

# Public Financial Management in Latin America

The Key to Efficiency and Transparency

EDITORS | Carlos Pimenta and Mario Pessoa



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Carlos Pimenta and Mario Pessoa



**Cataloging-in-Publication data provided by the  
Inter-American Development Bank  
Felipe Herrera Library**

Public financial management in Latin America: the key to efficiency and transparency /  
Carlos Pimenta, Mario Pessoa, editors.

p. cm.

Includes bibliographic references.

978-1-59782-226-8 (Paperback)

978-1-59782-227-5 (PDF)

1. Finance, Public—Latin America. 2. Transparency in government—Latin America. 3. Public administration—Latin America. I. Pimenta, Carlos, editor. II. Pessoa, Mario, editor. III. Inter-American Development Bank. Fiscal and Municipal Management Division. IV. Title

HJ799.53 .G47 2015 eng.ed.

IDB-BK-148

Publication Code: IDB-BK-148

JEL Codes: H21, H50, H57, H60, H61, H63, H69, H72, H83

Keywords: cost accounting, government accounting, treasury single account, efficiency, cash management, debt management, public expenditure management, public resource management, public financial management, treasury management, procurement, budget, financial management integration system.

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Inter-American Development Bank  
1300 New York Avenue, N.W.  
Washington, D.C. 20577  
[www.iadb.org](http://www.iadb.org)

The Institutions for Development Sector of the Inter-American Development Bank was responsible for the production of this publication.

**Production Editor:** Sarah Schineller (A&S Information Specialists, LLC)

**Editor:** Margie Peters-Fawcett

**Design:** Word Express, Inc.

**Proofreaders:** Audrey Esquivel and Steven Nelson (TriLexica Editorial)

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# Foreword

Over the last two decades, in an effort to promote fiscal stability and sustainable development, countries in Latin America have implemented substantive reforms to strengthen public financial management (PFM) systems and generate reliable financial information. These reforms have enhanced the quality of macro-fiscal management in the region and contributed to the improved economic performance observed throughout the 2000s. As the recent economic crisis demonstrated, however, there is room for further improvement, as well as a need to increase the resilience of PFM systems.

The Inter-American Development Bank (IDB) and the International Monetary Fund (IMF) have provided substantial technical assistance to many Latin American countries with regard to PFM issues, particularly in the last two decades—including project finance, training, and capacity-building—and have helped countries to implement PFM reforms. This book documents part of their experience in terms of such reforms, including their accomplishments, setbacks, and pending challenges. The areas covered include treasury single accounts, PFM performance indicators, integrated financial management information systems, government accounting, treasury and debt management, public procurement, and cost accounting. These areas have been selected not only to bridge the gap in corresponding literature but also, given that most countries have developed initiatives to improve these areas, because they are essential to second-generation reforms.

Each chapter reflects the perspective of IDB and IMF experts in terms of the design and implementation of PFM reforms in the region. This book also benefits from the lessons drawn from effective practices, extensive research, and the sharing of cross-country experiences through multiple modalities, in particular, the Latin American Treasury Forum (Foro de Tesorerías

Gubernamentales de América Latina (FOTEGAL)) and the Latin American Government Accounting Forum (Foro de Contadurías Gubernamentales de América Latina (FOCAL)), both of which the IDB and IMF helped to establish and continue to support. This publication is a valuable information source and an inspiration for researchers and policymakers who seek to understand or wish to implement similar reforms.

At present, macro-fiscal policy faces significant regional challenges. Fiscal risks associated with contingent liabilities related to social security; public pensions; public-private partnerships; natural disasters; subnational government finances; volatile revenues, particularly in natural resource rich countries; and modest growth in developed countries must be made transparent through the sharing of PFM information. While there may be considerable heterogeneity across Latin American countries, there are widespread efforts toward fiscal discipline and sustainable levels of public debt, as well as concern regarding these risks in the medium and long term.

In response to this scenario, most countries in the region have embarked on reforms to improve their financial management performance indicators; better integrate cash and debt management; further improve liquidity management through more efficient treasury single accounts; apply international public sector accounting standards; implement public sector cost management; further integrate financial management information systems; and incorporate more transparent and efficient public procurement. The objectives of these reforms are to allocate and use public financial resources more efficiently, effectively, and transparently; measure and manage fiscal risks; and improve the formulation of fiscal and public management policies, based on reliable, comprehensive, and timely financial information.

Together, the IDB and the IMF remain committed to assist the countries of Latin America with the design and implementation of efficient PFM systems to strengthen their institutions. We hope that this book will contribute to this endeavor.

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# Preface

Public financial management (PFM) in Latin America has undergone a significant transformation over the past years, driven in part by a need for fiscal sustainability and transparency. Efforts to modernize include strengthening institutions by upgrading regulatory frameworks; streamlining procedures; and implementing more sophisticated models, as well as information and communications technology (ICT). As the chapters in this book highlight, modernizing the various areas of PFM has produced varying results across countries in the region relating to cash and debt management, treasury single accounts (TSA), public sector accounting standards, integrated financial management information systems (IFMIS), and public procurement.

To increase operational efficiency and ensure a consistent policy stance, countries have begun to improve the coordination of their cash and debt management functions. In the cases of Brazil, Colombia, and Peru, for example, these functions have been integrated into a single unit. Furthermore, nearly all countries in the region established a TSA to integrate and manage their respective public financial resources more efficiently. Countries are also implementing second-generation reforms, such as the adoption of international public sector accounting standards to increase the credibility of financial information. To improve the availability and quality of budgetary, treasury, and accounting data, all governments implemented IFMIS. Lastly, to increase competition, generate value for money and achieve greater transparency, governments have developed electronic procurement systems and have strengthened procurement agencies, as in the cases of Chile, Brazil, Ecuador, Mexico, and Paraguay.

While these advances are considered remarkable, countries in Latin America remain conscious of the fact that there are important challenges yet to overcome with regard to modernizing their PFM. In some cases, reforms have

been ill-designed, lacked traction, or have stalled due to unfavorable institutional and political economy circumstances. Furthermore, the region still lacks quantitative indicators to measure and monitor the efficiency of cash management, and effective public service cost systems remain in their infancy.

Despite international success in creating integrated cash and debt management units, the region has room to increase coordination or unify these functions under a single command. Limited coverage and political resistance have imposed obstacles in the face of a more comprehensive TSA, thus limiting efficient management of government cash liquidity. The need to further upgrade ICT systems and capacitate government accountants explains in part why countries, to date, have only implemented a subset of international accounting standards. Furthermore, budgeting for results, cost systems and accrual accounting reforms pose challenges to the design and integration of IFMIS in the region. Lastly, excessive procedural formality, as opposed to an emphasis on economy and efficiency, has posed a challenge to the increased development of procurement systems.

These reforms and associated challenges matter, in any event, since they are part of the comprehensive effort of governments to meet the demands of citizens for better public services and more solid and transparent fiscal institutions. Governments must allocate and use public resources more efficiently if they wish to succeed in tackling the increasingly complex and uncertain global environment. PFM is the key to achieving these goals.

The work of the IDB's Institutions for Development Department focuses on assisting governments to strengthen public sector institutions so that they can achieve these goals. The Department's specialists have provided valuable advice and technical assistance to many Latin American countries over the past few decades with a goal to modernizing their PFM.

The IDB's Fiscal and Municipal Management Division, in close collaboration with the IMF's Fiscal Affairs Department, has produced this book as a key contribution to countries in their efforts to promote greater efficiency, effectiveness, and transparency in public spending. I am confident that this publication, based on good practices and empirical evidence, will help significantly to overcome the challenges that countries in the region still face in their efforts to implement PFM systems that will promote a sound use of public resources and efficient macroeconomic management.

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# Acknowledgements

The Fiscal and Municipal Management Division of the Institutions for Development Sector at the Inter-American Development Bank (IDB), together with the Public Financial Management II Division of the Fiscal Affairs Department at the International Monetary Fund (IMF), were responsible for the preparation of this book. Carlos Pimenta and Mario Pessoa coordinated the project and also edited the book.

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The IDB and IMF are grateful for the collaboration, input, and time provided by the Treasurers of the 16 Member Countries of the Latin American Treasury Forum (Foro de Tesorerías Gubernamentales de América Latina (FOTEGAL)), especially the organization's President, Adriana Arosteguiberry. The annual surveys that relate to treasury management—which track the improvements made to treasury administration across the region—have been an important source of information for this book.

The authors would like to thank colleagues from the IDB and IMF for their insight and valuable comments during the preparation of this publication. Their appreciation goes to Teresa Ter-Minassian; Natalia Alonzo (Chapter 2); Greg Horman and Ramon Hurtado (Chapter 3); Delphine Moretti and Suzanne Flynn (Chapter 5); Jose Alejandro Pigatto (Chapter 6); and Leslie Harper, Ana Cristina Calderón, Félix Prieto, Javier Dávila, and Daniel Sánchez (Chapter 8).

In addition, recognition is especially given to those involved in the design and editorial production of the book. These are Natalia Rezai, Sarah Schineller, Margie Peters-Fawcett, Richard Torrington, and Word Express, Inc.

Finally, the authors are thankful for the guidance, ideas, and support received from Vicente Fretes Cibils and Gustavo Garcia (IDB) and Marco Cangiano (IMF). Without their contributions, this book would not have been possible.

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# Latin American Treasury Forum

The Latin American Treasury Forum (Foro de Tesorerías Gubernamentales de América Latina (FOTEGAL)) was created in 2010 by 16 countries with the support of the Inter-American Development Bank, International Monetary Fund, and World Bank.<sup>1</sup> Its organization is based on a declaration prepared during an international treasury management seminar in Lima, Peru that took place from April 15 to 16, 2010.

The rationale for FOTEGAL emanates from the need to have a forum to discuss how national treasuries can use financial resources more effectively and efficiently in the face of today's economic and social dynamics. These objectives require an overhaul of the financial management approaches adopted by the national treasuries to meet their financial obligations on time and ensure that they provide efficient financial support to public institutions.

FOTEGAL provides a permanent space for debate and sharing of knowledge and experiences. Its annual seminars form a venue to discuss the development of instruments to improve financial policies in relation to the roles and responsibilities of national treasuries. Topics include the management of the treasury single account (TSA); cash management and planning; coordination of debt and cash management; relationship between treasury and

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<sup>1</sup> The founding 16 countries are Argentina, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay. Brazil was accepted in August 2015, and is in the process of becoming a formal member.

public accounting functions; roles and responsibilities of treasuries and central banks; payment and collection processing improvements; financial and operational risk management; management of trust funds and other financial instruments; and the institutional and legal framework for treasury operations.

Various studies and technical notes have been prepared by request of the treasurers, with topics including the implementation of the TSA in Latin America, modern cash management approaches, and the results of an annual survey showing the most important developments of treasury management in the region. Further details about the forum are available at [www.fotegal.org](http://www.fotegal.org).



# List of Abbreviations

ABC	Activity-based costing
ALC	Asset and Liability Committee
ALM	Asset and liability management
ASSE	State Health Service Administration (Administración de los Servicios de Salud del Estado), Uruguay
BCB	Central Bank of Bolivia (Banco Central de Bolivia)
BCN	Central Bank of Nicaragua (Banco Central de Nicaragua)
BCRP	Central Bank of Peru (Banco Central de Reserva del Perú)
BNA	Bank of the Nation (Banco de la Nación), Argentina
CAFTA-DR	Central American-Dominican Republic Free Trade Agreement
ALC	Asset and Liability Committee
CC	Cash Committee
CCAF	Financial Management Coordination Committee (Comisión de
CCC	Cash Coordination Committee
CDM	Cash and debt management
CGR	Contraloría General de la República (Chile)
CIPFA	Chartered Institute of Public Finance and Accountancy
CoA	Chart of accounts
CONAC	National Council of Accounting Harmonization (Consejo Nacional de Armonización Contable)
CPI	Corruption Perception Index
CSO	Civil society organization
DIPRES	Budget Directorate (Dirección de Presupuesto de Chile)
DMFAS	Debt Management and Financial Analysis System
DMO	Debt Management Office
DMS	Debt Management Strategy

DNCP	National Directorate for Public Procurement (Dirección Nacional de Contrataciones Públicas), Paraguay
EONIA	Euro Overnight Index Average
EPT	Expert project team
ERP	Enterprise Resource Planning
ETA	Electronic transfer account
EU	European Union
EUR	Euro
FASAB	Federal Accounting Standards Advisory Board
FEES	Economic and Social Stabilization Fund (Fondo de Estabilización Económica y Social), Chile
FEIF	Federal Entities Revenue Stabilization Fund (Fondo de Estabilización de los Ingresos de las Entidades Federativas), Mexico
FEIP	Petroleum Revenue Stabilization Fund (Fondo de Estabilización de Ingresos Petroleros), Mexico
FIPE	Institute of Economic Research Foundation (Fundação Instituto de Pesquisas Economicas)
FOCAL	Latin American Government Accounting Forum
FOTEGAL	Latin American Treasury Forum
FRP	Pension Reserve Fund (Fondo de Reserva de Pensiones), Chile
GAO	General Accounting Office
GDP	Gross domestic product
GFOA	Government Finance Officers Association
GFS	Government Finance Statistics Manual
GPA	Agreement on Government Procurement
GPP	Green Public Procurement
GRPS	Government resource planning system
ICT	Information and communications technology
IDB	Inter-American Development Bank
IFAC	International Federation of Accountants
IFMIS	Integrated financial management information systems
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INEGI	National Institute of Statistics and Geography (Instituto Nacional de Estadísticas y Geografía), Mexico
IPSAS	International Public Sector Accounting Standards



IPSASB	International Public Sector Accounting Standards Board
IT	Information technology
JFMIP	Joint Financial Management Improvement Program
KLOC	Thousands of lines of code
LAC	Latin America and the Caribbean
MAPS	Methodology for Assessing Procurement Systems
MoF	Ministry of Finance
OBI	Open Budget Index
OECD	Organization for Economic Cooperation and Development
OGP	Open Government Partnership
OMB	Office of Management and Budget
ONP	Contribution to Funds of the Office of Pension Normalization (Contribuciones a Fondos de la Oficina de Normalización Previsional), Peru
OSCE	Regulatory Agency for State Contracts (Organismo Supervisor de las Contrataciones del Estado), Peru
OSM	Observatório Social de Maringa
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PIPP	Integrated Planning and Budget Process (Sistema del Proceso Integral de Programación y Presupuesto), Mexico
POC	Proof of Concept
PPA	Multiyear Plan (Plano Plurianual)
PRM	Public resource management
PRODESP	State of Sao Paulo IT Company (Empresa de Processamento de Dados do Estado de São Paulo)
PROFIP	Productive Institutional Strengthening of Provincial Fiscal Management, Phase II (Programa de Fortalecimiento Etapa), Argentina
PROFISCO	Management Support and Fiscal Integration Program (Programa de Apoyo a la Gestión e Integración de los Fiscos), Brazil
PSCS	Public Service Cost System
RBB	Results-based budget
RCB	Bank Account Registration System (Sistema de Registro de Cuentas Bancarias), Mexico
Repo	Repurchase agreement
reverse repo	Reverse repurchase agreement



RTGS	Real Time Gross Settlement
SAFI	Integrated Financial Administration System (Sistema de Administración Financiera Integrado), El Salvador
SAMI	Integrated Municipal Administration System (Sistema de Administración Municipal Integrado), Honduras
SAP	Department of Penitentiary Administration (Secretaria de Administração Penitenciária)
SEE	Department of Education (Secretaria da Educação)
SEFAZ	Department of Finance (Secretaria da Fazenda)
SERCOP	National Service for Public Contracts (Servicio Nacional de Contrataciones Públicas), Ecuador
SERPRO	Public data-processing company (Serviço Federal de Processamento de Dados), Brazil
SGP	Department of Public Management (Secretaria de Gestão Pública)
SIAFEM	Government Financial Management Information System (Sistema Integrado de Administração Financeira dos Estados e Municípios)
SIAFF	Federal Integrated Financial Management System (Sistema Integral de Administración Financiera Federal), Mexico
SIAFI	Integrated Financial Management System (Sistema Integrado de Administração Financeira do Governo Federal), Brazil
SIAP	Budget Administration System (Sistema de Información de Administración Presupuestaria), Chile
SICOFFE	Integrated Federal Fund Accounting System (Sistema Integral de Contabilidad de Fondos Federales), Mexico
SICOM	Federal Treasury Debt Compensation System (Sistema de Compensación de Adeudos de la Tesorería de la Federación), Mexico
SICOP	Accounting and Budget System (Sistema de Contabilidad y Presupuesto), Mexico
SIDIF	Integrated Financial Management System (Sistema Integrado de Administración Financiera), Argentina
SIGEF	Integrated Financial Management System (Sistema Integrado de Gestión Financiera), Dominican Republic
SIGEO	Budget Execution Financial Management System (Sistema de Informações Gerencias da Execução Orçamentária)
SIGFE	State Financial Management Information System (Sistema de Información para la Gestión Financiera del Estado), Chile

SIGMA	Integrated Management and Administrative Modernization System (Sistema Integrado de Gestión y Modernización Administrativa), Bolivia
SII	Integrated Information System (Sistema Integral de Información de los Ingresos y Gastos Públicos), Mexico
SIIF	Integrated Financial Information System (Sistema Integrado de Información Financiera), Colombia and Uruguay
SIMPA	Information Management System of PPA (Sistema de Monitoramento de Programas e Ações do PPA)
SIOPI	Integrated Planning and Budget System (Sistema Integrado de Planejamento e Orçamento), Brazil
SLTI	Secretary of Logistics and Information Technology (Secretaria de Logística e Tecnologia da Informação), Brazil
SME	Small- and medium-sized enterprise
SPDR	Department of Planning and Regional Development (Secretaria de Planejamento e Desenvolvimento Regional)
SPG	Department of Planning and Management (Secretaria de Planejamento e Gestão)
SPP	Sustainable public procurement
SS	Department of Health (Secretaria da Saúde)
STN	National Treasury Secretariat (Secretaría del Tesoro Nacional), Brazil
TA	Technical assistance
Tbills	Treasury bills
Tbonds	Treasury bonds
TESOFE	Federal Treasury of Mexico (Tesorería de la Federación de México)
TSA	Treasury single account
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNLP	National University of La Plata (Universidad Nacional de La Plata), Argentina
WTO	World Trade Organization

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