by the FAA both at state and municipal level. This system started the process of settlement of accounts by magnetic medium, which ensures the timeliness of information and the effectiveness of the external control system.

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