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GUIDELINES FOR MEASURING AND IMPROVING PUBLIC INSTITUTIONS

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ABSTRACT

The pressure for more efficient governments has increased across the world over the past 30 years, as well as the demand for performance measurement of public programs. This paper studies experiences around the world and in Brazil with regard to performance management and other tools to measure and improve public institutions. Based on these experiences, the present work develops general guidelines for this process and proposes specific recommendations for the Treasury Department of the State of Rio de Janeiro.

Key Words: Performance Management, Public Efficiency, Measurement

INTRODUCTION

Governments of countries around the world, and particularly in Brazil, are under pressure to improve public institutions while containing expenditures. As a consequence of widespread desires of citizens for more transparent, entrepreneurial, and efficient government, there has been an increase in the demand for performance measurement of public programs (OSBORNE & GAEBLER, 1992; AMMONS, 1995; BENEWITZ & SCHEIN, 1996). This is also a sign of the information age, since technology has facilitated data processing (NEWCOMER, 2007b), as well cross-country comparisons.

Performance measurement is “the process of designing and implementing quantitative and qualitative measures, including outputs and outcomes” (MCDAVID *et al*, 2013, 490). Picciotto (2011) highlights that program evaluation focuses on whether a policy, program or policy is working or not, concerning the observed outcomes.

Though there are some controversies among evaluators, whether or not their profession embraces performance measurement (BERNSTEIN, 1999; FELLER, 2002; PERRIN, 1998), the fact is that performance measurement, regardless of who does it, is essential for informing performance management decisions (MCDAVID *et al*, 2013). According to these authors, performance results should also be used to promote transparency and accountability of public institutions. This is in fact an opinion shared by other authors as well (Forsythe, 2001).

Furthermore, Thornhill (2006) states that public sector performance is crucial because it is a major employer, a major provider of services in the economy, and a consumer of tax resources. In other words, the public sector should seek maximum performance because it

consumes society's resources and because society would target maximum efficiency if it were the decision-maker.

Many studies such as Ohemeng (2010) and Radin (2003) have confirmed that there is no "one best way" to improve public sector efficiency and that the local environment must be fully understood and studied before implementing different projects and practices. However, some major guidelines may be identified from successful examples around the world, as long as they are well analyzed in the local perspective before being applied.

In this context, this paper initially analyzes experiences around the world and in the United States with regard to performance management and other methods to improve public institutions. The following section describes what are Brazilian experiences in this matter. Challenges that are likely to come about are presented in the fourth section, and general guidelines are developed in the fourth section. Finally, the last section presents some recommendations for Brazilian officials to consider prior to implementing measurement and other tools to improve public institutions, particularly in the Treasury Department of the State of Rio de Janeiro.

INTERNATIONAL EXPERIENCES

The public sector across the world has been increasing performance-based management, measurement and evaluation over the last three decades (McAdam et al., 2005), in order to develop public performance, and more specifically improve policy and program decision-making, the efficiency of service delivery, and the clarity of accountability.

This type of management has emerged from a broad movement of New Public Management (NPM) in public administration, which for Hood (1991) represented a paradigmatic break from the traditional model of public administration. NPM emphasizes the importance of clarifying program and policy objectives, measuring and reporting program and policy outcomes, and holding public officials accountable for achieving expected results (HOOD, 1991; OSBORNE & GAEBLER, 1992). For Bromberg (2009), NPM has renewed emphasis on performance management.

What OECD countries have been trying to implement in order to improve public administration is the use of performance information in budget processes. These countries have started using performance data in the early 1990s specifically to contain growth in public spending and

improve outcomes (CURRISTINE *et al*, 2007). Today, the introduction of performance budgeting is widespread and well established – nearly 75% of OECD countries include non-financial performance data in their budget documents.

According to these authors, performance budgeting is more than the development of performance information – it is the use of this information in budget processes and resource allocation. It is part of a process that shifts the focus of decision-making in budgeting towards measurable results.

In the work of Curristine's (2005a, 2005b), OECD public officials reported that the primary objectives of introducing performance measures into budgeting and management systems included improving organizational and program efficiency and effectiveness, and providing more concrete performance information for decision-making. Secondary objectives included expenditure reduction, resource reallocation between activities and programs, and monitoring government activities and performance. In a subsequent report, other objectives were highlighted, such as developing public sector service delivery and accountability to politicians and the public (OECD, 2007).

OECD countries also reported improvement in priority setting over the short and medium term, and in clarifying what results are expected from the public sector. Other detected benefits are improvements in monitoring of agencies' performance and progress, explaining why programs may not be working, improving program policies and management, and increasing the transparency of performance and results information provided to the legislature and the public. Finally, the performance data have been used to inform citizens' choices on the level of performance and services.

OECD studies also point out that the systematic use of performance information in budget processes has the potential to improve allocation efficiency, which involves efficient allocation of public expenditure according to government priorities. It may also contribute to aggregate financial discipline through improvements in operational efficiency. However, according to Curristine *et al* (2007), there is little evidence that supports the first and none to support the latter, and that there are other mechanisms more suitable for aggregating financial discipline.

OECD reforms with regard to performance budgeting may be classed as directed toward three objectives: making the budget process more responsive to priorities; making management practices more flexible, so that defined priorities are easier to achieve; and strengthening competitive pressures among providers of public services (CURRISTINE *et al*, 2007).

These countries report many benefits of such reforms, e.g. greater emphasis on planning; providing mechanisms that help clarify the expected results from programs and government policies; improving the monitoring of performance within the government; improving program management and decision-making; and promoting transparency in two aspects – providing citizens information on government’s actions and getting feedback from them (CURRISTINE *et al*, 2007).

Overall, the quantity and quality of data and their use for resource allocation and for program or policy decision-making has improved over time in OECD countries (CURRISTINE, 2005a, 2005b). However, these countries are still seeking further improvements and aiming towards the systematic use of performance budgeting.

A majority of OECD countries use both output and outcome measures, with more effort devoted to developing the latter beginning five to ten years ago. It is worth noting that *output* may be defined as a calculation of program activity, which can be described in a qualitative or quantitative manner. On the other hand, *outcome* is an assessment of the results of a program compared to its intended purpose (NEWCOMER, 2007b). In future sections, we will analyze the challenges that arise using each of these types of measures. Therefore, we should keep in mind that OECD countries use both of them in order to their balance pros and cons.

By and large, OECD countries have substantially transferred spending responsibilities, and therefore power, to sub-national governments since the early 1990s (CURRISTINE *et al*, 2007). This allows national governments to focus on the tasks they are left with and also obligates other levels of government to improve efficiency because they must deliver cost effective services. Other benefits to this decentralization will be discussed in future sections, since it is a very important matter for public performance.

EXPERIENCES IN THE UNITED STATES

In the United States, performance measurement started in the mid-1970s (HATRY, 1996, 1999), whereas managing for results, performance-based budgeting, and outcomes-based accreditation, has been part of most management discussions in public institutions since the early 1990s (NEWCOMER, 2007a). Outcomes-based accreditation is the notion that concrete data on program performance should guide professional accreditation of programs and services.

Beginning in the 1990s, legislative initiatives in the federal government began pushing agencies to measure and report on programmatic performance (WHITE & NEWCOMER, 2005). The most important one was the Government Performance and Results Act of 1993 (GPRA; P.L. No. 103-62). The GPRA required all federal agencies to submit strategic plans to Congress, starting in 1997, set performance goals, starting in 1999, and report actual performance, beginning in 2000 (KRAVCHUK & SCHACK, 1996).

That same year, President Clinton promoted an initiative focused on measurement of program results, known as the National Performance Review (NPR), then renamed as the National Partnership Reinvention. The NPR emphasized result-oriented management as well as reforms such as reducing excessive regulation, and increasing outsourcing.

In order to hold public managers accountable for accomplishing results, the George W. Bush Administration introduced a new tool that focused on assessing program effectiveness. The Program Assessment Rating Tool (PART) was a questionnaire that federal managers were required to answer about the effectiveness of their programs and substantiate them with evidence, and it focused on program results (NEWCOMER, 2007a). PART presented a very explicit, systematic, and transparent process to analyze federal programs. Its scores were used to assess management effectiveness and be linked with funding decisions (GILMOUR & LEWIS, 2003).

Although the Obama administration stopped using the PART assessments tool (JOYCE, 2011), it continued the emphasis on performance management by appointing the first Federal Chief Performance officer. He would be expected to work with agencies to “encourage use and communication of performance information and to improve results and transparency” (U.S. OMB, 2010).

Federal programs currently have an increasingly inter-sectoral nature and often depend on coordination of public managers at two or three government levels (NEWCOMER, 2007b). In general, performance management systems are increasingly robust, and reflect stakeholder involvement as well as extensive information sharing.

BRAZIL'S EXPERIENCE

Brazil has been through two main administrative reforms, the first in 1936 and the second in 1995. The first implemented a system of bureaucratic public administration, while reaffirming the centralizing and hierarchical principles of classic bureaucracy.

In 1967, there was a first attempt at managerial reform of Brazilian public administration, led by Amaral Peixoto and inspired by Hélio Beltrão. The main document that expresses this movement is the Decree-Law 200/1967, which included decentralizing public administration and granting greater autonomy to indirect government agencies. This included planning and budget decentralization, as well as control of results.

However, this regulation allowed the government to contract employees without competitive civil service exams, and therefore made room for practices designed to benefit self-serving interest groups. As a consequence, the core of the movement was weakened by an opportunistic strategy adopted by the military regime that contracted the highest-level personnel through state companies. In this way, the administrative reform attempt built into Decree-Law 200 failed.

According to Bresser-Pereira (1999), the 1995 reform was based on the concept of managerial public administration, and was a response to the major Brazilian state crisis in the 1980s, as well as a consequence of the process of economic globalization, since it was greatly influenced by the New Public Management ideas. It should be pointed out that the author, Bresser-Pereira, conducted the reforms as Minister of the Ministry of Administration and State Reform (MARE), which will be further described.

The crisis that he refers to occurred between 1979 and 1994, when Brazil lived through a period of high inflation and per capita income stagnation. This crisis included a fiscal crisis, crises in the system of state intervention and in the bureaucratic system of state administration, and a political crisis.

The political crisis was due to several historic factors, such as the military revolution and President Fernando Collor's impeachment. The fiscal or financial crisis was marked by the loss of public credit and by negative rates of public savings. The economic globalization revealed the problem with the Brazilian industrialization process, which was totally dependent on the protectionist model of import substitution industrialization (ISI), leading to the crisis in the system of state intervention.

It is worth noting that ISI is a trade and economic policy that targets the replacement of imports with domestic production, in order to reduce foreign dependency (BRIAN, 2009). From 1930 to the end of the 1980s, Brazil implemented such a policy by devaluating currency to boost exports and discourage imports, as well as adopting different exchange rates for importing capital goods (which were necessary for the development of national industries) and for importing consumer goods.

Finally, the crisis of the system of bureaucratic public administration began during the military regime, partly because it did not consolidate a professional bureaucracy through a redefinition of careers and public competitive civil service examinations. Instead it recruited administrators through state companies. Furthermore, the situation worsened with the 1988 Constitution, which made a swing to the other extreme, by implementing excessive bureaucratic rigidity. These factors led to inefficiency in Brazilian public administration.

According to Bresser-Pereira (1999), society's initial reaction to the reform proposal was a lack of belief and irritation, which may be seen as a regular resistance to what is new. Besides that, however, Przeworski (1995) suggests that success in state reforms depends on citizens' capacity to hold authorities accountable. And Brazil's political culture has always been more authoritarian than democratic. Thus, there was a negative reaction to the proposals while they were still being formulated.

However, by the end of 1995, various sectors of society were convinced that reform was essential to state and municipal fiscal adjustment and would promote the transition from an inefficient bureaucratic public administration to a decentralized, efficient managerial public administration, focused on meeting the citizenry's needs.

The reform proposals were structured in multiple fronts: human resources management, organizational innovations, procurement, international loans, negotiation and advocacy (GAETANI, 2003). It is worth pointing out that MARE started implementing some proposed actions that did depend on legislative approval, while Congress was still analyzing them. This was done because congress approval takes time, especially in the case of constitutional amendments (MELO, 2002), and also because implementing some would stimulate the congress to approve the entire legislation.

Concerning human resources, MARE immediately delivered impressive results, such as the following: data on the federal pay roll were published for the first time in Brazilian history; information technology based systems were implemented to manage the pay roll; Bresser-

Pereira determined that public examinations were to be carried out on annual basis for strategic career; the National School of Public Administration (ENAP) delivered an unprecedented program of continuous education based on new public management ideas (GAETANI, 2003).

Concerning procurement, a traditional bottleneck in the relationship between the state and the private sector, a more simple and manageable legislation (Law 9648/1998) was proposed and then approved.

However, many problems arose during implementation. The concepts of executive agencies and social organizations were not properly understood, for they did not fit in the Brazilian juridical system. Most ministries and civil servants whose organizations were to be transformed into executive agencies and social organizations were not convinced with the reform ideas. Even worse, Congress and Interest groups did not agree on several aspects of the reform, particularly wage limits for the legislative and judicial branches. Therefore, the process took a long time and the executive had to make many concessions. In the beginning of 1998, Bresser-Pereira realized that he had lost the battle to implement the reforms. Thus, he left the Ministry, and it was soon extinguished.

Overall, there was substantive policy change in organizational arrangements and in personnel legislation (GAETANI, 2003). Social organizations and executive agencies did in fact become part of Brazilian public organizations, although on an exploratory basis. Furthermore, thanks to ENAP's provision of large scale training, New Public Management ideas were disseminated. In spite of all concessions, Bresser-Pereira was able to promote flexibility in the public sector.

According to Gaetani (2003), the Brazilian case may be regarded as a successful example of public entrepreneurship, although partial, in a hostile environment.

Other smaller and decentralized actions also attempted to improve the country's public system by implementing performance measurement in the Brazilian bureaucracy. All the same, they have been mostly ineffective, due to restrictions in human resources reallocation (GOMES, 2010). Most actions may incrementally increase civil servants' productivity based on career incentives, such as bonuses and higher salaries, yet they miss the real focus of performance management and therefore do not achieve their targets.

Other authors have a different perspective on Brazilian history. According to Coelho *et al* (2005), the 1988 Brazilian Constitution decentralized policymaking and established

mechanisms for citizens to participate in the decision-making process of social policies. Hundreds of thousands of interest groups collected half a million signatures while the constitution was being drafted to demand the creation of these mechanisms, which were intended to make policymaking more transparent and accountable, and social policies more adequate to the needs of the citizens (COELHO *et al*, 2005).

As consequence, management councils, public hearings, conferences, and participatory budgeting were created. Since 1989, 250 Brazilian municipalities have adopted the participatory budgeting process. In Porto Alegre, the first city to adopt it, close to 100,000 people (out of 1.3 million) have participated in government decisions through these mechanisms (SOUZA SANTOS, 1998).

Over 28,000 management councils were established for different matters at all levels of government. They prepare forums where citizens may join service providers and government officials to define public policies, and oversee their implementation. However, researches outline that the lingering authoritarian political culture, the fragile associational life, and resistance from both society and state compromise their effectiveness in promoting citizen participation (CARNEIRO, 2002).

Even when management councils are effective, the way they are organized exclude the participation of the poorest (COELHO *et al*, 2005). On the other hand, COELHO *et al* suggest that the inequalities may be addressed, at least partially, by reviewing the process through which councilors are chosen and ensuring that citizens with relatively little technical expertise and little access to regular communication channels participate in the deliberative decision-making process.

CHALLENGES

Countries face many challenges to implement performance measurement and general improvements in the public sector. Wholey (2002) identifies challenges that include legal and regulatory constraints, and organizational factors, such as structure, systems, culture and capacity.

While implementing public reforms, OECD countries face challenges with measurement issues, for it is difficult to define programs' outputs and outcomes (CURRISTINE *et al*, 2007). This is because governments carry out a wide range of programs and policies and some of them are

more easily measured than others. Educational and health functions are much more easily measured than policy advice, for example.

Besides that, deciding whether to measure outputs or outcomes is another set of challenge. Outputs are more easily measured and are usually directly associated with programs and policies under evaluation. However, they usually do not express the goals properly and may promote actions that drift away from the goals. On the other hand, outcomes may be intrinsically associated with the goals, yet they are largely influenced by factors external to the program or policy and are usually associated with time-lag issues. Measuring outcomes may, therefore, lead to the wrong conclusions and incorrect adjustments to the program.

This is a reason why OECD guidelines remark that designing government-wide systems that automatically link performance to resource allocation should be avoided, for they may distort incentives. Another reason is that it is difficult to identify the causes of poor performance (CURRISTINE *et al*, 2007). In fact, Newcomer (2007b) points out that performance measurement does not provide explanations for how or why programs are effective or not.

Newcomer (2007b) addresses this measurement challenge by suggesting that both outputs and outcomes (short, intermediate, and long term) be measured. Contextual factors, which are external to the program, should also be mapped in an attempt to isolate program effects.

An aspect present in the Brazilian public system that adds to this challenge is that most organizations, especially at the state level, have no adequately defined mission (GOMES, 2010). As most public officials suppose, the legislation that gave birth to the organization do provide the mission. However, it no longer reflects the institution's current activities.

The problem is not changing the original purpose of the organization. In fact, the Social Security System in the United States was originally created with the mission of eliminating poverty among elderly citizens. Today, its programs are focused on redistribution of wealth and insurance benefits to eligible citizens and permanent residents. It is just a matter of evaluating and updating the mission to the current strategy.

It is much harder to implement performance measurement when basic guidelines, such as mission, vision and values, are not well defined. This usually means that managers and the general staff are not aware of the institution's strategic goals. Defining measures in this situation might promote actions that work against each other or that are redundant. Thus, a first step to implement performance measurement is to reanalyze these key components in the perspective of the organization's current reality.

Resistance from public servants is another difficulty that OECD countries face. Their resistance is partly because performance-based management might increase demand for data collection and other requirements that may not be used at all by managers or politicians. Another reason is that the working environment is not as easily renewed as in the private sector, since politicians must be willing to promote public exams for this to happen. They may also fear being accountable for results out of their control.

These fears actually have a significant effect on public institutions' performance because of job stability. They may be present in the private environment, but the possibility of losing the job outweighs these fears.

Job stability is a characteristic of bureaucratic administrations and it was an appropriate manner for protecting employees and the state itself from the influences of the privileged classes that dominated previous regimes. In the imperial period in Brazil, for example, when a governor fell from power, the normal practice was not only to remove those holding upper-echelon positions, but also to eliminate huge contingents of ordinary government workers (BRESSER-PEREIRA, 1999).

However, job stability does not incentivize staff to adapt to the real needs of citizens, and it makes it impossible to implement a system of public administration founded upon incentives and punishments. This may have been acceptable at a time when a privileged class dominated government actions and the services of the liberal state were limited. However, as the state expanded and took over a broad range of services for citizens, the need for efficiency became a fundamental concern. At the same time, the influence of the privileged classes greatly declined.

These discussions suggest that a change in culture is necessary. Dr. Richard Boyle, head of research for the Irish Institute of Public Administration, observes that the mechanisms of performance reforms (creating strategic plans, measuring, reporting, etc.) are not as important as the implementation of a culture where managers make fact-based decisions to improve results (KAMENSKY, 2012).

Newcomer & Caudle (2011) identified that implementing an organizational culture that encourages the use of metrics for ongoing performance improvement requires strong leadership. OECD guidelines also draw attention to the importance of support from administrative leaders during the implementation process of performance-based management, and add that political support is also fundamental in this process. In fact,

politicians play an important role in this process, especially when it comes to using performance information in the budget process. According to Curristine *et al* (2007), politicians must apply the right pressures to implement this process, influence the setting of objectives, and use performance information in decision-making.

Notice that all these researchers highlight the importance of the top-down support during the implementation process. However, once this culture is installed, it is hard for new leaders or politicians to abandon this practice, which is definitely a desirable feature. Therefore, the body of civil servants has the important role of spreading and maintaining these values. This is a reason why Newcomer & Caudle (2011) point out to the importance of a bottom-up approach that allows for the involvement of all staff and other stakeholders.

The major challenge concerning this aspect is *how* to implement such an organizational culture. OECD guidelines suggest the development of incentives that motivate civil servants and that changes politician's behavior. Newcomer & Caudle (2011) also make similar suggestions and adds that such incentives may come from changes in performance management and budgeting rules. However, we will once again face the problem that arises from job stability and the difficulty of developing incentives and/or punishment in the public environment.

OECD countries face other challenges with regard to politicians. Most of them do not set clear objectives for their programs and projects, which makes it difficult (if not impossible) to adequately evaluate them. Moreover, once performance data are generated, politicians do not tend to actually use them in decision-making – only 19% of OECD legislatures do so.

To change this reality, performance information must be adequate to politicians' requirements, with regard to timing and the capacity constraints of the decision maker. The concern of generating the correct information and presenting it properly to stakeholders and decision-makers should always be present. This may be considered a challenge by itself, for it requires careful planning, a holistic view of the entire program or process, and the ability to learn from previous situations.

There is another issue concerning politicians: they operate on a short-term basis, and this largely influences their decisions. Many programs very effective in the long run may be kept aside and less effective short-run programs are likely to replace them. This is a given reality and the challenge is not to change it, but to provide the right incentives so that performance information can be taken more into account in politician's decision-making processes

(CURRISTINE *et al*, 2007). This, of course, means providing politicians with performance information in an adequate manner, which includes timing constraints, as previously discussed. *How* the right incentives will be provided depends on local conditions, such as the economic situation and political structure.

Another important challenge to measuring and improving public institutions is associated with multiple stakeholders. Government projects and programs influence differently various society groups. Moreover, different people in the same group interpret these actions also differently, according to their personal tastes, experiences, political beliefs, etc. Therefore, the complexity of multiple stakeholders presents a major challenge in performance management (McAdam *et al*, 2005), and generally any project to improve government services.

GENERAL GUIDELINES

The process of measuring and improving public institutions should rely on a systematic understanding of the government's role in society and that of the specific agency or organization that is being analyzed. This is one of Newcomer & Caudle's (2011) recommendation and an OECD guideline, which points out that a common whole-of-government planning and reporting is important (CURRISTINE *et al*, 2007).

In this sense, it is necessary to map the government agency's processes, in order to eliminate redundancies. These redundancies raise costs but may not produce desired outcomes. This holistic study may also identify how resources may be reallocated to improve general results. Mapping the process also allows us to locate where improvement is in fact necessary and will result in a general improvement, instead of just promoting an apparent improvement that will have no effect on the process as a whole.

This systematic analysis should be done from the major stakeholder point of view, which is society. This shift of standpoint is crucial and also prevents the "fake" improvements, when a certain procedure has become more efficient from one point of view, but when analyzing the whole process from society's perspective nothing has changed. Besides, this is also the way to overcome the challenge concerning the problem definition.

This holistic understanding also justifies cross-agency collaboration and coordination as a guideline. Since the government should be thought as one unit from society's standpoint,

there will be more gains and less spending if redundancies between different agencies or between government levels are eliminated and coordination is installed. According to Mr. Albert Aguilera, General Director in the Head Office of General Public Finance in France, longer projects, carried out through the different governments promote efficiency of public spending.

The need to analyze government institutions from society's point of view does not mean that the multiple stakeholder challenge is overcome. On the contrary, cross-agency collaboration and coordination amplifies the number of stakeholders involved. McAdam *et al* (2005) suggest that performance based management start by adequate stakeholder identification and categorization. As a next step, Newcomer & Caudle (2011) emphasize the importance of stakeholder support and engagement for an effective performance management system, especially throughout planning and measurement processes. For Wholey (2002), one of the three essential processes is to develop reasonable agreement among key stakeholders on missions, goals, and strategies.

However, a possible consequence to this stakeholder involvement in the planning and measuring process is generating false expectations. Therefore, it is essential to set precise, reasonable performance goals, targets and strategies (NEWCOMER, 2007b; NEWCOMER & CAUDLE, 2011). This will allow no room for misinterpretation, whether it is in behalf of stakeholders or of public officials, and setting them reasonably will increase the chance that they will be achieved.

Newcomer & Caudle (2011) also highlight the importance of consistently testing the quality of reported performance data. This means that performance management systems are required to have some redundancies and double checks in order to ensure information quality. It is also important to avoid monopolies on the selection of what is measured and how results will be interpreted (DE BRUIJN, 2002). This will improve decision-making processes and also promote true public transparency.

Other essential processes mentioned by Wholey (2002) are documenting performance and using performance information for policy decision-making and accountability. We may now recall international experiences with performance budgeting and the difficulty to actually use the information that is being generated. A way to overcome this problem is to focus on the purpose of the measurement or improvement project and to supply stakeholders (managers, politicians, etc.) with information that fulfill their requirements. In other words, documenting performance must be done with great care and using performance information must be a constant concern.

On the other hand, OECD guidelines remark that designing government-wide systems that *automatically* link performance to resource allocation should be avoided. It is difficult to design systems that take account of the underlying causes of poor performance and thus they are likely to distort incentives (CURRISTINE *et al*, 2007). Professionals must analyze measures and performance information, and there should be room for iterative learning (NEWCOMER & CAUDLE, 2011). Automatic links from performance information to resource allocation, incentives, and penalties allows no room for iterative learning, and initial mistakes are inevitable.

These authors point out that professional expertise is necessary at all phases in determining, collecting, and analyzing performance information. They state that iterative learning is required to identify which data are truly necessary and worth collecting.

Managerial and financial flexibility, such as a relaxation of input controls and provision of increased financial and/or managerial flexibility in areas of spending and staffing, is required (NEWCOMER & CAUDLE, 2011). Wang (2002) and Kelly (2008) also illustrate that it is crucial that managers are empowered in a decentralized decision-making structure, in conjunction with being held accountable for results. This specific guideline will be more deeply analyzed in the following section.

Another important guideline is to continually review the performance management system (NEWCOMER & CAULDE, 2011). This guideline may be considered one of the basic principles of any administration tool, such as the PDCA (Plan-Do-Check-Act) cycle, developed by Walter A. Shewhart in the 1930s, which inspired many management systems that are internationally recognized, e.g. ISO 9001, Six Sigma, Total Quality Management, and Statistical Process Control (SCAAT, 2003). The EFQM Excellence Model is also based on cyclical self-assessment and reflection to enhance continuous learning, improvement and innovative thinking (SOKOVIC, 2010). It is the most popular quality tool in Europe, used by more than 30.000 organizations to improve performance (EFQM, 2013).

Other guidelines proposed in the literature aren't equally agreed upon, as are these. Lu *et al* (2009) points out that laws should explicitly cover many aspects of performance management, which includes requiring the use of measures, linking them to strategic planning, reporting measures, and auditing and evaluating performance results. This was the way the United States initiated performance measurement, in the early 1990's, as previously described.

On the other hand, authors such as De Bruijn (2002), Fryer *et al* (2009), and Hammer (2007) highlight the problems concerning this normative view of performance management. Some of the perverse effects that may arise from performance management are additional internal bureaucracy, blocking of innovations and ambitions, not enough responsibilities for public managers, and even manipulation to meet measurement goals.

These differences confirm studies that caution that there is no “one best way” to implement performance-based management. Some of these studies are Ohemeng (2010), which analyzes developing countries, and Radin (2003), which analyzes Australia, New Zealand, and the United States. This idea is also conveyed in OECD general guidelines. Issues that vary between countries, e.g. culture, legislation, technical basis, prevent good models implemented in a certain country from functioning in another.

This means that the local environment must be fully understood and studied in order to implement performance-based management. In this context, the following section presents suggestions of specific guidelines that, in my understanding, should be applied in the Brazilian public sector.

RECOMMENDATIONS FOR PUBLIC INSTITUTIONS IN BRAZIL

In order to implement an effective performance management system and other projects to measure and improve Brazilian public institutions, some important issues should be discussed. This section presents general ideas to be considered by public officials prior to implementing these systems, which are discussed in the literature and also conveyed in lectures and events designed for public officials around the world. Though the major focus is on Treasury Departments, most issues are applicable to Brazilian government agencies in general. Besides, it should be clear that this section makes no pretense of being exhaustive.

TRANSPARENCY AND ACCOUNTABILITY

The process of measuring and improving public institutions inevitably involves Transparency and Accountability. They are mechanisms that allow society to acknowledge and participate in government’s decisions in order to improve government’s services and institutions. According to the International Institute for Sustainable Development (IISD), they are two of the central pillars of good governance (IISD, 2013).

Accountability has been a major demand from citizens over the world, according to CURRISTINE *et al* (2007). The Open Budget Survey, carried out by the International Budget Partnership (IBP) since 2006, reinforces this idea (IBP, 2012). This survey measures the state of budget transparency, participation, and oversight in countries around the world, and also helps to increase the pressure on government for accountability. The survey is focused on budgets because, according to IBP (2012), they are government's most powerful tool to meet the people's needs and priorities.

According to the survey, Brazil has scored decently high in the overall open budget index (OBI) 2012 (74%), which is higher than developed countries, such as Germany, Spain, Portugal, and is the highest in South America. This means that there is a significant provision of information on the national government's budget and financial activities.

However, Brazil needs to increase the comprehensiveness of most budget documents made available for the public (IBP, 2012). This lack of comprehensibility in documents that provide public information is in fact a major complaint of Brazilians. This could be seen as a second step to transparency – after the information is available, it must be made intelligible for the public.

Another aspect of concern is that the country performs poorly on public engagement in budgeting (IBP, 2012). Public hearings and opportunities for testimonials in the legislature are weak, mechanisms for participation during budget execution do not exist, and the required process after consultation also does not exist, according to the study.

In fact, as mentioned in previous sections, there are mechanisms for citizens to participate in the decision-making process of public policies, but other researchers had already questioned its effectiveness. Here, IBP (2012) confirms and updates their position in this matter. Hence, government agencies in Brazil should be concerned about how they can stimulate public participation in their decisions.

This is certainly a major challenge for public officials around the world. According to the Open Budget Survey 2012, most countries provide few opportunities for this engagement – the average score in this aspect is 19 out of 100. It is worth noting that public engagement is not included in the Open Budget Index.

IBP recommends all countries to advance both fundamental and innovative participation mechanisms. As Vivek Ramkumar, Director of International Advocacy and the Open Budget

Initiative at IBP, mentioned at the Open Budget Survey 2012 release in February 5, 2013, just putting information on the Internet does not provide high quality discussions.

As the director mentioned, providing information is only the first step. Making information comprehensive and, subsequently, engaging the public in government decisions must follow simple provision of information. This last step is especially complex because it requires educated public participation. By that, I do not mean that only people with a certain education degree should participate. On the contrary, the more people who engage, the better. What I do mean is that they should study carefully what is being decided.

As Mr. Mohammad Mustafa Mastoor, Deputy Minister of Finance in Afghanistan, outlined in the release, the government has the challenge to *create* the demand for transparency and accountability, instead of simply responding to it. It is this demand that might promote an educated public participation.

For the difficult task of creating demand for transparency, Brazil may rely on other countries experiences, despite the low average score in public engagement. The IBP survey considers that South Korea provides extensive opportunities for public participation – its score was 92 in this aspect – and that promising innovations in this area are being developed (IBP, 2012). The finance ministry in South Korea participates in field trips to learn about local conditions; Trinidad and Tobago created a variety of public forums; and New Zealand promotes client surveys and hot lines on tax issues, which allow citizens to anonymously report, for example, tax evasions or fraud.

One essential and permanent form of increasing demand for transparency and accountability is through education. In fact, it is also the best way to raise compliance to legislation, including tax regulations. The state of Rio de Janeiro has started on this path. In 2010, the School of Finance (ESAF – *Escola Fazendária*) campaigned in 2.9 thousand public schools, in an effort to stimulate the habit of requesting the tax coupons from general purchases (RIO DE JANEIRO, 2010).

Spain has gone further. The federal tax department (*Agencia Estatal de Administración Tributaria*) in cooperation with the Institute for Fiscal Studies (*Instituto de Estudios Fiscales*) developed a website for civic and tax education (*Portal de Educación Cívico-Tributaria*). The intention is to offer material and other resources for teacher who wish to promote civic and tax education, but also to offer accessible information to students of different ages through a

friendly interface (AGENCIA TRIBUTARIA, 2005). The portal dedicated to students is available at <http://www.agenciatributaria.es/AEAT.educacion/Alumnos_5_6_VF_es_ES.html>.

According to the Open Budget Survey release, it is also possible to accelerate budget transparency through mobile phones. Researchers believe governments should explore citizen engagement apps for budget, budget strategy, in-year performance and end-of-year results (RAMKUMAR, 2013). According to him, these apps should cover a citizen's guide to the budget; citizen's voting on budget issues; and a budget simulation model.

Another way of engaging citizens on public management, which would lead to an increase in public demand for transparency and accountability, is to use popular media, such as television series and movies (RAMKUMAR, 2013). There was a similar suggestion in III SIATE: to engage citizens in government matters through social networks, such as Facebook and Twitter.

Although these ideas may seem very unusual, some countries are starting to implement them. The Program on Liberation Technology at Stanford University is leading a project to provide India's poorest citizens in rural areas with access to government information through mobile phones (SRINIVASAN, 2013). Still in its initial phase, the project fosters social auditing through popular and widespread technology – more than half the families in rural areas of India's poorest states have mobile phones.

The inspiration for this project came from a Non Governmental Organization (NGO) working in rural Rajasthan in India called Mazdoor Kisan Shakti Sangathan (SRINIVASAN, 2013). NGOs, in fact, play an important role in a country's development, particularly in enhancing transparency and accountability (Clark, 1991). In the United States, they are even considered to be essential for *democracy to prosper* (U.S. Department of State, 2012). In visit to the U.S. State Department in Washington D.C. on January 25th, 2013, Bruce Friedman specifically mentioned that NGOs in the U.S. are one of the most important ways that the public acknowledges and engages in government decisions.

In this sense, one way for Brazil to create public demand for transparency and accountability is to stimulate NGOs' formation and operations. In the U.S., for example, registration requirements are generally very simple and anyone can incorporate an NGO within a few days (U.S. Department of State, 2012). Furthermore, many NGOs are qualified as exempt from state and federal taxes. Another very important feature is that the U.S. has very little restriction on the freedoms of expression and association for NGOs, and they are also free to discuss political issues or criticize the government (U.S. Department of State, 2012).

Brazil has made an initial step toward increasing transparency and accountability, by agreeing to participate in the Open Government Partnership (OGP) in 2011, and thus committing to increase the availability of information about governmental activities; support civic participation; implement high standards of professional integrity throughout its administration; and increase access to new technologies for openness and accountability (Open Government Partnership, 2011). The OGP requires that these commitments be concrete and followed by action plans with active public engagement. Brazil has also started a process to include Brazilian NGOs in this partnership (IBARRA, 2012), which may lead to a further stimulus to public participation.

Transparency and Accountability are in fact intrinsic to the topic of improving public institutions. Not only will the government play a better role in society, but it may also enhance public confidence and reduce people's perception of corruption, as Mohammad Mustafa Mastoor highlighted in the release. Other benefits presented in the Survey's Executive Summary are that transparency can help attract cheaper international credit, because of the higher credit ratings; it is an important predictor of a country's fiscal credibility and performance, according to International Monetary Fund (2012); transparency can improve efficiency in public spending; and it promotes fairness and justice by matching national resources to national priorities. The report gives practical cases that support this argument for the last two benefits.

Therefore, every attempt to measure and/or improve government agencies should consider transparency and accountability within all their steps – how more relevant information may be provided to the public; how public information can be made more comprehensible, how there can be more opportunities for the public to participate, and how government can stimulate public engagement.

The concept of accountability considered above is in line with the World Bank and IBP concept. However, when considering taxation, David Brunori, a Research Professor of Public Policy and an executive vice president of Editorial Operations at Tax Analysts, refers to accountability as a tax principle that involves four aspects, one of them being open and transparent tax policy.

In this sense, accountability also requires that government ensures that administration and enforcement of tax laws is done efficiently and fairly, by those charged with these duties (BRUNORI, 2011). By referring to this aspect, Brunori considers corruption and/or ineffective collection as lack of accountability.

A second aspect to accountability is the enforcing of laws, which requires the government to demonstrate the means and political will to ensure the collection of taxes. The major difference between these two aspects is that the latter is focused on each taxpayer, while the first focuses on how they perceive that other citizens collect their taxes. According to Brunori (2011), countries have evidenced that the lack of either of these aspects leads to widespread tax evasion.

While these aspects play a very small role in USA, according to Professor Brunori, they may not be neglected in Brazil. Therefore, an important step to improve public institutions in Brazil, particularly Treasury Departments, is to attack corruption and ineffective collection. They must also act on people's perception towards these issues, meaning that these departments should also invest in improving their image. This would be a way to improve law enforcement.

Enhancing these aspects of accountability could lead to many benefits, such as more devotion towards public goods and services, which is valid for all government agencies, not only Treasury Departments, as well as an increase in "responsive" tax collection. The latter expression here means tax that's naturally paid without a link to a specific audit, as opposed to tax that collected as a result of a specific audit has taken place.

These benefits will inevitably lead to more efficiency and effectiveness, since there will be a smaller gap in tax revenue, with less audits and less auditors in the treasury departments, and less money will be spent on maintenance of public goods and services, for government agencies in general.

A fourth aspect of accountability (the third being transparency) requires the government to review existing laws and determine whether they are serving citizens' needs, through periodic evaluations (BRUNORI, 2011). According to Brunori, governments should assess information on whether or not revenue is being raised efficiently and identify to correct inefficient, costly, or burdensome rules. For instance, some procedures might have become unnecessary because of changes in economy.

In Brazil, Resolution 01/2013, published on March 2013, designates the Federal Senate's Committee on Economic Affairs (CAE – *Comissão de Assuntos Econômicos*) to evaluate the National Tax System annually (CANÁRIO, 2013). This means that CAE is now responsible for analyzing tax regulations and performance for all levels of government – federal, state, and local.

Ives Gandra Martins Silva, lawyer and Law Professor at São Paulo University (USP – *Universidade de São Paulo*), highlights that CAE only has the power to evaluate tax systems, but not to implement changes in them. The Committee will then have to deliver its proposals to Congress or to the Executive branch, depending on the subject.

According to the tax lawyer Luiz Gustavi Bichara, CAE's studies may eventually reduce disparities between tax systems of the various states and municipalities, harmonize the national system with international regulations, and foster ample tax discussions with public participation. For him, the main aspects that must be improved in the Brazilian tax system are the "Fiscal War" between the States, the tax burden to companies, and the cost of compliance.

The "Fiscal War" is the result of various state governments attracting companies by offering fiscal incentives (mainly tax breaks). The Supreme Court judged this to be unconstitutional but it is still recurrent among states. According to the Getúlio Vargas Foundation, these benefits stimulated 12% of the Brazilian GDP in 2010 (R\$ 35.8 billion) and resulted in the collection of 2% of total national tax (R\$ 9.1 billion).

Concerning tax burdens, companies pay 23 different taxes each year, which correspond to 71.1% of their profits and 40% of the GDP, according to a 2007 World Bank and PricewaterhouseCoopers study. It also revealed that companies across the world spend in average 332 hours per year to comply with tax laws, whereas in Brazil they spend 2.6 thousand hours per year.

Mazerov (2002) agrees that the government should continuously evaluate its revenue system and suggests studies to determine who is paying what share of government services. Brunori (2011) also generalizes this and emphasizes that policies in general must even be evaluated on whether or not they meet the intended goals.

In Brazil, Pintos-Payeras (2010) developed a very thorough study on the subject and drew the conclusion that the Brazilian Tax System is regressive, when concerning families' revenue. Families with the lowest income pay 23% of their income in taxes, while families with the highest income pay 17% in taxes.

According to Pintos-Payeras, there are two reasons for this. Direct taxes, which are progressive, represent a burden of 6.8% of average income, while indirect taxes, which are usually regressive, represent a burden of 13% of average income. Furthermore, the indirect tax system does not promote an adequate selectivity in consumption, since it is not only regressive with regard to the families' income, but also with regard to their expenses. Families

who spend the least pay 19% of their expenses in indirect taxes, while families that spend the most pay 12% in indirect taxes. Hence, Pintos-Payeras proposes to reduce taxes on food as a way of minimizing the tax system's regressivity.

The fact that Brazilian companies spend almost 8 times the amount of hours spent by an average company to comply with tax laws, combined with the fact that Brazilian consumption taxes are not adequate, and that 12% of the GDP is a consequence of unconstitutional tax breaks, suggests that the tax system should be reformed. In fact, there are discussions on tax reforms taking place in the government since 1995 (VIOL, 2000). However, the different views between the government and society, between government entities – especially the states and the union –, and between different sectors of society are impeding a decent reform. Instead, the government has been promoting small adjustments to legislation that in fact contribute to its complexity. CAE and other government entities will have to deal with this situation and gather representatives from all major stakeholders in order to set the tax reform baselines.

LEGISLATION SIMPLICITY

The complexity of Brazilian legislation is another issue that greatly affects efficiency in public institutions, particularly in Tax Departments. This was outlined by Mrs. Isabelle Gaëtan, Head of the French Mission at the Inter American Center of Tax Administration (CIAT), who lectured in the III International Seminar of State Tax Administration (III SIATE), held on November 9th and 10th, 2012 in Cuiabá/MT – Brazil. According to her, complex regulations raise costs because they require more auditors, longer verification procedures, and more training dedicated to this topic. It might even require better equipment and installation to verify compliance. In other words, complexity increases administrative costs by raising the costs of enforcement and collection from the government's perspective (BRUNORI, 2011).

Moreover, legislative complexity reduces payment from taxpayers who are willing to pay, but do not understand the rules. Therefore, simplifying legislation may rapidly raise tax collection. Furthermore, it becomes harder to find gaps in the law to evade from tax payment, and since it is easier to verify compliance, tax collection may increase even further. In other words, complexity raises the cost of compliance and diminishes public confidence in the system (BRUNORI, 2011).

Besides these direct effects in government efficiency, there is an overall benefit to the economy. Complex regulations also require companies to spend more with accountants and other related professionals.

Furthermore, large companies invest more with these professionals, but at a decreasing rate. Therefore, these costs are most burdensome to small enterprises; hence they too may be regarded as an entrance barrier to businesses. In other words, simplifying legislation may as well, in the long run, foster competition, create new jobs and improve economic efficiency in the market.

In fact, the need for a simple revenue system is related to neutrality, which is a principle of sound tax policy and is based on the idea that taxes should have as little effect on market decisions as possible and, optimally, minimize market distortions. Brunori (2011) defends that the factors that contribute to complex regulations inevitably distort market's decisions. Therefore, public officials should target legislation simplicity in order to improve efficiency in public institutions as well as in the overall economy. This issue should be measured, especially in terms of its effects to government agencies and to society, and the results should be used in decision-making processes.

An example would be to measure how the duration of audits and their results change when regulation changes. Evidently, if regulation only changes for one specific field, say only for telecommunication services, only changes in audits on this field should be considered for this purpose. This metric also depends on various factors, with legislation simplicity presenting only one of them. This is the challenge regarding output and outcomes mentioned in previous sections. This metric is an outcome, which better expresses the final goal, but is somewhat distant from the program.

Hence, it is important to provide an output, which should be closer to the government action, e.g. the result of a survey that asks companies and/or people their opinion on the new rules. This must be done with caution so only the taxpayers that are affected by the new legislation answer, and so there has been enough time for people to get used to the new set of rules.

Another possible outcome is the cost of compliance to companies, which may be measured in hours spent, as in the World Bank and PricewaterhouseCoopers study. Though this has a less direct relation with government actions, it would be an interesting measurement when overall regulation has been improved with the purpose of reducing compliance cost.

Brunori (2011) remarked that simplicity requires constant vigilance. Political pressures to alleviate burdens on the poor or spur economic development create numerous exemptions, deductions and credits that complicate the revenue system. There should be constant attention to this aspect when modifying and revising legislation.

EXCESSIVE BUREAUCRACY AND DECENTRALIZATION

Another aspect that is related to legislation, but has an even more direct effect within the government, is excessive bureaucracy in Brazilian public administration. It is widely recognized that Brazilian public managers have a major focus on what is legal as opposed to what is adequate in the situation – and the outcome of the 1995 administrative reform, discussed in previous sections, reinforces this statement. This does not suggest that public officials act against the law. On the contrary, they must act within the law, but also promote good management practices.

There is no doubt in the literature whether excessive bureaucracy should be eliminated in order to improve efficiency in public institutions. Some researchers have in fact demonstrated a positive correlation between bureaucracy and declining economic performance (FAITH & SHORT, 1995). Others reveal that bureaucratic systems tend to be less efficient than those where agents are free to choose their targets, and the means to achieve them (BRIXIOVÁ & BULÍŘ, 2001). The doctrine also relates poor government performance with poor fiscal health and lack of public trust in government (MOYNIHAN, 2008). This author also highlights that high managerial authority is essential for “program effectiveness, higher technical efficiency, and results-based accountability” (MOYNIHAN 2008, p.33).

Therefore, the process of improving public institutions must include removing excessive bureaucracy from the system. However, for this to take place, public managers must have sufficient powers and flexibility, as well as a culture that focuses on good management practices.

This idea was reinforced in III SIATE. Mr. Albert Aguilera, General Director in the Head Office of General Public Finance in France, presented the new Financial Constitution in France, which had a major focus on effectiveness of public resources. According to him, one important step to achieve this is to have the law provide flexibility to public managers, along with greater responsibilities.

This is also a fundamental step to establish a result-oriented culture, according to Mr. Albert Aguilera. Therefore, legally increasing managers' flexibility and responsibility in decision-making may be considered a first step to change public sector culture – a guideline and a challenge, as discussed in previous sections.

A less rigid system tends to lead to an efficiency improvement because it is not the duty of the legislator to make managerial decisions for the numerous different government organizations. Thus, legislators should provide public managers enough power to make these decisions.

Another important issue related to flexibility in decision-making, is to what extent the law should provide autonomy – should one major federal agency make decisions for the whole executive branch or should each agency in different government levels be provided with flexibility and responsibility for decision-making?

It is widely recognized that decentralization tends to improve efficiency in public institutions, as discussed in previous sections. The United States fiscal organization is a good example of this. American states have the power to tax and spend within very wide parameters (BRUNORI, 2011). They decide what taxes to collect and at what rate, whom to tax and whom not to tax, how tax incentives will be provided, as well as what types of public services to deliver or support.

American state autonomy has been an important topic of discussions in the literature for decades (KENYON & KINCAID, 1991; LYNCH, 1996; SCHWEKE *et al*, 1994). This environment fosters competition between states, and increases interstate competition for economic development. More than competing for companies, industries and consumers, it allows states to test which practices work best for them. It also stimulates states to provide an attractive package of public services while imposing tax burdens similar to those in other states. In other words, although there are some negative aspects, interstate competition tends to promote innovation, efficiency, and responsiveness (DUNCAN, 1992; KINCAID, 1991).

More evidence that Americans prefer decentralizing public institutions is that there are 89,004 local governments in the U.S. (U.S. DEPARTMENT OF COMMERCE, 2013), as opposed to 5,565 municipalities in Brazil (BRASIL IBGE, 2009). According to Professor Brunori, American people do prefer to have representatives focused on a small area, with a more profound understanding of it, as opposed to more general representatives.

Another interesting example that favors decentralization is the Colombian Coffee Growers Federation and the use of the National Coffee Fund. Colombian Coffee is internationally

regarded as a high quality coffee with distinctive taste. The Coffee Federation is designated to improve life quality of coffee growers and families, as well as developing the coffee regions in Colombia (FNC, 2013).

This nonprofit business organization manages the National Coffee Fund, which has served for several decades as the primary instrument of Colombian coffee policy formulation and implementation. The fund carries out social and environmental projects for the benefit of coffee growing families, such as road building and maintenance, and home improvements.

The management of this national fund is not completely unregulated. A contract between the Colombian Government and the Coffee Federation sets basic parameters for the use of Fund's resources. Government officials and coffee grower representatives compose the National Coffee Committee, which follows-up to the adopted policies and programs.

What we may observe from these facts is that the government partially subsidizes the Coffee Federation, through the National Fund. On the other hand, the Federation promotes investments that usually would have been made with public resources, and that are regulated and evaluated by the Government. Therefore, we may consider this as a transfer of responsibilities from the Government to the Federation to use part of the public resources and promote public investments that will stimulate the country's main economic activity.

Thus we may also interpret this as a successful case of transferring the decision-making process to entities with a narrower object. In this case, the entity was the Coffee Federation that made improvements in the country's infrastructure while focusing on the coffee chain. In most cases, the public sector might gain efficiency and productivity by simply transferring the decision-making process to lower government levels and across government agencies.

Functional and political decentralization to sub-national governments is in fact regarded as institutional drivers of efficiency in the public sector in OECD literature (CURRISTINE *et al*, 2007). This is because subnational governments may deliver locally preferred services more efficiently, as the burden and benefits of this delivery fall upon local communities. There has also been evidence in OECD federal countries showing that decentralized taxation reduces the size of government.

The process of decentralization and provision of flexibility and responsibility to public managers is slow because it requires an equally slow change in culture. Today in Brazil, particularly in the state of Rio de Janeiro, it might even be counter efficient to provide

flexibility to several small municipalities with little structure for decision-making. Hence, few steps should be taken at a time to allow room for cultural adjustments.

As in France, in Brazil the process depends on legislative modifications. However, public leaders may start to improve the decision-making process, while law permits it. Advances in this direction, along with other actions that stimulate public acknowledgement and participation, may lead to an increase in pressure on Congress to provide the necessary law adjustments.

TAX RECEIVABLES STOCK

Another issue highlighted by worldwide representatives in III SIATE and a very disturbing reality in Brazil, particularly in Rio de Janeiro, is the tax receivables stock. Not only is it huge, but very little of it is actually paid by the debtors.

According to data provided by the Brazilian Institute of Geography and Statistics (IBGE) and the National Treasury Attorney’s Office (PGFN), the stock of national receivables summed up to 24% of the GNP in 2010 and 2011. Furthermore, in 2011 the Federal Government collected only 1.37% of the national receivables stock, and only 0.62% in 2010, according to PGFN. Considering only tax receivables, the Federal Government collected only 1.31% of the national tax receivables stock in 2011, and only 0.57% in 2010 (BRASIL, 2011, 2012, 2013). These data are shown in table 1.

National Receivables - 2010 (million R\$)			
	Stock	Collected	% Collected
Taxes	821,320	4,693	0.57%
Other receivables	59,200	736	1.24%
Total	880,520	5,429	0.62%

Source: PGFN (2013)

National Receivables - 2011 (million R\$)			
	Stock	Collected	% Collected
Taxes	931,210	12,227	1.31%
Other receivables	67,370	1,409	2.09%
Total	998,580	13,637	1.37%

Table 1 – National Receivables Profile in 2010 and 2011

The Government losses are not restricted to the money in receivables stock that cannot be collected. This also reduces public confidence in the government and many other psychological aspects that influence people’s decisions and behavior. Particularly, it has a significant negative effect on compliance with tax laws and “responsive” tax collection, which in turn

requires more effort from tax departments to collect the same amount of tax that would be collected otherwise. Evidently, this raises public costs and reduces government efficiency.

Another factor that further reduces public credibility and compliance with tax laws is the long process prior to considering people's debts as national receivables, for they must be judicially or administratively decided as such. The latter has space to be improved, but the major problem lies with judicial processes. It is widely recognized that judicial processes are very long in Brazil.

The National Council for Justice (CNJ – *Conselho Nacional de Justiça*) publishes statistical reports on the country's jurisdictional activities. In its last report, CNJ defined as its next target to calculate the time duration of judicial processes (STJ, 2012). Hence, this data is still not available, though we may illustrate it with the following information from the 2012 report: of the 90 million processes in the Brazilian judicial system, 26.2 million are new and the rest (71%) are lawsuits in stock that were already in progress in the previous year.

Due to this reality, most debtors choose to enter the judicial system: approximately 90% of the receivables stock in 2010 and 2011 has used the judicial process. Despite being a longer and more respected process, the percentage of the receivables stock that is in fact collected does not change much when considering only judicially processed debts: 1.41% in 2011 and 0.61% in 2010.

This led Mr. Marcio Verdi, Executive Secretary for CIAT, to conclude that there are no real penalties in Brazilian Tax Administration. People and companies who do not pay their taxes are not practically required to pay a fine, or even the tax itself. Once again, there is a direct reduction in the government's revenue, but also an indirect one. Since paying taxes may almost be regarded as optional, other taxpayers will be stimulated to evade tax payment as well.

According to Mr. Luis Cremades, Head of the Spanish Mission at CIAT, Spain was also in a similar situation up to 2011. However, the European Debt Crisis required several actions to reduce tax evasion and, in response, the country published the law 7/2012. Besides other improvements, the law made payment agreements more flexible and developed management of tax receivables (BOE, 2012). The latter includes managing receivables more automatically and legally dividing indebted taxpayers into different categories.

The main improvement action that contains both of these aspects is the division of receivables into 4 categories according to how much revenue they represent: automatic, which contains

more than 90% of total receivables in quantity, and 11% in value; semi-automatic, which contains more than 7% of total receivables in quantity, and 24% in value; personalized, which contains approximately 1.5% of total receivables in quantity, and 40% in value; and centralized, which contains approximately 0.7% of total receivables in quantity, and 25% in value.

The law 7/2012 sets other regulations that raise penalties for evading tax laws in Spain. The law makes owners more financially responsible for several decisions in their companies that lead to tax evasion. It prevents debtors from artificially postponing their tax debts with a judicial process, and extends the quality of people that may be required to pay tax debts. There are other regulations that together help minimize the tax collection gap, which is the difference between what should be collected with perfect compliance with tax laws and what is in fact collected.

Altogether, Brazil, and specifically the state of Rio de Janeiro, undeniably needs to raise revenue from tax receivables for the public sector to become more efficient. Other countries were in this situation and have already taken important steps to address this issue. Future studies may analyze how Brazil and Rio de Janeiro can adapt these actions to our reality.

At the same time, the state of Rio de Janeiro may modify some regulations to implement what may be entitled administrative collection of receivables. Some states in Brazil, such as Maranhão, have adopted this idea. The target is to only allow firms to proceed with some of their activities if they do not owe any taxes.

For example, the government may prohibit firms from commercializing with a different state if they have open debts – debts in a judicial or administrative process must be allowed, though. This could be done with the infrastructure that is already installed in states to verify tax payment for the specific operation, while it is in progress. In other words, the idea would be to broaden this kind of auditing to include tax debts that are not solely from the ongoing operation.

Although this idea is very simple, there are major issues to be discussed, since firms have various rights that the government cannot take away. Therefore, a deep legal and practical analysis is required for the topic. However, public officials in Rio de Janeiro should be aware of the possibility of implementing administrative collection of receivables to improve tax compliance and collection, and therefore increase efficiency of Tax Departments.

TECHNOLOGY USE IN PUBLIC ASSISTANCE

The Director of Technical Assistance for CIAT, Raúl Zambrano, pointed out in III SIATE that public institutions around the world should use more technology in their administration and service provision. This is particularly true for services that provide assistance to taxpayers.

Citizens are subjected to technological advances in generally all services provided by private organizations, which raises their expectations towards other services. When their expectations are not met within public services, citizens start regarding public services as considerably worse than private. This perception holds back the process of improving the image of public institutions previously mentioned.

The target for the use of technology in Tax Assistance agencies is to improve the relationship between taxpayers and Treasury Departments, and provide an easier and friendlier environment for them. This will have most effect on small businesses, since accountants and other professionals originally required for this task and that represent a large percentage of their costs may no longer be necessary. This might, in the long run, reduce entrance barriers in the different markets, which will foster competition and improve economic efficiency in the market.

The use of technology in Tax Administrations is a current concern in Brazil. The Secretariat of the Federal Revenue of Brazil has developed the e-CAC Portal (Virtual Center for Taxpayer Assistance), which offers many taxpayer services through the Internet, maintaining credibility and fiscal confidentiality. Several Brazilian states have also developed a similar portal to improve taxpayer services, such as São Paulo, and the state of Rio de Janeiro is also in the process of implementing a portal of this nature.

Other countries have gone further. South Africa, for example, developed assistance through the Internet for taxpayers to file their tax returns. When taxpayers have questions, they may call the government agency through the Internet, and the government employee on the other end sees the exact screen that the taxpayer is in, except for confidential information.

One possible step to take prior to implementing technology in tax assistance is to promote surveys for users to inform his/her preferences concerning the subject, similarly to South

Korea's client surveys. The idea is to implement, not any technological tool, but ones that will in fact aid users.

This method of receiving information from users is much more easily applied in the public than in the private sector, because users of public services are directly benefited from an improvement. In a competitive market, if a user doesn't like the service from a certain company, he/she can simply switch companies. In this environment, the user would only make an effort to improve a company if he/she liked it sufficiently to keep buying its products and/or using its services. On the other hand, government agencies have generally no competition and therefore all users are subjected to its services. This stimulates people's efforts to improve the effectiveness of these services.

Implementing technology in public services is an ongoing process because private organizations tend to always introduce more technology in service provision, and thus citizen expectations will always rise. Therefore, this should always be a concern for public institutions.

This concern of addressing citizen expectations regarding the use of technology is part of the process of professionalizing public institutions, as defended by Isabelle Gaëtan in III SIATE, which results in the approximation of public and private practices. The process also includes attracting talented employees and developing them into good experts.

Other aspects that Mrs. Isabelle Gaëtan highlighted are also in line with the ideas conveyed in this paper, such as changing the culture embedded in public institutions. Although this process takes time, it not only improves the organization itself, but also affects citizen's perception towards the institution. Consequently, "responsive" tax collection rises, driving public efficiency.

LIST OF RECOMMENDATIONS FOR PUBLIC INSTITUTIONS IN BRAZIL

This subsection provides a list of the topics discussed in the section, followed by brief explanations and comments on each item. It is worth repeating that this makes no pretense of being exhaustive.

1. Transparency and Accountability

Brazilian public institutions in general must be concerned about increasing transparency and accountability, particularly in raising comprehensiveness of public information and engaging citizens in public matters.

2. Legislation Simplicity

Legislators and public officials responsible for developing and authorizing regulations, across all government agencies, must heed the requirement of simplifying Brazilian legislation.

3. Excessive Bureaucracy and Decentralization

Eliminating excessive bureaucracy is linked to the process of decentralization in public institutions, and both are inarguably required in Brazil. For this, public managers should be provided with flexibility and responsibility for decision-making, and hence seek good management practices.

4. Tax Receivables Stock

In order to improve efficiency in tax departments, the tax receivables stock at all levels of government must be reduced and a greater part of it must be in fact collected. This requires improvements from various government agencies, such as Treasury Attorney's Office, Tax Departments, Legislative Houses, and Judiciary bodies.

5. Technology Use in Public Assistance

Brazilian public institutions should use more technology in their administration and service provision, particularly in tax assistance in order to improve citizen's interaction with tax departments.

CONCLUSION

This paper briefly examined experiences around the world to improve public sector efficiency, which has become a constant pressure that international governments face. These experiences include performance management, performance budgeting, and administrative reforms. Along with other studies in the literature, they allowed us to develop a set of challenges that a country like Brazil will probably face when developing methods to improve public institutions, as well as general guidelines to be followed to overcome these and other challenges.

Finally, the present work discussed important issues that Brazilian government agencies should consider when implementing these improvements. Though some of them are generally valid for tax departments in Brazil or in Latin America, and even other sectors of government, the major focus was the Tax Department in Rio de Janeiro.

Taking into account the discussions presented in this paper, we may suggest that one of the next steps that the Tax Department in Rio de Janeiro may take is relative to excessive bureaucracy and decentralization. Certainly, this topic requires concomitant actions from legislators and from managers in the executive. However, the latter may use their current legal opportunities to improve management practices, such as studying resource allocation possibilities and implementing performance measurements.

One of these measurements may be calculating the revenue gap, which is the difference between what the state should collect with taxes concerning the current tax rates and what the state actually collects from taxes, mostly due to fiscal evasion and errors. This reflects on fiscal justice, being therefore crucial to society.

When there are different levels of gaps among different sectors, managers may respond by reallocating resources and offering training activities for auditors. This measurement may also influence policy decision-making. If the general gap is too high, several actions may be undertaken to correct that, such as increasing the number of auditors, promoting fiscal education, advertising for fiscal responsibility, etc. Ultimately, the guidelines suggested in this paper, such as simplifying legislation, increasing transparency and accountability, and improving the tax receivables management will have an important and perennial effect on this measurement, though it will be a long process. On the other hand, if the general revenue gap is minimal and the state does not have a balanced budget, the policy will have to be either to raise revenue from other sources, or to improve expenditure efficiency.

Another important measurement is effectiveness of audits, which may have various perspectives. It may be effectiveness with regard to actual payment of the tax assessment notice, or with regard to increase in general revenue from that specific company or sector, or even with regard to tax compliance. When concerning broad perspectives, such as general revenue or tax compliance, once again the topics discussed in this paper, such as simplifying legislation, increasing transparency and accountability, and improving the tax receivables management will have an important effect on this measurement. It is also important to remember the discussions on outputs and outcomes when deciding among the different perspectives.

Other measurements may refer to the topics previously discussed per say, such as transparency and accountability, tax receivables stock, technology use in tax assistance, and legislation simplicity. Though the latter is not directly linked to the department performance, it is somewhat influenced by regulations that the department develops. Furthermore, the

department may also propose to Congress changes in tax legislation to improve this aspect and, thus, measuring complexity of legislation is important for tax departments.

Future studies may extend issues to be considered in the Tax Department of Rio de Janeiro or, more importantly, develop specific steps for the institution to address these issues. For that, studies should deeply analyze the organization, and take into account political preferences.

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