The Brazilian Economy—You have argued that federal, state, and local governments should improve governance. Why?

Augusto Nardes—The protests in the streets last year were the result of government inefficiency—ineffectiveness. Government today is not carried on through the traditional democratic representative structure of three branches of government. Currently society has a direct relationship with the government. … There has been a revolution of social networks, which greatly influence government decisions. This has changed the paradigm

Augusto Nardes
President of the Court of Audit

Brazil needs a new governance compact to compel local, state, and federal governments to ensure that public services are excellent, says Augusto Nardes, president of the Court of Audit (TCU, see box). According to a TCU survey, only 7.6% of federal employees are able to carry out their functions efficiently. “Political parties must bear in mind,” he says, “that it is more important to negotiate projects for the country than projects for their own parties.” Nardes believes that it is critical for Brazil’s development that the federative covenant be revised and resources transferred to the states and municipalities to be redistributed; otherwise many states and municipalities will become insolvent.
of how to govern a country. But Brazil is not structured for that. We continue with the traditional analog government even as society has become digital. If we do not invest soon to improve the Brazilian government, we will have social chaos. This process is already happening because the government does not have the capacity to offer adequate health, education, and security services. … We desperately need a covenant of governance that compels government to deliver to Brazilians quality public services in return for all the taxes and fees we pay.

We must move urgently to show the people that their expectations can be met. For this the Court of Audit is conducting a dialogue with public managers from all states. We have visited 14 capitals to try to sell the idea that states and municipalities have to improve [governance and management]. Why? Because if we do not do something soon, we will have more social problems. For example, the 2013 budget had planned investment spending of around R$180 billion, but less than half was actually disbursed last year because the federal government lacks management capacity.

What has the TCU done to promote better public governance?
We have signed a cooperation agreement with the Organisation for Economic Co-operation and Development so that Brazil can adopt the best governance practices in developed countries by 2016. In November, we plan a major event to point out the major bottlenecks in each sector, especially education, health, and the environment. We are also coordinating with all the state Courts of Audit on important issues—the problem is not only in the federal government. … The federal government has bottlenecks because its concentration of power hinders the delivery of health, education, and public transportation. … These services do not work.

How does the TCU see Brazil’s competitiveness?
This year we are concerned with governance. In 2015 we want to evaluate Brazil’s competitiveness. … We are spending R$455 billion on social security pensions but less than R$90 billion on productive investment. We project that social expenditure will reach 11% of GDP in 2029 and 30% in 2050. We will become a welfare state, but without the capacity to invest in job creation. Saying we have only 5% unemployed while at the same time 70 million people receive some type of government aid is a way to mask the truth. We do need to continue programs like the Family Grant, but we also urgently need to provide better-quality education so that the poor can improve their productivity and incomes. The ideal would be to improve infrastructure to ensure conditions that give the productive sectors incentive to produce more, generate jobs, and pay more taxes.

Have fraud and misappropriation of resources decreased?
The TCU is doing its part. In the last five years we saved R$102 billion. For the World Cup, we saved R$700 million with preventive audits and renego-
tiating contracts. We were being overcharged R$110 million for renovation of Maracanã stadium alone.

**Why is there still corruption despite the TCU efforts?**

We inspect some of the works, but we cannot supervise all of them. For example, for the 2014 World Cup, we are supervising 200 works of the most important projects but there are 4,000 across the country. TCU is relatively small.

TCU conducted a survey of governance and human resource management in the federal administration and found out that only 7.6% of federal employees are able to carry out their functions efficiently. … In the private sector, the work of employees is continuously evaluated. Brazil has 12 million public employees and most of them are not evaluated, are not even trained, and do not have goals set for their work. … Brazil does not have policies to establish a meritocracy. How can we provide better health, education, environment, and security services if the work of public employees is not evaluated? Citizens pay taxes, expecting good public services, but many public employees only pretend to work.

**What about complaints that TCU hinders public works?**

Businessmen and congressmen sell that story but it is a myth. We surveyed National Department of Transportation Infrastructure projects and found out that of 1,150 public works about 140 were suspended—but only 2 because of the TCU. Many of those who complain fear transparency. In any case the TCU simply informs Congress of misappropriation of resources and overpricing. The final decision on public works is not TCU’s responsibility. That is up to Congress.

**What is your view of the procurement law now being debated?**

The streamlined procurement regime of Law 12,462 of 2011 decreased the time to complete a procurement from 240 to 80 days. That is obviously an improvement, but it is still early to make a definitive assessment of the law. We had a debate last year on the 20th anniversary of the 1993 procurement law and recommended that the President of the Senate review it. The report of the commission he established will soon be out and the procurement law may be amended. There have been important improvements, such as the auctions, but we still have more to do. Bureaucracy in Brazil is a major hurdle for foreign investors; the lack of certainty and clarity in procurement discourage investments.

**What about state-owned enterprises?**

In some sectors government is incompetent—unable to deliver good services. Although in the past powerful vested interests fought privatization of state-owned enterprises (SOEs), today they understand that it is possible to privatize SOEs and have them become more efficient than the government itself. As the TCU continues to evaluate SOEs, we see that some have advanced and others lost ground. … We took too long to address the question of railways, and we are very late with waterways. Most airports will not
be ready for the World Cup. There was a lack of planning, though TCU warned municipalities, states, and the federal government that it was necessary. Again, the problem of governance and management in Brazil is a national problem. That is why I argue for a governance covenant, and for this we must work together with all parties.

Many states and municipalities have high debts that breach the Fiscal Responsibility Law. Could better governance alone solve this?

If we do not make a new federative covenant, we will continue with this unequal situation where the federal government holds most of the resources at the expense of municipalities and states. I visited the Northeast region and some municipalities there fail to comply with the Fiscal Responsibility Law because they do not themselves generate wealth. In Alagoas and Bahia states, there are municipalities where more than 50% of the population is dependent on the Family Grant program. How do states comply with the law if they do not have income and depend on federal aid? Without a new covenant to create a balance between states, municipalities, and federal government, in the short and medium term many municipalities will become insolvent.

This is a thorny issue. Political agreement is necessary. We need great statesmanship to build it. Political leaders should put the interests of the people above party interests. … We have seen mayors resigning because they have no power to collect enough taxes to meet the needs of the population. … But if governance is not good, a federative covenant is of no use. They are closely linked. We need to evolve culturally and make it clear that population needs come first. Political parties need to be aware that it is more important to negotiate a project for the country than a project for their own party.

What does the TCU think of public sector “creative accounting”?

We must work to meet international accounting standards. “Creative accounting” is extremely negative; it costs the country international credibility. The TCU preaches that to have credibility, Brazil must meet international standards of auditing and accounting.

“What is the Court of Accounts of the Union (TCU)?

The Court of Accounts of the Union (often referred to as TCU) is the Brazilian federal accountability office. It is an independent federal agency that works for Congress like the US Government Accounting Office. It supports the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government. Its members are appointed by the National Congress and the President of Brazil. The TCU employs a highly qualified body of civil servants to prevent, investigate and sanction corruption and malpractice of public funds, with national jurisdiction. The TCU cooperates with the Comptroller-General of the Union (CGU), which centralizes federal executive internal audit, and its operations are scrutinized by the Attorney General’s office.