

## TC ABSTRACT

### I. BASIC PROJECT DATA

<b>Country/Region:</b>	Brazil
<b>TC Name:</b>	Brazilian States Public Financial Management
<b>TC Number:</b>	BR-T1285
<b>Team members:</b>	Carlos Pimenta (IFD/FMM), Team Leader; Patricia Bakaj (FMM/CBR), Alternate Team Leader; German Zappani (FMP/CBR); Leise Villela Estevanato (CSC/CBR); Marina Massini (IFD/FMM) and Marcio Cracel (consultant).
<b>Operation type:</b>	Research and Dissemination
<b>Reference to Request:</b>	<a href="#">IDBDocs38144124</a>
<b>Date of TC Abstract:</b>	August 2013
<b>Beneficiary:</b>	GEFIN – States' Finance Management Group
<b>Executing agency:</b>	Bank Executed (IFD/FMM)
<b>IDB Funding Requested:</b>	US\$350,000
<b>Local Counterpart:</b>	US\$0
<b>Total:</b>	US\$350,000
<b>Disbursement period:</b>	30 months
<b>Execution period:</b>	24 months
<b>Types of consultants:</b>	Individuals Consultants and Firms
<b>Prepared by Unit:</b>	IFD/FMM
<b>Unit of Disbursement Responsibility:</b>	IFD/FMM
<b>Included in CS or CPD:</b>	No
<b>GCI-9 priority:</b>	Yes

### II. OBJECTIVE AND JUSTIFICATION

- 2.1 **Objective:** The objective of this Technical Cooperation (TC) is to support the GEFIN<sup>1</sup> to generate and disseminate knowledge for the strengthening of the Brazilian States Public Financial Management (PFM)<sup>2</sup>, by improving the Public Accounting and Integrated Financial Management Systems (IFMS) functionalities.
- 2.2 **Justification:** Brazil is one of the pioneers in Latin America in modernizing PFM. In 1987, Brazil implemented the IFMS at the Federal level, which required the Government to carry out several previous institutional reforms, such as the introduction of the Treasury Single Account - TSA (consolidating all accounts spread into dozens of commercial banks into one government account)<sup>3</sup> and the adoption of the double-entry bookkeeping (introducing a more comprehensive chart of accounts and bookkeeping). The Brazilian Government is in the process

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<sup>1</sup> The GEFIN is part of the CONFAZ (National Finance Policy Committee), which comprises the 26 States and the Federal District Finance Secretariats.

<sup>2</sup> PFM includes budget preparation and execution, accounting and reporting, public debt, public investment, and payroll.

<sup>3</sup> Substantial unavailable amount of public federal resources were laying in several commercial bank accounts. Each spending unit had bank accounts for different types of expenditures: permanent material, payroll, consumption material, etc.

of implementing the International Public Sector Accounting Standards (IPSAS)<sup>4</sup>, which includes the State level governments.

- 2.3 The process of the modernization of the Brazilian States' PFM started after the implementation of the IFMS at the Federal level, and followed the same business model. Thereby, in 1997, to help in the modernization of the States, the Federal Government developed the SIAFEM, a lighter version of the IFMS for States and Municipalities. Initially, the majority of the States adopted SIAFEM. However, currently only 13 States<sup>5</sup> are using SIAFEM. The other 14 States moved to a more comprehensive functionality and developed their own systems.
- 2.4 Although there were substantial improvements in the Brazilian States PFM modernization, important challenges remain to be solved. These are: (i) difficulty to implement IPSAS concepts, because the States' charts of accounts are not fully structured based on accrual concepts (the public accounting is focused on the budgetary and financial aspects, missing the patrimonial concepts)<sup>6</sup>; (ii) most of the States' IFMS present limited functionality such as TSA partially implemented, problems to generate accrual accounting reports<sup>7</sup>, technological infrastructure obsolete, and lack of integration among the PFM sub-systems. To support the mitigation of these problems, the TC will finance two components.
- 2.5 **Component 1 – Public Accounting:** The objective of this component is to support the Brazilian States in their transition process to a new accounting concept, accrual based, required by the Federal Government for the all public sector entities. The component will support the preparation of six Technical Notes (TN)<sup>8</sup>, grouped by common subjects<sup>9</sup>, for three States to be selected by GEFIN. Based on the TNs' contents, guidelines for self-preparation of work plans will be developed to support other States. Finally, the TC will carry out a seminar to disseminate the use of the work plan guidelines.
- 2.6 **Component 2 – Integrated Financial Management Systems (IFMS):** The objective of this component is to contribute with the strengthening of the Brazilian States budgetary and financial execution process, by improving their IFMS' functionalities and integration with all budget execution phases. The component will finance assessments of the functionalities of four recently implemented States' IFMS, to be selected by the GFIN<sup>10</sup>, which requirements

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<sup>4</sup> The IPSAS standards requires changes in the public accounting, as the adoption of the accrual accounting and the valuation of the government assets and liabilities, as well as the provision for future payments, losses and depreciation.

<sup>5</sup> Amapá, Pará, Rondônia, Roraima, Tocantins, Alagoas, Maranhão, Pernambuco, Piauí, Espírito Santo, Rio de Janeiro, São Paulo and Mato Grosso do Sul.

<sup>6</sup> According to the IPSAS assessment financed by the Bank, regarding 18 IPSAS concepts, in average, the 27 States presented maturity accounting degree of 37%. For example, in subjects related to public Patrimony (the most important among the 18), only 7 of the 24 States presented a maturity degree above 42%.

<sup>7</sup> Delays in bookkeeping is at least 45 days between the closing of the month and the preparation of budgetary, financial, and patrimonial statements, making this information not useful for decision-making.

<sup>8</sup> Each TN will comprise an assessment, basic requirements, activities, and costs for the implementation of the IPSAS concepts in one pilot State, including the main milestones, recommendations based on lessons learned.

<sup>9</sup> Areas to be addressed: (i) Assets (ii) Expenditure in accrual basis; (iii) accounts receivable (iv) Public Cost Management; accounts payable; (v) contingent assets and liabilities; and (vi) Chart of Accounts and Financial Reports.

<sup>10</sup> Such as FIPLAN; e-Fisco; SIAFEM; States' Public Finance (FPE), as well as any other to be required.

comply with the Brazilian and international best practices. Based on these assessments, a conceptual business model comprising the basic functionality for a State IFMS will be specified, taking into account the National Treasury Secretariat's (STN) accounting and chart of accounts standards, as well as technological recommendations for system integration. The conceptual business model will guide the development and performance of a questionnaire for the identification of the remaining States' needs, aiming to improve their systems.

### III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

- 3.1 The TC will finance: (i) Technical Notes; (ii) guidelines; (iii) assessment of IFMS; (v) work plans and action plan to upgrade the SIAFs; and (vi) seminars to disseminate the lessons learned in IPSAS and IFMS topics. This research TC will be conducted in coordination with the Korean Ministry of Strategy and Finance.

### IV. BUDGET<sup>11</sup>

Components	Activities	Source of Financing	
		BID	Total
<b>I. Public Accounting</b>	Preparation of 6 Technical Notes, grouped by common subjects, for the implementation of IPSAS concepts in three the States.	90,000	90,000
	A Guideline for the States' work plans self-preparation.	30,000	30,000
	Seminar to disseminate the lessons learned in the implementation of IPSAS.	40,000	40,000
<b>II. Integrated Financial Management Systems</b>	Assessment of the functionalities of four recently implemented States' IFMS. Questionnaire for the identification of the remaining States' functionalities needs.	70,000	70,000
	Work plans for at least 3 States with the needs and the actions to upgrade their IFMS.	30,000	30,000
	Seminar to disseminate the lessons learned in the area of states IFMS.	40,000	40,000
<b>For both components</b>	Coordination activities with Korean MOSF and GEFIN, including participation in the Seminars.	50,000	50,000
<b>TOTAL</b>		<b>350,000</b>	<b>350,000</b>

### V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The Bank will be the executor of this TC and will be responsible for the contracting of consultancies in accordance with Bank procedures established in document GN-2350-7.5. Technical and disbursement responsibility at the Bank will be under IFD/FMM. The beneficiary is the GEFIN.

### VI. PROJECT RISKS AND ISSUES

- 6.1 One possible risk would be the lack of coordination with the Ministry of Finance of Brazil (MF). The risk will be mitigated through the carrying out of periodic meetings with Bank, GEFIN and MF representatives.

### VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

- 7.1 According to the environmental policy and safeguards, this TC is under Directive B.13., and does not require and further action.

<sup>11</sup> The contracts for the preparation of the products will also finance consultancies and travel costs.